Chapter 1

Aid for Trade: Effectiveness, Current Issues and Future Directions – An Overview

Mohammad A. Razzaque and Dirk Willem te Velde

1.1 Background

For several decades now a large number of developing countries have striven for a development strategy that would ensure sustained economic growth, result in employment opportunities and eliminate poverty. Nearly all countries have now shifted from an inward-looking approach to an outward-oriented trade-led growth and development approach, with the export sector receiving policy support and, among other things, foreign investment being promoted. A salient feature of this trade-focused growth and development approach has been marked by developing countries' increasingly active participation in multilateral and regional trade negotiations. Unilateral liberalisation and regional and multilateral trade agreements led to new international trade policies, although there is a long way to go to achieve the desirable development outcomes.

Along with this renewed emphasis on trade and overall improved participation of developing countries in the global trading system, there have been concerns about the widely differing impact of trade liberalisation across countries. In particular, enhanced export supply response with the objective of better integrating into the global economy and benefiting from the process of globalisation continues to represent a severe challenge for the world's poorest, smallest and most vulnerable economies. Most of these countries lack basic infrastructure, skilled human resources and managerial capacity; these shortfalls keep them from responding to trading opportunities. Preferential access to export markets alone has generally failed to trigger supply response because of very weak productive capacity and competitiveness. In addition, various multilateral and regional trade liberalisation schemes involving major importing markets have also implied loss of preferences, further weakening the supply-side strength in many low-income and small states.

After the launch of the World Trade Organization's (WTO) Doha Round of multilateral trade talks, there was an increasing recognition that many developing countries had failed to take advantage of their liberalised trade regimes and to benefit from the growth in world trade and commercial activities. This led to the demand for more systematic support towards building supply-side capacity and helping poor and vulnerable countries deal with trade-related adjustments along with development-friendly trade preferential mechanisms that the recipient countries could use in the absence of stringent preconditions (e.g. those related to non-tariff measures and rules

of origin requirements). There was a consensus about these needs, particularly when the Doha Round put a lot of emphasis on 'development'.

It goes without saying that financial and technical assistance from multilateral and bilateral donors, with the objective of facilitating the integration of developing countries into the global economy through initiatives that expand trade, have been in operation since foreign aid was first considered to be a means of supporting growth and development. Under the Doha Round, technical assistance for trade capacity building became a prominent issue; the Hong Kong Ministerial Declaration in 2005 called for 'Aid for Trade' (AfT) to help developing countries build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO agreements and more broadly to boost trade capacity. AfT emerged during a period of increased aid commitments with the clear purpose of providing *additional* funding (i.e. on top of existing aid commitments) to developing countries' trade-related needs. A WTO Task Force, which was set up to recommend the operationalisation of the AfT initiative, identified six categories of support: trade policy and regulations; trade development; trade-related infrastructure; building productive capacity (including private sector development); trade-related adjustment (including support for adjustment associated with changes in international trade regimes); and other trade-related needs. Since then these categories of support have been used to monitor AfT flows.

Although AfT was meant to lead to new and additional funding streams, it has basically become a grouping, within existing aid, of financial and technical assistance to help promote supply-side and trade capacity in recipient countries. It is this underlying but specific trade purpose that distinguishes AfT from the rest of traditional official development assistance (ODA). Although as old as ODA, AfT came under renewed focus under the Doha Round, with many observers considering it as one of the very few concrete development outcomes to have resulted from this very long-running negotiation round so far.

One important impact of such assistance being discussed at the WTO-led multilateral forum has been development partners' greater response and engagement with the related stakeholders to make trade components of their programmes more prominent. Virtually all donors (bilateral and multilateral) have always had more or less formalised trade-related programmes. They have supported AfT activities for many years under the rubric of infrastructure projects, assistance to customs, support to productive sectors and the like, without putting these activities grouped under a single heading. It has been commonplace for different units within the same donor organisation to carry out different trade or related components. The AfT initiative has provided a great deal of momentum for donors to unify their trade-related activities within their internal structure.

The regular review of the AfT activities (by the WTO) has also ensured a continued focus on AfT. As a result, there has been conspicuous sharing of information and discussion of issues with regard to donors' commitments vis-à-vis disbursements, the effectiveness of the support available, and issues of interest to developing countries. Because of the heightened attention, donors have taken special care about

their commitments on AfT. It has been estimated that around US$200 billion of development funding has been mobilised for it since 2005. Notwithstanding the possibility of certain types of support being reclassified as AfT and the fact that trade-related assistance would have continued even without such high-profile global focus, most observers agree that the AfT initiative has generated momentum in securing more trade support. Although the additionality of resource flows remains an issue, as most development partners have failed to fulfil various international commitments on development assistance, AfT resources have grown considerably.

Many would rightly argue that it is the effectiveness of the support provided that is most important for developmental impact, be it through trade or other means. The literature on the relationship between general development assistance and development shows the difficulties associated with measuring impact and mixed evidence. Nevertheless, one very encouraging feature of the policy discourse surrounding the AfT initiative has been the emphasis on understanding the results of the support provided. Both the development partners and the recipients are taking greater caution in designing better planning and implementation mechanisms to utilise the provided resources well. A number of countries and regions have developed and are in the process of preparing regional and national AfT strategies to achieve coherent and improved outcomes. The need to assess and demonstrate the results has also received special attention in the WTO-led reviews. Although the challenges associated with impact evaluation remain and technical frontiers need to be overcome, the focus on delivering the results cannot be overemphasised.

The policy discourse on AfT is vibrant and dynamic. Policy-makers, trade negotiators and other stakeholders regularly pay attention to the design of AfT projects; the trends in AfT flows and various AfT components; results and outcomes; topical issues as programmes are implemented; sharing experiences and best practices; and other aspects. The context of AfT is changing continuously as developing country trade is affected by the emergence of global value chains and as the financing environment becomes more diversified. All of these issues shape ideas for further consideration as ways forward.

The Commonwealth Secretariat and researchers from the Overseas Development Institutes (ODI) have been closely following the issues related to AfT since the initiative was launched in the WTO's Hong Kong Ministerial Declaration. On several occasions the two organisations have collaborated to study the developments, to identify the issues for analysis and to provide objective assessments. In the collaborative research, special emphasis was placed on understanding the effectiveness of the support provided, along with other broad issues for policy consideration. The results of technical analysis and following the developments of topical issues have helped offer informed policy inputs and perspectives on future directions. This volume brings together several technical studies that resulted from such collaboration (Chapters 3, 4 and 5). It also contains a number of chapters that resulted from projects independently implemented by the two organisations, often in collaboration with others. Chapters 9, 10, 13 and 15 emerged out of Commonwealth Secretariat initiatives while Chapters 2, 6, 8, 11, 12, 14 and 16 are related to a project co-ordinated by the ODI, in collaboration with the German Development Institute and the European

Centre for Development Policy Management. Finally, Chapter 7 is based on a project undertaken by the International Centre for Trade and Sustainable developed and is included here to complement some of the findings highlighted in the analysis by the Commonwealth Secretariat and the ODI.

1.2 Chapters in the volume

The 16 chapters compiled into this volume are organised into three parts: effectiveness (Part I), current issues (Part II) and future directions (Part III).

1.2.1 Part I: Effectiveness

After this overview, the six chapters in Part I focus on the effectiveness of AfT from two angles. They first contribute to the quantitative analysis of AfT (Chapters 2–5) and then examine the details of instruments and donor and recipient country incentives around AfT activities in more detail (Chapters 6–7). To begin with, in Chapter 2 Isabella Massa provides a brief survey of the quantitative studies on AfT that have emerged over the last five years. Evidence on the impacts of AfT on the trade performance of recipient countries is scarce, but a number of papers, including the chapters in this volume, have contributed to enrich this. The chapter focuses on a broader sample of research on the effectiveness of AfT than was available in previous reviews. It also provides an in-depth analysis of the different empirical methodologies used, highlighting their strengths and weaknesses in terms of econometric techniques and AfT variables selection, as well as in terms of country and sector coverage. Moreover, the chapter categorises the literature findings by looking at differences of the impact of AfT by type of aid flow, recipient country income level, recipient sector of aid and recipient country geographical region.

The review shows that several econometric techniques with different degrees of sophistication have been used to assess the impact of AfT on trade and other economic performance in recipient countries, especially at the macro level. The methodologies include gravity model specifications, difference-in-difference estimations, panel data estimations and various econometric regression techniques. Each technique has its own advantages and disadvantages. The review confirms that AfT can be effective, with a positive and economically relevant impact. However, the impacts vary considerably depending on the type of AfT intervention, the income level and geographical region of the recipient country and the sector to which AfT flows are directed. Four key issues need to be addressed in the future: (i) the evidence on the impact of specific AfT interventions or instruments is still limited; (ii) differences in AfT effectiveness by productive sector have been considered only to a limited extent; (iii) the evidence on the actual effects of AfT at the micro level is scarce; and (iv) databases on AfT need to be improved.

Chapters 3–5 are an outgrowth of Commonwealth–ODI projects that aim to empirically assess the effectiveness of AfT and thus have contributed significantly to the quantitative literature on AfT from 2008 onwards. Although the specific terminology ‘Aid for Trade’ is relatively new in multilateral trade policy discourse,

the concept is not. The Organisation for Economic Co-operation and Development (OECD) has long been reporting data on such flows to developing countries that are comparable to the six categories of trade-related assistance identified by the WTO. This allowed Commonwealth–ODI studies examining the overall impact of AfT, and also of its various types, to use fairly long time-series information over a large cross-section of countries. The empirical studies were undertaken by constructing a theoretically consistent analytical framework to understand the routes through which AfT contributes to export performance. This framework was then utilised in building an empirical specification, linking trade-related indicators to AfT and its various components while controlling for a host of other factors that can also affect economic performance. Generally, three types of impact were analysed: (a) the impact of Aid for Trade facilitation (*Atf*) on the cost of trading (as measured by the time and costs of importing and exporting); (b) the impact of aid to economic infrastructure and aid to productive capacity on total exports; and (c) the impact of aid to economic infrastructure and aid to productive capacity on sectoral exports. Whereas the AfT data by recipient countries came from the OECD Creditor Reporting System (CRS) database on aid disbursements, the information on the cost and time of trading, aggregate and sector-specific exports, and other investment climate-related variables were compiled from different sources.

Chapter 3, by Massimiliano Calì and Dirk Willem te Velde, was the first paper that conceptualised the above empirical exercise and implemented it for a group of developing countries for which the required data were available. The results provide some clear-cut evidence that that *Atf* has a statistically significant negative impact on the cost of trading. A 100 per cent increase in *Atf* is associated with a decrease in the costs of importing by 5 per cent. This cost-reducing effect is robust to controlling for other relevant factors as well as to using different indicators of cost of trading (e.g. costs of exporting and time for importing).

AfT is also found to have an overall positive and significant impact on exports on the group of developing countries as a whole. In particular, an additional 100 per cent of AfT is associated on average with a 3.5 per cent increase in merchandise exports by the recipient country. This effect is entirely driven by aid to economic infrastructure; the other main category of AfT, aid to productive capacity, appears to have no discernible effect on the aggregate exports. When the effects on sectoral exports are considered, some positive effects of aid to productive capacity are captured, which are likely to be due to an allocation skewed towards already well-performing sectors.

The results also suggest that aid to economic infrastructure is particularly beneficial for mining and manufacturing exports, whereas it has almost no effect on tourism and a marginally positive impact on food exports. These findings may be consistent with the importance of transport and energy infrastructure in mining and manufacturing production relative to the other sectors. Although not statistically significant, the impact of aid to productive capacity is generally positive across sectors. On the other hand, aid to mining exports appears to have a negative effect, which would require further scrutiny.

Chapter 4, by Massimiliano Calì, Mohammad A. Razzaque and Dirk Willem te Velde, undertakes the empirical assessment focusing on small and vulnerable economies

(SVEs).[1] The discussions around AfT have tended to treat beneficiaries as a fairly homogeneous group of developing countries. However, groups of recipient countries differ according to a variety of factors and needs, which are important to acknowledge in the discourse on AfT policy. One such group is SVEs, which face special and unique development challenges because of their smallness, remoteness and isolation, and high costs of trading combined with their massive dependence on international trade for economic growth. Building on the analytical framework mentioned above, the results from the statistical analysis suggest that *Atf* is likely to have a more significant cost-reducing effect on the costs of handling imports and exports in SVEs than in other developing countries. This finding is consistent with these countries having, on average, higher unit transaction costs on exports than other developing countries (as these are spread over smaller volumes of exports). The results further suggest that aid to economic infrastructure increases overall exports more in SVEs than in other developing countries, although the effects for SVEs fail to appear as statistically significant. On the other hand, aid to productive capacity is found to have no significant effect on SVE exports. The analysis shows that sectoral aid seems to have a positive impact on tourism and mineral exports; however, on manufacturing exports there is no impact.

In Chapter 5, Massimiliano Calì and Mohammad A. Razzaque extend the analysis to sub-Saharan Africa (SSA). Once again, the findings suggest that *Atf* has a cost-reducing impact on the costs of trading in SSA, of similar magnitude to that in the other developing countries. Among the main SSA regional economic communities, *Atf* is found to have had the strongest effects in the Southern African Development Community (SADC). On the other hand, Aid for Trade policy and regulation (a broader category of AfT, which encompasses assistance for trade policy formulation and regulation, and training support for officials, etc., thereby influencing the processing of trade) has a significantly more negative impact on the cost of trading in SSA than in the other developing countries. That is, the favourable effects of Aid for Trade policy and regulation are more pronounced in SSA.

In terms of the broad impact of AfT on exports, the returns to aid to economic infrastructure on exports are much larger in SSA than in other developing countries, while the opposite is true for aid to productive capacity. It looks as if SSA benefits significantly from infrastructure investments, but not from direct support to its productive sectors. It is mainly the SADC (rather than other regions) that seems to drive this differential pattern of aid to economic infrastructure and aid to productive capacity in SSA. The analysis further suggests that part of the beneficial effect of aid to economic infrastructure in SSA occurs through helping intra-SSA trade. Finally, the estimates point to the importance of soft infrastructure investments (in finance and business services) in developing countries, and in SSA in particular relative to other developing countries. However, the overall results also suggest that other forms of infrastructure support, including transport and energy, are important as well, especially in SSA.

Alongside the quantitative analyses, there are more qualitative ways of examining effectiveness. Based on an ODI project, Chapter 6, by Yurendra Basnett and Jakob

Engel, draws on country and donor experiences of AfT to better understand what enables greater effectiveness and what kind of factors constrain it. It analyses where barriers to effectiveness emerge, and examines circumstances that affect outcomes at each phase of the AfT project or programming cycle. The authors define four phases in the AfT cycle: (i) determining AfT priorities including the identification of binding trade-related constraints to growth; (ii) structuring AfT delivery, examining particularly what we know about the different delivery instruments; (iii) the design and implementation of projects and programmes, focusing on delivery of national and regional AfT programmes; and (iv) monitoring and evaluation (M&E), including different methodologies used and how this informs ongoing and future programmes at the global, regional, national and project levels.

Although growing empirical and qualitative evidence indicates that AfT can have a positive overall impact, the authors suggest that many individual projects are failing to deliver results. Improving the effectiveness of AfT requires not only the identification of the most binding constraints to trade, but also the tackling of the bottlenecks within donor and recipient institutions that impede successful implementation of projects at various stages throughout the project cycles. This requires an understanding of the nature and causes of co-ordination failures and information asymmetries specific to the institutional structure and political economy of recipient countries and regions, as well as donor agencies.

Chapter 7, by Vinaye Ancharaz, Paolo Ghisu and Christophe Bellmann, is a contribution that has summarised the main findings of several country case studies on AfT undertaken by the International Centre for Trade and Sustainable Development (ICTSD). The approach taken in this chapter is qualitative in nature and broadly based on the Paris principles of aid effectiveness, through which it offers fresh insights into the dynamics of AfT on the ground. The methodology uses a combination of quantitative indicators and information gathered from interviewing key stakeholders. The findings suggest that AfT works best when flows are additional and predictable, projects are owned by the recipients' countries, donor objectives are aligned with host governments, and when local absorptive capacity exists, among other requirements. The chapter also provides important implications for AfT evaluations.

The main conclusions of Part I are that (i) AfT can be effective, but its impact depends on a variety of factors including sector and type of AfT and donor and recipient country characteristics and (ii) econometric research, case studies and syntheses are powerful ways to help evaluation of AfT, but we do need to continue to improve the way we do these.

1.2.2 Part II: Current issues

Part II of the volume, containing seven chapters (Chapters 8–14), provides analyses of some selected current issues relevant to the effectiveness and relevance of AfT in the future, including such issues as regional AfT, global value chains, infrastructure development for agriculture, AfT adjustment and lessons from emerging economies in aiding exports.

Chapter 8, by Bruce Byiers and Dan Lui, part of the study co-ordinated by the ODI, argues that, whereas donors traditionally focused their development co-operation at country level, assistance for regional trade-related projects has gained in significance in recent years, consistent with both the observations of the AfT Task Force and the desires of SSA countries that regard a deeper level of regional integration as a stepping stone towards integrating into the global economy. A regional 'corridor approach' has emerged as a key policy approach linking countries and development actors and creating regional supply chains. This approach emphasises tackling regional barriers to trade in an integrated and coherent manner, complementing liberalisation commitments with a combination of physical and 'soft' infrastructure investments as well as addressing productive capacity constraints in sectors such as agriculture, in part through encouraging large-scale investments by the international private sector.

The authors conclude that the corridor approach can focus efforts to overcome some of the problems associated with broader regional programmes. In the context of the declining importance of aid, an approach that works with the private sector not only to increase financial resources but also to align interests appears to be a useful approach to maximising the effectiveness of AfT as a catalyst for broader public and private investment.

Chapter 9, by Liz Turner and Anna Fink, came out of a Commonwealth Secretariat sponsored project, providing an exploratory assessment of regional AfT initiatives in the context of East and West Africa. It aims to understand the extent to which aid effectiveness principles are applied, through the use of case studies. By outlining challenges and opportunities faced in delivering such programmes, it explores the main implementers of regional AfT programmes including regional economic communities, partner states and development partners.

Collin Zhuawu, in Chapter 10, which is an outgrowth of a Commonwealth Secretariat project, highlights the main issues of global value chains (GVCs) for least developed countries (LDCs) and SVEs and the potential use of AfT in supporting them. The author points out that participation in GVCs has become increasingly important for SVEs and LDCs because of the critical importance of the private sector as an engine for economic growth, sustainable development and poverty reduction. GVCs are seen as an important route to markets for export products and services, offering new opportunities to firms. Among other things, the chapter argues that effective and meaningful participation can be realised when LDCs and SVEs use their positions in supply chains (e.g. as producers of raw material) as a basis for moving up the chains through value added processing and build their productive capacity in order to join the GVCs. On both occasions, AfT has an important role to play.

Chapter 11, by Jodie Keane, as part of the study co-ordinated by the ODI, examines the role of AfT in assisting the integration of agricultural producers in SSA into high-value agricultural GVCs. The GVC approach is a distinct methodological tool that focuses on the dynamics of inter-firm linkages and international industrial organisation jointly, rather than considering the production and export of goods separately. The chapter focuses on cut flowers in Kenya, where interventions to facilitate trade and

producers' integration within GVCs have been ongoing since before the term Aid for Trade was agreed among WTO members.

The chapter describes the evolution of the cut flower GVC, which requires a greater consideration of power asymmetries between firms. In a globalising world, where GVCs are increasingly important, the ability to shift goods in and out is essential to a country's competitiveness, and infrastructure and low tariffs matter. Yet the cut flower industry also faces a set of non-tariff barriers, such as the need to satisfy stringent private sector standards in Dutch auction houses. Thus, efforts to reduce costs of certification and overcome other non-tariff barriers, which can prevent traders from accessing external markets, need to be undertaken whilst considering the private relations that exist between firms operating within GVCs. For example, a key question relevant to AfT is how the flower growers can achieve the mutual recognition of standards by Dutch auction houses (which operate as a private members' club).

Chapter 12, by Marie-Agnes Jouanjean, also part of the same study, reviews the recent literature on the impact of rural infrastructure on agricultural productivity, trade and poverty. It confirms that rural roads are important for poverty reduction, increasing agricultural productivity and market access. Although there is little evidence that roads have a direct impact on the poorest communities, studies do suggest that communities benefit from indirect job creation. Road quality is also very important for trade, with evidence suggesting that rural feeder roads are particularly important for poor rural households. Although roads, and in particular rural feeder roads, are regarded as a necessary condition, they are still not sufficient to guarantee any escape from poverty.

Indeed, the chapter argues that AfT-supported projects for rural infrastructure should be appraised in a more holistic way, by combining investments in hard infrastructure with investments in soft infrastructure (e.g. institutions for competition, extension services and inspection of standards) to address systemic inefficiencies that reduce the competitiveness of agricultural value chains. Soft infrastructure is crucial in fostering agricultural productivity and to help subsistence farmers overcome their constraints and connect to the market. Consumers and farmers will both benefit significantly when transport and transaction costs are reduced simultaneously.

Since the start of the AfT initiative in 2005, efforts by donors, partner agencies and recipients to strengthen trade capacity and improve trade-related infrastructure have been driven by the public sector. As part of the AfT initiative's shift in focus to the issue of including producers from developing countries in GVCs, the chapters in this volume on GVCs by Marie-Agnes Jouanjean, Jodie Keane and Collin Zhuawu suggest that the scope of the initiative should be better at including the private sector.

In Chapter 13, which resulted from a Commonwealth Secretariat project, Sacha Silva assesses why one component of AfT, known as the support for trade-related adjustments, has not been utilised much. There can be various adjustment requirements, ranging from tackling export shortfalls to capacity development for dealing with new trade measures and provisions. Nevertheless, the adjustment support remains negligible. This light emphasis on adjustment needs in the AfT debate is at

odds with a heavy trade negotiations agenda for SVEs and LDCs on several different levels: national/unilateral trade reforms, bilateral and multilateral agreements, and regional integration commitments.

The chapter points out that one main reason for low utilisation of such assistance could be the problem of defining 'adjustment'. Another potential reason could be the AfT reporting system's bias away from emphasising trade-related adjustment (TRA) needs. The top recipients of AfT are mostly large, non-LDC and non-SVE developing countries; for many of the top recipients, AfT priorities are dominated by non-TRA categories, such as the need to improve infrastructure or address gaps in trade facilitation. Yet another reason is argued to be donors' reluctance to fund programmes with an explicit focus on adjustment. The author argues that AfT recipient countries need to ensure that discussions of support for adjustment costs are central to policy debates. They should also seek to influence the AfT debate by referring to best practice case studies and current innovative approaches to supporting TRA.

A final chapter in Part II, Chapter 14, by Clara Brandi, as part of the project co-ordinated by the ODI, examines potential lessons from the emerging powers in making AfT more effective. It notes that emerging economies have successfully supported their trade performance. The specific contribution of the chapter is to examine how China, India and Brazil have facilitated trade, focusing on the provision of infrastructure and trade facilitation. Based on a review of the current literature, the chapter also reviews which lessons might be learned from these experiences in low-income countries (LICs).

The lessons for LICs in infrastructure development and financing include (i) establishing a favourable institutional environment for infrastructure development, for example a new Development Bank for Infrastructure; (ii) looking for domestic institutional investors (for example, pension funds are expected to increase rapidly and could fund infrastructure if they are permitted to diversify into bonds issued by private insurance companies); (iv) looking for foreign investment; and (v) supporting public–private partnerships and private participation in infrastructure.

A number of trade facilitation reforms were considered beneficial: (i) taking account of political economy challenges for trade facilitation; (ii) supporting the harmonisation of documentary requirements across countries; (iii) prioritising paperless trade, with a focus on electronic data interchange (EDI) and national and regional single window facilities; (iv) minimising physical inspections, in particular through adoption of risk management techniques; (v) considering industry- and sector-specific trade facilitation initiatives, such as for agricultural products or low-valued exports; and (vi) including trade facilitation issues in bilateral and regional free trade agreements.

In conclusion, the chapters in Part II suggest there are a number of trends and issues that can make AfT more effective at present and keep AfT relevant in years to come. These include a stronger emphasis on targeted regional programmes that help co-ordinate relevant actors; more emphasis on the emergence of GVCs, emphasising the need for both soft and hard infrastructure; and a better integration of the private sector in the various aspects of AfT, including the need for AfT to address ever more

demanding standards. Although each country will need a specific AfT strategy, it is important to bear in mind that other countries, including Brazil, China and India, may have useful lessons for the smaller, poorer and more vulnerable economies.

1.2.3 Part III: Future directions

Part III in this volume, containing two chapters, provides some future directions and perspectives for AfT. Joseph Stiglitz and Andrew Charlton, in a Report prepared for the Commonwealth Secretariat, a summary discussion of which is printed here as Chapter 15, ask the questions whether AfT has delivered on its promise and whether it has delivered incremental resources to developing countries, complementing pro-development liberalisation and unlocking genuine progress in multilateral trade reform. They argue that the AfT initiative may well be primarily a reallocation rather than an increase in assistance, and constitutes a relabelling rather than a fundamental reform of the global trade and development framework.

Stiglitz and Charlton consider alternative means to improve trade outcomes for developing countries. They propose that a 'right to trade' and a 'right to development' be enshrined within the WTO's dispute settlement system. These rights would give developing countries increased opportunity within current and future trade agreements to expand their trade and safeguard their development. They further argue that AfT funds should be consolidated into a more coherent and predictable framework and propose that dedicated funds should be committed by rich countries to a Global Trade Facility and dispersed through a transparent and competitive process. These proposals, according to the authors, would contribute to creating a genuinely pro-development trade liberalisation agenda, giving developing countries greater scope to eliminate the international trade barriers and domestic capacity constraints that limit their ability to pursue export-led development pathways.

The draft report by Stiglitz and Charlton was discussed in a Commonwealth Roundtable, held in London, resulting in a rich discussion involving academics, senior trade negotiators, policy-makers and experts. Chapter 15 is a summary of the Roundtable discussion including major issues raised and discussed, prepared by Emily Jones.

Finally, Chapter 16, by Dirk Willem te Velde, examines the future of the AfT initiative. The chapter traces the progress of the initiative from its inception (first-generation AfT aimed at supporting the implementation of trade agreements) to the current phase (second-generation AfT mainly seen as one form or group of aid activities). It then proposes a range of possible future directions. In the narrow view, AfT returns to a very specific role focusing mainly on *Atf*, taking into account developments in GVC analysis. In the broad view, AfT follows a bottom-up approach to trade. In this view, trade plays a part in the solutions to a wide range of trade-related development challenges such as food security, job generation and climate change. The chapter concludes by arguing that there will be more emphasis on 'third-generation' AfT in the coming years. Third-generation AfT is more connected, involves learning from emerging economies, offers packages of support ('investment for trade'), albeit untied in that that aid is not constrained by procurement rules that tie procurement of goods

and services legally to the aid provider, to connect poor countries to value chains and is managed and facilitated by actors who are well connected to domestic state and business sectors. This renewed type of AfT can help the effectiveness of AfT in times of resource constraints, leverage in other financial flows of great value and make connections more comprehensive amongst countries, actors and flows.

1.3 Concluding remarks

Aid for Trade has become an important trade and development initiative that aims to support the beneficial participation of developing countries in global trade. Since its launch in the WTO Hong Kong Ministerial Conference, the initiative has attracted intense interest amongst developing countries who have, in some cases, allocated more aid and domestic resources in favour of trade.

The chapters brought together in this volume analyse a range of issues relating to AfT policy discourse including its effectiveness, selected topical issues and future directions. The empirical assessments and qualitative discussions based on country cases show that there are certain areas where AfT flows have significant favourable effects on recipient countries. Particularly, the effects of *Atf* in reducing trading costs have been very robust. There is also quantitative evidence of increased aid to economic infrastructure having a positive impact on export performance. However, the aid to productive capacity that has been provided does not seem to have had a noticeable impact. These results generally hold true for both SSA and SVEs.

In the light of these results, although one may suggest a reconsideration of the AfT allocation across activities and sectors, it is, nonetheless, very important to further examine the lack of effectiveness of aid to productive capacity and consider whether and how AfT can help industrial policy. Recipient country- and region-specific factors should also be taken into consideration in allocating AfT resources and to make the AfT initiative more demand-driven and accountable. In this regard it is important to mention that effectiveness needs to be verified further using a range of detailed assessment techniques.

One issue that merits special mention is that it may be a good idea to consider AfT programmes to address the specific trade-related constraints faced by SVEs. Currently, the AfT has an overall focus on infrastructure and sectoral development, which may not give adequate attention to the specific needs of small states. For example, whereas greater connectivity by way of improved road and transport networks has been an important area of regional AfT interventions elsewhere, such an approach for small island states that suffer from remoteness and isolation would not be appropriate. AfT designs therefore need to be more innovative for these countries along with the traditional projects of developing infrastructures and improving the efficiency of the existing ones. Addressing TRA needs, particularly those arising from loss of trade preferences (as highlighted in Chapter 4 below), could be extremely helpful for SVEs.

The Commonwealth Secretariat and the ODI have been engaged with policy-makers, trade negotiators, practitioners and civil society groups dealing with AfT. This has also contributed to a further understanding of the factors influencing the effectiveness of

AfT. Many consider institutional weakness as one of the major factors constraining the mainstreaming of AfT in national development strategies and its operationalisation. Institution building has also been recognised as essential to enhance the ownership of AfT. Most stakeholders are also of the view that significant information gaps exist, as currently there is no comprehensive database on AfT at the country or regional level. It is, therefore, important for countries to develop and strengthen databases of different types of AfT and projects where these funds are being utilised, to enable the evaluation and monitoring of AfT. This is particularly the case because many southern countries, especially large emerging economies, have become significant sources of AfT. Currently, AfT sourced from these countries is not systematically recorded in a global database. Because there is no database specific to recipient countries, the monitoring of AfT is thought to remain primarily a donor-driven initiative. There is also a need for country-specific case studies on AfT to help recipient countries learn lessons and share experiences from each other on the best practices in AfT projects.

In conclusion, whilst the AfT initiative has generated much dynamism in recent years, policy-makers and researchers will need to consider a range of issues discussed in this volume in order for the AfT initiative to continue to show impacts and remain relevant. First, whilst AfT is generally regarded as broadly effective, its impact depends on a variety of factors including sector and type of AfT and donor and country characteristics. The econometric research, case studies and syntheses will need to be continuously updated to evaluate the specifics of the AfT initiative as more data become available, econometric techniques are updated and circumstances change. Second, we need to ensure that AfT adapts to the new trade and investment realities of emerging value chains and an increasingly diversified financing environment in which AfT through ODA is declining in importance. This includes a stronger emphasis on targeted regional programmes, more emphasis on how soft and hard infrastructure can be combined to support the development of GVCs, and a better integration of the private sectors in the various aspects of AfT. Finally, it is in this light that we think that a successful continuation of the AfT initiative will depend on whether or not it can successfully increase the impact of AfT in times of resource constraints, leverage in other financial flows relevant to trade capacity building, embracing the concept of 'investment for trade', and connect private producers in poor countries to value chains, managed and facilitated in close co-ordination with domestic state and business sectors.

Note

1 This volume uses the Commonwealth Secretariat's definition of small and vulnerable economies (SVEs) and/or small states as those countries with a population size of 1.5 million people or fewer, plus some larger countries that share many characteristics of SVEs/small states. See Chapter 4 for details.