Chapter 6

Aid for Trade in Practice: Addressing Political Economy Barriers to Improve Development Outcomes

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6.1 Introduction: Aid for Trade within a changing global economy

The consensus among World Trade Organization (WTO) member states on the need for a more structured and enhanced approach to trade-related development assistance, or Aid for Trade (AfT), was formalised through Article 57 of the 2005 Hong Kong Ministerial Conference (WTO 2005).[1] This marked a significant change in global trade and development policy. It implicitly recognised that supply-side investments and complementary policies to help developing countries lower the cost of trading, increase the productivity of producers, help firms diversify into new export products and integrate into global value chains are essential to maximising the benefits from trade reforms and to cushion them against potential adverse welfare impacts.

Since then donor spending on programmes and projects aimed at supporting developing countries' ability to trade has increased rapidly, standing at over US$32 billion in 2010. AfT now constitutes up to one-third of all official development assistance (ODA). While many of these investments originate from Organisation for Economic Co-operation and Development (OECD) donor countries, emerging economies – most notably China, India, South Africa and Brazil, among others – have been increasingly providing trade-related support.

However, eight years after the launch of the AfT initiative, optimism is punctuated by the ongoing global economic crisis, which is continuing to have important implications for trade and development. First, the feeble economy, particularly in the Global North, means that world trade is only expanding slowly, which in turn reduces developing countries' opportunity to use trade as a source of growth and economic development. Second, the implications of the crisis on advanced economies are already affecting levels of ODA, which in 2011 declined for the first time since the early 2000s. Within the context of fiscal austerity, donors are facing an increasing need to justify large aid flows and demonstrate that taxpayer funds are generating 'value for money' and that interventions are 'working'.

In this context, an emergent focus of the 2013 AfT Global Review is examining how AfT can help developing countries integrate in global value chains (GVCs). There is also increasing interest in exploring how AfT can act as a catalyst for private sector investments. As the nature of trade-related development challenges change, so will the focus of AfT. In this chapter, we argue that in order for AfT to achieve its intended impacts, whether it is reducing trade cost, helping integrate into GVCs or mobilise private sector investment, it will need to be mindful of the frequent political economy barriers that undermine effectiveness that in some cases are common to ODA in other sectors, some of which is exacerbated by the unique challenges and context of AfT.

This chapter draws on the broader literature on aid effectiveness, as well 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 then examines circumstances that affect outcomes at each phase of the AfT project or programming cycle. While this will provide only indicative guidance for policy-makers, as much depends on the context of AfT interventions, we can highlight some of the factors most likely to facilitate improved outcomes at different entry points.

This chapter is structured as follows: the next section explains our analytical framework in greater depth. Sections III to IV explain each of the four stages within this framework: (1) determining AfT priorities; (2) structuring AfT delivery; (3) design and implementation of AfT projects and programmes; and (4) monitoring and evaluation of impacts. The conclusion draws out some of the overarching lessons that a political economy framework to AfT effectiveness can provide for officials in donors and recipient countries.

6.2 The Aid for Trade project cycle as a series of complex collective action problems: an analytical framework

The empirical literature tends to support the assumption that expanding trade is likely to increase growth and reduce poverty for most countries in the long run (Rodrik 2008).[2] In theory, for developing countries (which tend to have scarce capital and abundant labour), increased trade allows for a higher return to labour and an improvement in the income distribution towards wages and the poor (Page 2007). This can happen through a number of different transmission channels, including lower prices, increased competition and the creation of economies of scale, as well as the development of new industries and their integration into global value chains (McCulloch et al. 2001).

However, the exact implication of trade reforms for poverty reduction is complex and nuanced (see Bird 2004). The effect of increased trade (particularly following liberalisation) on growth and poverty will depend on the structure of the economy and whether trade-induced growth occurs in sectors where a large number of the poor are economically active; whether import-competing industries can adjust to foreign competition; to what extent growth translates into job creation and wage increases; whether excess labour can be absorbed; and whether the poor are equipped to take advantage of new job opportunities. As such, the aggregate and distributional impact of trade reforms depends significantly on complementary policy choices.

In addition to countries fearing the erosion of preferential market access, AfT is relevant for countries facing supply-side constraints to improving trade performance. The ‘Commission for Africa’ (2005), for example, identifies geographical constraints as one of the two root causes of Africa's poor development performance (the other being governance). It points out that these landlocked countries, where more than a quarter of Africa's total population lives, face a substantial competitive disadvantage and therefore are much more likely to remain poor.

While the literature confirms that AfT can be effective at the macro and the micro levels, its impacts may vary considerably depending on the type of intervention, the income level and location of the recipient country and the sector to which AfT flows are directed. For example, the empirical literature tends to confirm that AfT has been effective in raising exports and improving the investment climate. However, the evidence on the effectiveness of different types of AfT flows is mixed (Basnett et al. 2012): results are not always comparable because of different definitions of its specific categories. However, most studies find that the benefits from AfT tend to increase with more targeted flows.[3]

Notwithstanding the above, many AfT interventions are failing to deliver desired outcomes and impacts. This is largely because AfT is susceptible to the same collective action problems faced by other forms of ODA, as the leading actors, organisations and incentives are likely to be very similar for both. While such issues have been analysed at length with regards to ODA at large, examination of these issues as they relate to AfT remains largely missing. Overcoming problems of collective action and making AfT effective will require paying attention to potential barriers at each stage of the AfT programme cycle.

This draws on an extensive body of work over the past decade examining aid effectiveness through an institutional or political economy lens (see e.g. Ostrom et al. 2001). This has been seminal in recognising that institutional and organisational structures and relationships may affect the effectiveness and sustainability of interventions, and the nature of these bottlenecks has become central to discussions on aid programming in recent years in the delivery of public services, ranging from social sectors to transport and agriculture (see e.g. Pritchett and Woolcock 2004; Keefer 2008; Booth and Golooba-Mutebi 2009; Wild et al. 2012). However, their specific relevance to AfT, and the potential constraints in cases where the overarching objective is to alleviate barriers to trade, remains underexamined. As such, this study aims to provide an indicative overview of how these barriers to effectiveness manifest themselves in the trade context and what the potential entry points might be for addressing them.

We propose a framework entailing four stages within the AfT programming cycle in which donor and recipient behaviour, as well as the relationship between donors and recipients, influences the effectiveness of AfT (Basnett and Engel 2013). We suggest examining AfT through a political economy lens and analysing how conflicting incentives for different actors often lead to bottlenecks. We examine what the available qualitative and quantitative data suggest about the main barriers to greater effectiveness at each stage of the programming cycle, what individual country experiences tell us and, finally, how both donors and recipients can address some of these barriers to ensure greater AfT effectiveness. These four stages are:

1. **determining AfT priorities**, including the identification of binding trade-related constraints to growth, the needs assessment process, the integration of needs

into national development plans and how donors respond to trade-related needs through their country or regional programmes;

2. **structuring AfT delivery**, examining particularly what we know about the different delivery instruments, the benefits and drawbacks of bilateral and multilateral programmes as well as pooled funds and regional approaches entailing multiple recipients (including AfT to regional economic communities (RECs) and transport corridors);
3. **the design and implementation of projects and programmes**, focusing on delivery of national and regional AfT programmes, issues of intra and interdonor co-ordination, integration of country systems, interministerial co-ordination on the recipient side and the linkages of programmes to the transnational and regional levels;
4. **monitoring and evaluation (M&E)**, including different methodologies used and how this informs ongoing and future programmes at the global, regional, national and project level.

6.3 Needs identification

6.3.1 Identifying binding constraints

The prioritisation of AfT interventions is usually carried out through a needs assessment process that reveals the key constraints countries face on their more active participation in global trade. These are intended to guide the integration of trade into national development plans. While the level of consultation and analysis varies among developing countries, this process and its translation into programming helps to determine the effectiveness of AfT.

For least developed countries (LDCs), this has become more formalised through the Diagnostic Trade Integration Study (DTIS) process of the Enhanced Integrated Framework (EIF). In the EIF process, a DTIS is generally led by a trade expert who assesses the viability of all trade-related economic sectors in order to determine the most urgent constraints. Prioritised recommendations are provided through a DTIS 'action matrix'. A stakeholder workshop validates these findings. Furthermore, the EIF process establishes an institutional mechanism to guide the setting and addressing of identified AfT priorities, including an EIF steering committee.[4] The actors in this committee play an important role in translating the articulation of needs into priorities and actions as well as in mobilising resources around these priorities.[5] While the DTIS process for articulating AfT needs is far from ideal, it provides a largely predictable process for articulating an approximated hierarchy of AfT needs. In its absence, how well AfT needs are articulated is often determined by the availability and enthusiasm of officials and policy advisors in the recipient country's Ministry of Trade.

The above frequently raises questions of representativeness. In some countries, the needs assessment process is seen as just a project of the Ministry of Trade and select donors. As such, it fails to incorporate the cross-cutting significance of trade-related constraints for other ministries. It therefore lacks the necessary cross-governmental prioritisation and action matrices are followed up on, either by the governments or by donors. Failure to follow up, Hallaert and Munro argue, ‘can be attributed, at least in part, to the structure of the template and the process that is more conducive to the identification of overall needs rather than the identification of the binding constraints’ (Hallaert and Munro 2009: 21).

6.3.2 Mainstreaming Aid for Trade priorities

AfT needs can best be addressed when trade is mainstreamed into the national development agenda, with linkages between trade and the rest of the economy comprehensively analysed and articulated, and the weakest links within the export economy identified and strategies devised to address these. There has been progress in this area and, in many developing countries, trade is increasingly seen as a lever for growth and a prerequisite for poverty reduction. In surveys carried out for the 2009 Global Review, 96 per cent of recipients claimed that trade had been partly or fully mainstreamed into development strategies (Hallaert 2012).[6]

However, there are differences in the degree and scope to which trade is mainstreamed into plans and strategy documents, including the extent to which actual quantitative targets and implementation plans are set out that go beyond the very general rhetoric of mainstreaming. In many developing countries, trade remains of secondary importance and is mentioned merely passively in national plans (Basnett et al. 2012). Further, even when trade priorities are mainstreamed into the national development agenda, it provides a necessary though not sufficient condition for donors to respond and prioritise this in their programming. As a result, although the majority of countries increasingly recognise the crucial role of trade for growth and development, according to surveys carried out for the most recent Global Review, strategies frequently ‘lack operational objectives and action plans’ (OECD/WTO 2011: 32). Further, needs assessments often do not provide information about which interventions work and which do not, and which interventions are most cost effective (Cadot et al. 2011). They therefore provide limited guidance over what kinds of interventions are most needed to alleviate trade-related constraints and which are likely to be most effective given the particular country context.[7]

In many cases, particularly in LDCs, trade policies are either absent or muted or exist parallel to the national development agenda. When trade is mentioned in the national development agenda, it is often limited to ‘improving performance’ and does not accompany associated policies and strategies to achieve such goals. Furthermore, trade is not proactively leveraged as an integral component in achieving border developmental outcomes. For example, while Malawi’s National Development Plan reflects trade objectives for ten key policy areas, Said and colleagues argue that ‘trade does not appear to be mainstreamed in a substantive manner’, that donors believe that trade has not been integrated at the programme level and that ‘no link has been made between the [Aid for Trade] agenda and the development agenda’ (Said et al. 2011: 23).

Table 6.1 Identifying Aid for Trade needs

Key processes within stage	Potential barriers to effectiveness
Determining relevance of trade-related constraints in poor development outcomes	• Availability of data on the impact of trade-related constraints • Selecting appropriate tools to analyse constraints • Competing priorities in other sectors. • Lack of familiarity with country context by experts identifying constraints.
Prioritising binding constraints to improved Trade performance	• Limited resources to prioritise among large number of needs. • Lack of capacity or agreement on priorities between actors. • Frequent lack of consultation of other line ministries, The private sector and other non-state actors.

A commonly cited counter-example is Cambodia's experience of integrating its trade reforms and AfT needs into its national development strategies through its sector-wide approach (SWAp) for trade. The effectiveness of Cambodia's mainstreaming efforts have been attributed to strong government leadership, a movement away from projects towards the SWAp model, generous funding through a multidonor trust fund (MDTF), co-ordinated donor support and private sector involvement (Haddad 2009). Throughout the process, the Ministry of Commerce engaged line ministries through trade SWAp working groups (ibid.). Particularly important was the prime minister's explicit support.

AfT can be integral to addressing trade-related constraints but, as outlined above, there are numerous barriers both to determining the relevance and nature of these constraints and to prioritising them. Substantial investments in needs assessments frequently do not translate into the actual direction of programming, as donors often support projects that may not address the most binding constraints to trade. Therefore, AfT is likely to be most effective if constraints are identified through a comprehensive analysis and data collection process, and context-appropriate interventions are prioritised and costed. A government-led consultation and negotiation process including the private sector, civil society interests and donors should determine a clear implementation and financing strategy that is integrated into the national development plan and contains measurable targets and a clear lead agency or ministry (Table 6.1).

6.4 Selecting the most effective structure for AfT delivery

6.4.1 Loans, grants and pooled funds

Recent years have seen increased AfT commitments and a growing diversity in approaches to delivering funds. There has been a broad spread of AfT coverage but, as a result, some areas are undersupplied, whereas shifting donor priorities mean a lack of funding consistency for recipients. Recent movement towards more pooling of funds, more transnational and corridor approaches to AfT and a greater focus on effectiveness is likely to have helped address some of these concerns.

There is a broad literature on the key features as well as the advantages and disadvantages of different aid modalities (see e.g. Foster and Leavy 2001; DFID 2008a; Tavakoli et al. 2013) and of using loans instead of grants (see ETTG 2011).[8] While exceeding the scope of this chapter, blending mechanisms (i.e. adding grants to loans) aim to achieve a number of objectives, including the increase of the volume of development finance in a context of constrained resources. According to the most recent AfT review (OECD/WTO 2011), increases in total AfT commitments have resulted in a shift towards grants, especially to LDCs and for projects aiming to build productive trading capacity. However, in 2009, there were substantial increases in other official flows (i.e. non-grants) in areas related to trade. Overall flows totalled US$50.5 billion, an increase of US$26.7 billion (112 per cent) on 2008. Middle-income countries (MICs) received 91 per cent of all trade-related concessional loans. There is also an increased focus by some (especially European) donors on pooling AfT funds through trust funds or multilateral agencies. Donor commitments to multilaterals have increased rapidly. Multilateral flows have increased by almost US$6 billion to almost US$17 billion and now represent 42 per cent of AfT flows, up from 28 per cent in 2008 (OECD/WTO 2011). At the same time, total commitments from bilateral donors have declined by almost 20 per cent.

The pooling of funds creates economies of scale and helps avoid risks of fragmentation and donors spreading themselves too thinly.[9] However, there have been general concerns about donor pooling through multilateral agencies. In the independent evaluation of Finnish AfT (Bird et al. 2011), concerns are raised about the fact that many projects are initiated and managed at the headquarters of Geneva-based trade and development organisations, thereby mitigating country ownership.

6.4.2 Regional Aid for Trade

There is an increased focus on regional approaches to AfT. A total of US$7 billion has been committed to multi-country programmes (i.e. global and regional), more than triple the amount allocated during the 2002–05 baseline period. Both global and regional programmes have reached around US$3.5 billion and their combined share in total AfT has doubled from roughly 9 per cent in 2002–05 to 18 per cent in 2009. The country-based approach of most bilateral aid programmes has meant problems in garnering support for multi-country projects. This can include regional facilities, such as ports, or bilateral arrangements, such as a road from a landlocked country to a port in another country (UNIDO 2010a).

Pooled funding for regional projects has been most apparent in the context of the EU–ACP (African, Caribbean and Pacific) Economic Partnership Agreement (EPA) negotiations. Parallel to these negotiations (and to respond to the ACP countries' growing AfT needs), the EU has set in motion a process to promote integration efforts in ACP regions through regional AfT packages. It aims to provide co-ordinated, more effective and increased EU financial support to its regional integration agendas within ACP regions in order to respond to the needs and priorities imposed on ACP countries and regions, including the implementation of EPAs agreed on or being negotiated between the EU and ACP regions (EC 2009).

However, supporting Regional Economic Communities (RECs) is not uncomplicated and it is worth bearing in mind that there may be clear or even implicit conflicts of interest between, for example, EU (or EU Member State) support for policy and regulation projects in ACP countries and the simultaneous negotiations on the EPAs. An analysis of the AfT package to the Economic Community of West African States (ECOWAS) finds that capacity building efforts have not been very successful and that donors have struggled to harmonise support (Turner and Tracy 2011). Further, the implementation of European Development Fund (EDF) programmes has been hampered as a result of lack of national level support, co-ordination and communication for regional level priorities. Moreover, the integration of aid with the negotiation of trade agreements creates the potential for conflicts of interest, as the perception of aid being tied to negotiation outcomes is hard to avoid if the donor is also one of the parties to the trade negotiation.

Corridor approaches can be an effective way to overcome many of the policy co-ordination issues inhibiting movement of goods, services and people. The North–South corridor in Africa and the Greater Mekong Initiative in Southeast Asia serve as examples. The North–South corridor provides the physical and institutional support for the movement of goods, services and people in three overlapping developing regions and common markets: the East African Community (EAC) Common Market, the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). Byiers and Lui (2013) in this volume (Chapter 8) examine the regional corridor approaches in delivering AfT. They argue that corridors, by providing a focused and targeted approach to addressing trade-related bottlenecks, can alleviate many of the challenges related to the effectiveness of AfT. However, they also point to practical constraints, such as the need for specific financial mechanisms to establish and operate joint programmes at borders (Table 6.2).

Table 6.2 Selecting the most effective structure for the delivery of Aid for Trade

Key processes within stage	Potential barriers to effectiveness
Developing AfT objectives and strategies	• Lack of familiarity among officials with donor's own AfT strategy and priorities. • No linkages between AfT and other related development strategies (e.g. agriculture, infrastructure, SME development). • Lack of understanding at country level of AfT as a concept and its objectives (and what projects are considered AfT)
Selection of appropriate aid instruments and modalities	• Assessing the relative benefits and risks of loans and grants (and blended finance). • Donor pooling may improve efficiency it can create uniformity in provision.
Structuring transnational programmes	• Lack of co-ordination between regional recipients and/or member states of Regional Economic Communities (RECs). • RECs frequently lack capacity. • Potential linkages/conditionality between AfT and regional agreements. • Lack of donor structures to deliver regional AfT.

6.5 Design and implementation of AfT

6.5.1 Matching supply and demand

At a global level and in aggregate there is some evidence that AfT seems largely to be reaching the countries facing the biggest barriers to trade (Gamberoni and Newfarmer 2009). However, Karingi and Fabberoni (2011: 83) find very large disparities in AfT per capita in Africa as well as high volatility. More importantly, the fact that supply may be aligned with demand globally does not mean that the most critical projects are in fact being implemented at the national level and attention to this may neglect the fact that high-demand countries are frequently not those capable of absorbing large amounts of assistance. Thus, although there is a breadth of AfT support (see UNIDO 2010a,b), it is not clear that this is being matched with recipient needs. This can be attributed in part to a number of co-ordination failures within donor agencies and among donors, within recipient governments, between recipient governments and donors and at the regional level.

6.5.2 Donor–recipient co-ordination

As discussed earlier, many countries face considerable difficulties developing bankable projects and programmes based on identified needs (UNECA 2011). Although there has been increased alignment between the needs of recipients and investments by donors, according to the most recent OECD/WTO Global Review, only 60 per cent of countries report better alignment on national trade policies since 2009 and there is still frequently a lack of co-operation (OECD/WTO 2011). This is mirrored in a recent case study on Nepal (Adhikari et al. 2011): although AfT tends to be going to priority areas, donors still tend to promote their own priorities and agendas, especially at the activity level. This owes in part to weak prioritisation capacity and donors' preferences for designing projects on their own.

Despite the increased integration of trade into national development plans (NDPs) and the growing number of needs assessments (especially through the EIF), projects are often not aligned with country priorities. Donors tend to have their separate areas of focus with very little aid provided through sector-wide trade plans. In particular, the proliferation of parallel implementation units creates an additional burden for governments and weakens government capacity by siphoning off competent officials. In Cambodia, the lack of alignment with country systems is said to owe to 'donors' preference for using their own templates/formats; and perceptions from donors that government systems are still underdeveloped and lack credibility and full accountability' (Sok et al. 2011: xi). In many ways, this is a chicken and egg problem: Global Review surveys indicate that donors feel that structures are too weak for effective alignment, whereas numerous recipient countries 'point explicitly or implicitly to the problem of donors having specific interests in certain sectors that do not necessarily coincide with government priorities' (WTO/OECD 2011: 81).[10]

A central concern implicit in it is its impact on the sustainability of AfT. The aforementioned case study on Malawi finds that donor incentives to focus on short-term results and strong disbursement data mean that there is insufficient focus on long-term investments in institutional and human capacity. Cambodia, which pioneered the use of SWAps, nonetheless faces a situation where donors still perceive government systems as underdeveloped and lacking in credibility and full accountability (Sok et al. 2011).[11] In Nepal, there has been a general reliance on donor systems, which the ministry is aiming to counter by bringing AfT under a SWAp model and creating a Trade Trust Fund.

This is further complicated by the frequent absence of consistent and predictable funding. The Global Review finds that late disbursements often have detrimental effects on a country's budget with only 10–15 per cent of respondents reporting having no problems accessing their AfT allocations. A further problem in this regard is the presence of conditionality – for example, when a change in the political system leads to the suspension of projects (as reported by the Lebanese respondent). Closely related to this, many developing countries state that AfT disbursements are liable to double accounting by donors. This is because it is difficult to isolate what is, for example, an infrastructure investment and what is AfT. Much of the problem arises from lack of co-ordination and clarity between donors and recipients at the point of disbursement of general ODA and AfT. This is compounded by a lack of AfT strategies in many developing countries.

6.5.3 Intradonor co-ordination

The co-ordination between donor headquarters and in-country field offices is frequently fraught with difficulties, particularly in terms of aligning behind a shared strategy. The Australian respondent in the AfT self-assessment survey stated that 'there is still very little understanding of [the objectives of AfT] on the ground, particularly among those that manage and deliver development assistance' (OECD/WTO 2011). Analysis of AfT in Malawi finds that, even within local donor offices, there is a general lack of in-country awareness of what AfT is (Said et al. 2011). Similarly, an evaluation of Finnish AfT finds that 'Aid for Trade thinking' is not mainstreamed across programmes; 'many projects tagged as Aid for Trade are not considered as such by [Ministry for Foreign Affairs] staff in embassies or project implementers' (Bird et al. 2011: 4). As a result, long-term predictable and sustained AfT programmes are more the exception than the norm.

6.5.4 Interdonor co-ordination

Existing case studies demonstrate a lack of co-ordination between donors. Although in Zambia there has been a relatively effective consultation process through the National Working Group on Trade, and donors have moved towards aligning or at least co-ordinating work, this has frequently been limited to the smaller bilateral donors (Makhan 2011). In Cambodia, Sok et al. (2011: xi) argue that 'coordination is better today than a decade ago'. However, most donors stressed that co-ordination is still a major problem owing to 'the prevalence of multiple uncoordinated donor-driven projects'.

The situation described in recent country case studies on Malawi (Said et al. 2011) and Nepal (Adhikari et al. 2011) is not much different. This is despite an increased alignment in priorities among donors: EU Member States are supposed to have aligned their strategies with the EU's AfT strategy and in turn should have developed similar priorities on how to support trade in developing countries. However, this frequently does not filter down to individual project and programmatic support at a country level. Frequently, the level of donor co-ordination also depends on the main trade advisors in the country and their relationship with other donor officials and their recipient country counterparts. However, there are few clear structures in place to facilitate the development of donor co-ordination groups.

6.5.5 Interministerial co-ordination

On the recipient side, there are also numerous challenges in co-ordinating intergovernmentally in order to ensure policy coherence, manage cross-cutting issues and integrate trade agreements and policies into legislation. Trade ministries are frequently not well linked to other government departments and agencies and often have a relatively low standing and budgetary allocation compared with other ministries. Despite the impact of trade policy on numerous other areas of economic and social development, mainstreaming trade as a policy area is progressing slowly and in some cases backsliding. This lack of interministerial co-ordination and leadership by the Ministry of Commerce, Trade and Industry is particularly visible in Zambia (Makhan 2011): budgetary means and human resources are not being shifted towards trade to respond to cross-cutting policy linkages and a mushrooming of trade sub-committees and working groups dealing with specific sectors has overstretched ministry capacities.

Moreover, there is frequently little trade expertise outside of trade ministries and even representatives in Geneva (for countries that have these) are often not closely linked in to policy processes and must operate as independent agents. Typical of this is the view of line ministries in Cambodia that 'trade is the responsibility of the Ministry of Commerce alone, while their own work only marginally contributes to trade development' (Sok et al. 2011).

6.5.6 Government–REC co-ordination

Many of the aforementioned issues relating to inadequate co-ordination and principal agent problems are exacerbated at the regional level (see Turner and Tracy 2011). There is a strong economic rationale to strengthen regional institutions that address co-ordination failures. While AfT funding is increasingly supporting regional projects and regional economic communities (RECs), this creates a number of potential problems. First, RECs have very limited means of ensuring co-operation from member states and are frequently plagued by substantial capacity constraints. Many RECs also suffer from a legitimacy deficit among their members, who worry not only about the loss of competencies but also that the strengthening of regional organisations is mostly donor-driven and funded by those member states that have the most to gain. This combination of insufficient ownership of regional level programmes at national level, weak accountability mechanisms between RECs and partner states, inadequate capacity of regional organisations for monitoring and co-ordination of regional level

Table 6.3 Designing and Implementing Aid for Trade projects

Key processes within stage	Potential barriers to effectiveness
Developing programmes that reflect AfT priorities	• Lack of co-ordination between donor agencies can lead to duplication. • Frequently no central recipient focal point or co-ordination mechanism. • Lack of AfT awareness among donor field offices. • Lack of joint planning between donors and recipients.
Implementation of programmes	• Lack of co-ordination between ministries, and between implementing agents and ministries. • Short tenures of many officials on both sides impact coherence/consistency. • Donors frequently mistrust country systems and have tendency towards setting up PIUs.

commitments and the lack of political will or capacity for implementation is making the effective implementation of ambitious regional AfT programmes unrealistic.[12] Finally, there are few effective private sector and civil society interest organisations that operate regionally.

Despite the breadth of AfT currently being provided, it is useful to think where donors could add value moving ahead. Drawing on the analysis from the UN Industrial Development Organization (UNIDO) Guide on Aid for Trade, Page (2011) notes that there is still substantial scope for focusing on neglected areas. In the realm of market information, there is currently very little information for recipients on importing into donors' own markets, including meeting the administrative requirements of donors' own preference schemes or trading arrangements as well as meeting standards for non-agricultural trade. Moreover, although there is a great deal of support for preparing for multilateral negotiations, there is a lack of support to developing countries to identify or adjust to the impact on them of trading arrangements among other countries (Table 6.3).

6.6 Monitoring and evaluation

6.6.1 Responding to pressure to show results

Determining better ways of monitoring and evaluating the effectiveness of AfT has been a central policy concern since the start of the AfT initiative. The recommendations of the Task Force saw the strengthening of M&E as 'essential in building confidence that increased Aid for Trade will be delivered and effectively used' (WTO 2006: 3). The Task Force further emphasised the 'need for concrete and visible results on the ground' (ibid.). Towards this end, it determined three main methods of monitoring AfT:

- reporting on funds (through the OECD CRS);
- Aid for Trade assessments in the WTO Trade Policy Reviews;[13]
- the biannual OECD/WTO Global Review process, which assesses progress based on reports of Aid for Trade activities, progress and impact.

The above provide a global monitoring process and have aggregated a great deal of information on the increasing role of trade as a tool for development in the eyes of both donors and recipients. However, on many levels, there remains a lack of clarity on whether AfT is achieving its objectives,[14] and whether growing funds are being used effectively. Although the difficulties of attributing outcomes to development interventions is part and parcel of the world of development co-operation more broadly, given the substantial increase in AfT funding in recent years there is increasing pressure among donors to demonstrate more visible results and use more modern methods to assess impact.[15] This coincides with a general emphasis on demonstrating results in the context of growing scepticism about aid effectiveness and an ongoing economic crisis that is putting pressure on development budgets. Recognising this dynamic, the 2011 WTO/OECD Global Review took the theme of 'Showing Results'.[16]

The effectiveness of AfT can be monitored and evaluated at the global, national and project levels (see Hoekman and Wilson 2010). At the global level, this entails assessing whether AfT is associated with improved trade and development outcomes and determining whether funds are going to the countries and regions where they are most needed. WTO/OECD Global Reviews have shown that, over the years, global AfT funds have increased. Moreover, the self-assessment surveys carried out by donors and recipients suggest that donors believe their AfT is becoming more effective according to some indicators of aid effectiveness; to a certain extent, this corresponds with the views of (public) recipient surveys. Furthermore, the growing numbers of econometric studies examining the effectiveness of AfT show that it is likely to be reducing the cost of trade and improving export outcomes.

At the national level, the key question is whether AfT programmes and strategies are effective in achieving their objectives (e.g. expanding trade and increasing growth) and whether they are following the general principles of aid effectiveness (most notably, those set out in the Paris Declaration). Numerous countries have carried out independent AfT portfolio or strategy evaluations in recent years.[17] Finally, at the intervention level, one can evaluate whether projects are achieving their stated goals (through a simple evaluation) and what kind of outcomes would have been achieved in the absence of interventions (through a more sophisticated impact evaluation). Following standard practices, most AfT projects include some form of evaluation at the end, generally following standard evaluation procedures. The rigour with which these are planned and carried out – as the next section discusses – varies substantially. However, the DAC Evaluation Resource Centre[18] provides an overview of evaluations disaggregated by donor, sector (including trade) and country of focus.[19]

While not a lot of work has been carried out so far, according to the 2011 Global Review the vast majority of donors monitor their own projects and many are working to enhance M&E systems, in part because of domestic pressure. Many donor country reports, however, indicate a general absence of well-trained staff and appropriate resources for M&E, including access to reliable baseline data and funds for more sophisticated evaluations. Many projects and plans have both mid-term and final evaluations. Ideally, mid-term evaluations should allow those involved in implementation to refine their approaches during its application. Similarly, final evaluations should inform future programming. However, evaluations may be burdened by unreasonably high expectations. They should ensure accountability, help us to learn what works and what does not, provide guidance on the sequencing of interventions, help improve design and implementation, help recipients identify priorities and strategies and enable the use of micro-level results to demonstrate impact (Hynes 2011). Three (interlinked) challenges complicate the M&E of AfT projects and programmes and will be examined in turn: attributing impact within a coherent results chain, quantifying results and ensuring more robust M&E procedures.

6.6.2 Attributing impact within a coherent results chain

The shared goals of AfT, according to the OECD and WTO monitoring framework, are to enhance capacity to trade (at the outcome level) and improve trade performance and reduce poverty (at the impact level). Many AfT programmes and projects are designed around similar broad goals.[20] However, at the project level, attributing trade outcomes to the intervention is difficult and plausibly linking these to the MDGs (Millennium Development Goals) is close to impossible. There have been significant efforts to understand the potential impact of AfT on poverty. However, in many cases, project and programme designs fail to adequately measure and evaluate the actual impact on poor and excluded groups. This risks creating an 'emergent normativity-outcomes gap between Aid for Trade discourse and its tangible implications for "the poor"' (Langan and Scott 2011: 23).

The Aid for Trade at a Glance report argues that, 'for most DAC donors, attributing trade outcomes and impacts to Aid for Trade programmes and projects presents the biggest challenge' (OECD/WTO 2011: 174).[21] Australia in its self-assessment response, for example, stated that 'there is still very little understanding of this on the ground, particularly among those that manage and deliver development assistance. The concept of Aid for Trade is an especially difficult challenge, not helped by the fact that there is no consistent definition of it, and the cross-cutting nature of Aid for Trade makes attribution to it of successful outcomes a very uncertain exercise'. This difficulty is also recognised in the recent evaluation of Sida's AfT. The evaluators write that 'causal linkages between what the Sida projects are delivering and reduced poverty continues to be based on a series of assumptions. These results chains have not been tested empirically' (Goppers and Lindhal 2009: 10).

Although trade programmes are becoming increasingly realistic about what AfT can accomplish in terms of trade performance and competitiveness, there is still a desire to relate all project outcomes to results far beyond the realistically attributable scope of a trade facilitation or trade policy support programme (such as the MDGs). A meta-evaluation of 162 evaluations of AfT projects carried out in two countries (Ghana and Vietnam) and two sectors (transport and storage) supports this: evaluations tend to rely on general concepts, such as gender or poverty reduction, rather than on trade shares or income distribution, and the majority of evaluations of AfT operations do not say much about trade (Delpeuch et al. 2011). This is mirrored in the slight divergence between what bilateral donors see as the objectives of AfT that have gained most in importance (poverty reduction and growth, followed by regional integration) and the areas that have become most important for recipients (competitiveness, followed by regional integration and poverty reduction).

6.6.3 Quantifying results

A second related challenge pertains to the frequent lack of appropriate and/or quantifiable indicators. Selecting indicators inevitably involves a trade-off between breadth and identification (Cadot et al. 2011) and there are two overriding challenges in this case. First, and related to the issue of attribution, indicators are selected that relate only indirectly (or via a very complex results chain) to the actual project or programme. The EIF's M&E framework (EIF 2011) includes some indicators that could plausibly be attributed to EIF projects (LDC members that have completed the WTO accession process; percentage share of non-oil trade from LDCs), but also some that are likely to be beyond this (poverty headcount; GDP growth; Gini coefficient). This is acknowledged in the 'Risks and Assumptions' column – 'it is recognised that the EIF may contribute towards progress on the context indicators but that direct attribution at this level cannot be established' (EIF 2011: 99) – but it does beg the question of how useful these indicators are in determining the effectiveness of the EIF.

Many projects, particularly relating to capacity building, do not lend themselves easily to quantifying outcomes, given a lack of baseline data or applicable indicators. Frequently, if quantitative results are used at all, they are at the input level (number of officials attending training course). This also comes out clearly in the case stories submitted for the Global Review, which contain few, if any, quantitative benchmark indicators of performance in either the number of outputs or the outcomes measured against baselines. Only 44 per cent of the case stories have *any* quantitative output measure and only 22 per cent have any quantitative indicator of outcomes or impacts (Cadot and Newfarmer 2011). This is in part a problem in the design of the project and its results framework; however, in many cases, a set of useful indicators with baseline data quite simply does not exist.[22]

Finally, interministerial co-ordination failures exacerbate the confusions. For example, the Global Review survey is likely to have been filled in by trade officials, who may not necessarily be aware of the 'donor–recipient' discussion at the Ministry of Finance. Hence, lack of internal co-ordination in developing countries can also confound what is general ODA and what is AfT. These confusions can undermine the focus and momentum behind AfT and are difficult to overcome as long as strong incentives remain to over-report AfT in the reporting process.

6.6.4 Robustness of M&E procedures

The rigour and robustness of monitoring and evaluating AfT projects frequently leaves much to be desired. A review carried out by Cadot et al. (2011) of 85 recent World Bank projects revealed that only five included rigorous evaluation components and all of these were according to quite simple before/after processes, with little triangulation of results or more in-depth investigation of the causal role of the interventions. This is also the case for many of the Global Review case stories: very few focus on potential other explanatory variables beyond the intervention.

Evaluators rarely incorporate any relevant time dimension in their assessments and therefore little *ex ante* economic analysis is undertaken. As a result, the Global Review is based primarily on subjective self-evaluation, the monitoring of inputs and a review of case stories subject to selection biases in order to determine whether the effectiveness of AfT is improving.

Similarly, many strategy or portfolio evaluations carried out by donors rely mostly on relatively simple evaluation methodologies. Where more rigorous evaluations are conducted (such as the USAID portfolio evaluation), the rate of return is calculated based on evaluations primarily carried out by programme managers themselves and/or frequently lacking objectively verifiable indicators. Having programme managers carry out their own evaluations frequently means these are afterthoughts to the project and generally results in limited pressure to make these accessible to others to inform future design. Moving towards a culture of greater independence in evaluation, in which evaluators are not necessarily incentivised to provide favourable assessments, will contribute to more robust evaluations.

Assessing the impact of AfT is fraught with challenges because of the lack of credible data, attribution problems and, above all, an absence of counterfactuals. As a result, M&E is frequently not carried out in a manner that would facilitate achieving one of the main objectives: enabling improvements in ongoing implementation and ensuring lesson learning for future projects. This is not only because there is a lack of interest on the part of the recipient, but also generally because ministry officials are already overburdened by other responsibilities (UNECA 2011). Moreover, despite all the

Table 6.4 Monitoring and evaluation

Key processes within stage	Potential barriers to effectiveness
Developing a clear results framework	• Tendency to set objectives (e.g. MDGs) that are beyond scope of project. • Results chains are frequently not tested empirically.
Selection of appropriate indicators	• Generally few quantifiable indicators that translate up to national priorities. • Lack of clear indicators, esp. regarding institutional capacity.
Impact assessment	• Lack of baseline data. • Very limited use of sophisticated evaluation methods (due to cost, risk of negative results, etc.). • Absence of effective control for other policy variables.
Ensuring M&E and impact assessment informs on-going and future projects	• High costs of evaluations are seen as deterrent (would cut into programme budget). • Programme managers have few incentives to ensure rigour in evaluations. • Barriers to joint monitoring procedures. • Few consequences from evaluations and 'on the ground studies'. • Country-wide evaluations are very expensive and are not necessarily applicable to project level.

work that is invested in assessing needs and mainstreaming trade into development plans, the role of many AfT projects in contributing to national trade priorities tends not be central to evaluations. There is thus considerable scope to triangulate existing approaches and develop feedback mechanisms between donor level evaluations of strategies and sector approaches, country evaluations and evaluations of what works at the project level. Although these problems are common to the M&E processes of aid projects in many areas of development co-operation, particularly for trade-related assistance, there has often been a notable lack of rigour, which is now being addressed only gradually. Investing in the collection of baseline data and providing measurable intermediate outcomes (e.g. port clearance time) and final outcomes to which AfT interventions have made a plausible contribution (e.g. trade volumes) would help to address concerns about attribution (Table 6.4).

6.7 Conclusion

AfT has emerged as an important vehicle to help developing countries improve their trade capacities and benefit from the expansion of global markets. These improvements are important for economic growth and job creation, helping developing countries to move from reliance on aid to the use of trade to generate higher standards of living. AfT can help countries diversify and reduce output volatility – particularly in times of uncertain export demand and fluctuating commodity prices. It can aid in improving productivity by addressing many of the market, co-ordination and governance failures. Finally, and importantly, it can be used to leverage private sector funds. Whereas in the past there was a distinct lack of private sector involvement, viewing AfT as a catalyst for private sector investment is likely to grow in the future.

Lack of progress in concluding the Doha Round of the WTO has meant that AfT has increasingly become divorced from the Doha Round and one of its central rationales – adjustment support for preference erosion – has become secondary. There is now greater and much needed recognition and focus on the role of AfT in supporting industrial upgrading, boosting productivity and structural economic transformation. However, although growing empirical and qualitative evidence indicates that AfT can have a positive overall impact, many individual projects are failing to deliver results, in part because of the issues discussed in this chapter.

Improving the effectiveness of AfT requires not only identifying the most binding constraints to trade, but also understanding and addressing bottlenecks within donor and recipient institutions that impede successful implementation of projects at various stages throughout the programming cycle. AfT effectiveness can be better examined not only in relation to the specific supply-side constraints it is attempting to alleviate, but also in terms of the frequently conflicting incentive structures and co-ordination failures within the complex national and regional political systems within which AfT projects and programmes are embedded. This chapter has attempted to demonstrate that many of these are highly specific to AfT programming and require an understanding of the nature and causes of trade-related co-ordination failures and information asymmetries specific to the institutional structure and political economy of recipient countries and regions as well as donor agencies.

Notes

1 Article 57 of the WTO Ministerial Conference's Declaration invited efforts by the WTO, its member states, the World Bank and the IMF to 'develop appropriate mechanisms to secure additional financial resources for Aid for Trade' and called for the creation of a task force to provide recommendations on operationalising AfT.

2 See, for example, Basnett et al. (2013) or Hallaert and Munro (2009) for an overview of this literature.

3 Some studies find that aid to trade facilitation and to trade policy and regulations is effective in promoting recipient countries' exports (Busse et al. 2011; Ivanic et al. 2006), while other studies have found that the aid to trade-related infrastructure is particularly effective in fostering exports (Vijil and Wagner 2010). Further, trade facilitation and aid to trade-related infrastructure have significant positive impacts on recipient countries' trade costs (Calì and te Velde 2011).

4 This is generally composed of key line ministries, donors and other non-state actors, a donor co-ordinator, usually one of the large bilateral donors responsible for co-ordinating donor–recipient interactions and an EIF focal person, usually from the Ministry of Trade, responsible for the day-to-day management of the EIF process.

5 See www.enhancedif.org

6 However, more independent assessments at the time were much more sceptical of how effectively this had been achieved. Hallaert particularly points to the IMF's Joint Staff Advisory Notes as well as concerns voiced at the same time by the UN Conference on Trade and Development (UNCTAD) that 'only a minority of country-level plans include trade-related policies' (UNCTAD 2009, in Hallaert 2012: 11).

7 Needs assessments can also be hindered by the lack of context-specific knowledge of the team or individuals carrying them out. In the past, they were often conducted primarily by external consultants with limited familiarity with the country they were working in and who did not necessarily have a full awareness of the feasibility of different interventions. Moreover, they may not have had an incentive to follow up to ensure a prioritised integration of these constraints. As a result, effective solutions and a prioritised ranking of constraints to assess the feasibility of addressing these within the national political economy were frequently absent.

8 For example, whereas grants allow for the funding of projects with positive externalities that are not financially viable and do not create a debt sustainability risk, they can lead to moral hazard, as this may be seen to be rewarding ineffective or inefficient policies. Loans can be flexible to specific project needs and can provide a larger volume of funding, but they are more complex and can also lead to a potentially unsustainable debt burden. In terms of their trade distorting effects, there tends to be little significant difference between grant and loan ODA (Clay et al. 2009).

9 The evaluation finds that 'a more strategic approach to identifying and planning Aid for Trade interventions might be called for: rationalise the number of projects and programmes and scale up resources towards larger-scale programming' (Bird et al. 2011: 64).

10 Similarly, in Namibia, donors indicated that the national AfT process only involves limited dialogue between the government and donors on trade issues broadly and on AfT issues specifically, and that the country lacks an effective and operational national AfT co-ordination process (Basnett 2011). Further, there is a lack of a comprehensive trade and development study to inform trade-related needs and strategy. As a consequence, it is difficult to comprehensively identify and quantify trade-related development needs.

11 Naturally, these issues are not unique to AfT. In their evaluation of the Paris Declaration, Wood et al. (2011) find that, although aid has become more transparent and less donor-driven than in the past, many donors have so far been less active than recipients in aligning their systems with the principles of the Paris Declaration. The authors argue that expectations for 'rapid, fundamental reforms by partner countries' being 'unrealistic and unreasonable, especially alongside the record of most donors and agencies' (ibid. xvi).

12 This is supported by analysis of both ECOWAS and the EAC (Turner and Tracy 2011) as well as COMESA (Makhan 2011). In the case of ECOWAS, capacity-building efforts have not been very successful and donors have struggled to co-ordinate and harmonise support. In the implementation of large-scale EDF programmes, there has been a perceived lack of national level co-ordination

and communication for regional level priorities, an insufficient mandate or guidance for national delegations and a lack of ECOWAS leadership. For the EAC, the lack of a legal mandate to enforce the implementation of regional legislation at the national level has meant there is no operational or enforcement mechanism to ensure this takes place. Thus, 'currently integration of regional level legislation at the national level is done according to the "good will" of the national governments' (ibid.: 13). In the case of COMESA, the fragmentation in decision-making between the national and regional dimension is problematic, with a widespread perceived lack of legitimacy by COMESA among member states, and national governments unwilling to delegate sovereignty to a regional authority. Incidentally, many of these problems, Makhan (2011) argues, also apply to the EU, where Member States lack a common operational framework and bilateral agendas still determine development co-operation programmes; bilateral projects often have little or no regional components.

13 Analyses of AfT in Trade Policy Reviews have been conducted for the following recipients: Belize, China, DRC, Honduras and Malawi, plus a joint one for Benin, Burkina Faso and Mali. The trade performance of the USA as a donor has also been examined.

14 The objectives of AfT identified by the Task Force were to enable developing countries, particularly LDCs, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the MDGs; to help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more; to help facilitate, implement and adjust to trade reform and liberalisation; to assist regional integration; to assist smooth integration into the global trading system; and to assist in the implementation of trade agreements (WTO 2006).

15 The World Bank survey, for example, stated that 'the field still relies excessively on outdated methods compared to other fields of development work. An energetic push for the adoption of impact evaluation techniques and their mainstreaming in project design is needed'. See www.oecd.org/aidfortrade/48195075.pdf (accessed 29 July 2013).

16 This has been particularly pronounced in countries that have recently changed from a centre-left to a centre-right government. The UK's 2010/11 Global Review survey response, for example, stated that 'In 2010 the UK enhanced its approach to aid for trade with a stronger focus on driving results – both through programme planning and improving monitoring and evaluation techniques'. See www.oecd.org/aidfortrade/47643036.pdf (accessed 29 July 2013).

17 Even before the launch of the AfT initiative, donors had been carrying out thematic and portfolio evaluations on their trade-related assistance. An overview by the OECD (2006) of evaluations carried out by the EC, USAID, DFID, the Ministry of Foreign Affairs of the Netherlands, the World Bank, UNCTAD, the UN Economic and Social Commission for Asia and the Pacific (ESCAP) and the Integrated Framework found that half of the reviewed evaluations noted that, generally, trade-related assistance had increased partner country understanding of the importance of trade for growth and poverty reduction, raised awareness and knowledge of trade policy matters and strengthened national dialogue on these issues. Common weaknesses in donor programmes included unsystematic or incomplete needs assessments; weak project management and project governance structures; insufficient synergies with broader development assistance programmes; and insufficient donor co-ordination.

18 See www.oecd.org/derec/ (accessed 29 July 2013).

19 Other resources collating project level M&E tools include the websites of the World Bank's Independent Evaluation Group, the multilateral development bank run Evaluation Cooperation Group, UNDP's Evaluation Resource Centre and the Network of Networks for Impact Evaluation (comprising many of the above).

20 Both DFID and the EC (along with others such as the World Bank) highlight the importance of understanding the poverty impact of their work and designing projects and programmes that maximise the impact on poverty reduction. For instance, both DFID and the EU have developed AfT strategies that emphasise the pro-poor impact of AfT. DFID's AfT strategy states that 'a central purpose of Aid for Trade is to assist the poorest countries, and particular groups of the poor, to reap these benefits' (DFID 2008b: 17), whereas the EU AfT strategy (EU 2009) includes a pillar on 'Enhancing the

pro-poor focus and quality of EU Aid for Trade'. The EU also notes that 'in response to partner countries' own trade-related priorities, in the context of poverty reduction strategies, it will help facilitate, implement and adjust to trade reform and liberalization paying specific attention to their impact on poverty reduction' (EU 2009: 7).

21 This difficulty is not new: even prior to the launch of the AfT initiative, there was a substantial scaling up of trade-related assistance following the start of the Doha Round in 2001. An initial analysis of trade-related assistance evaluations found a lack of measurable objectives and indicators in programme documents as well as difficulty in attributing results (OECD 2006).

22 To quote the UK's Global Review self-assessment questionnaire, 'It would be helpful to have more programmes more consistently designed to deliver specific, quantifiable outputs and outcomes … Process-oriented programmes may still be justifiable but with explicit, quantifiable and qualitative targets that clarify what improved capacity means'.

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