Increasing the Effectiveness of Aid for Trade

The circumstance under which it works best

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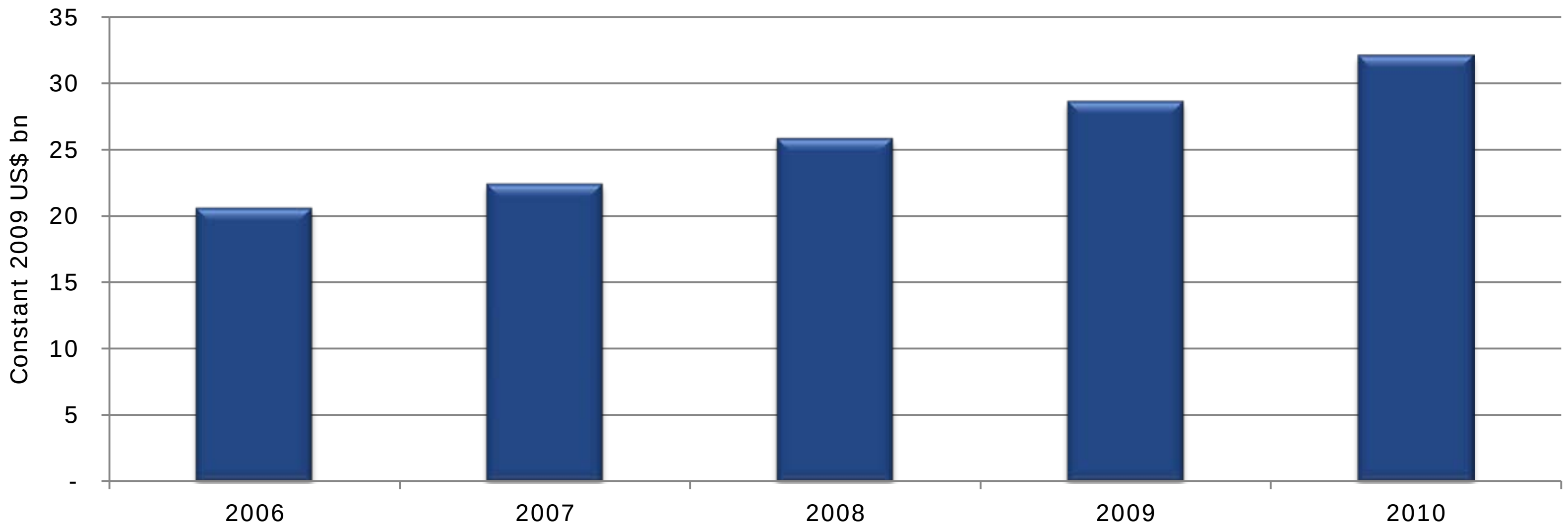
Introduction

- Key research question: ***What the impact of Aid-for-Trade has been thus far (the evidence), and what has worked and what are the barriers to improving the impact of the initiative (the effectiveness)?***

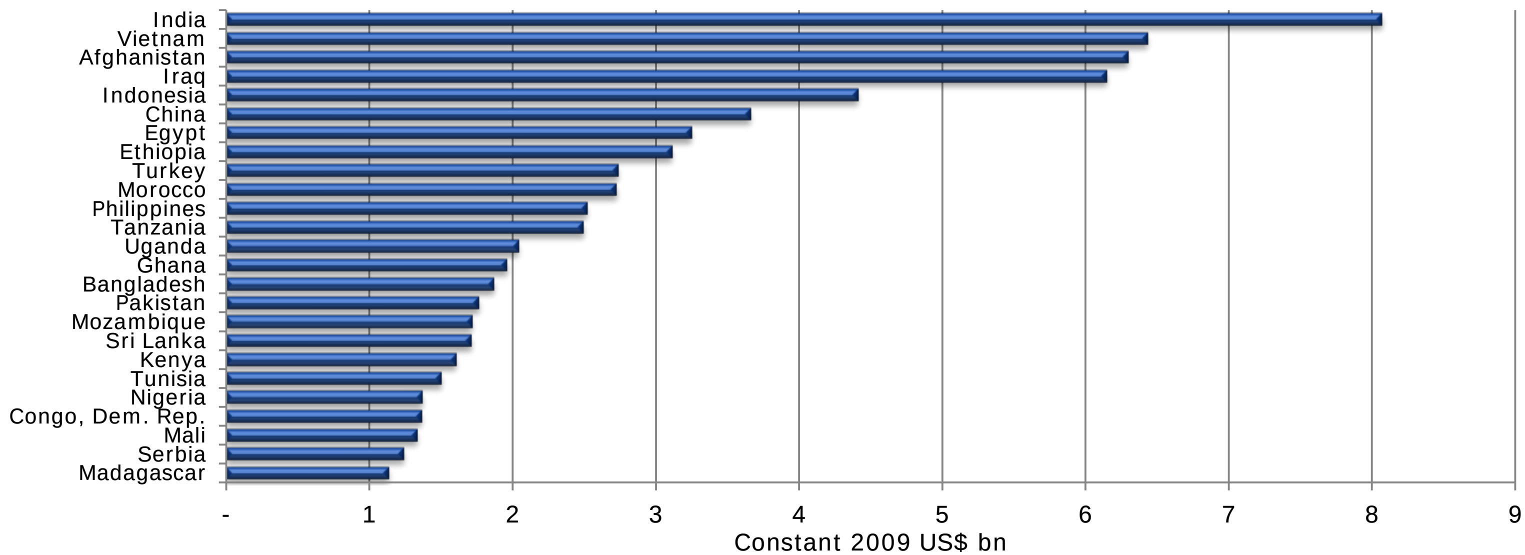
Fig. 1: Total Aid-for-Trade disbursement, 2006-2010 [US$ billion, constant 2009]



Source: Authors calculation based on OECD DAC database 2011

- **Some important observations**:
  - Aid for Trade is increasing and is responding to the demand, but there are distributional concerns. A few countries receive a lion's share, while many low income countries are not being able to mobilise necessary resources.

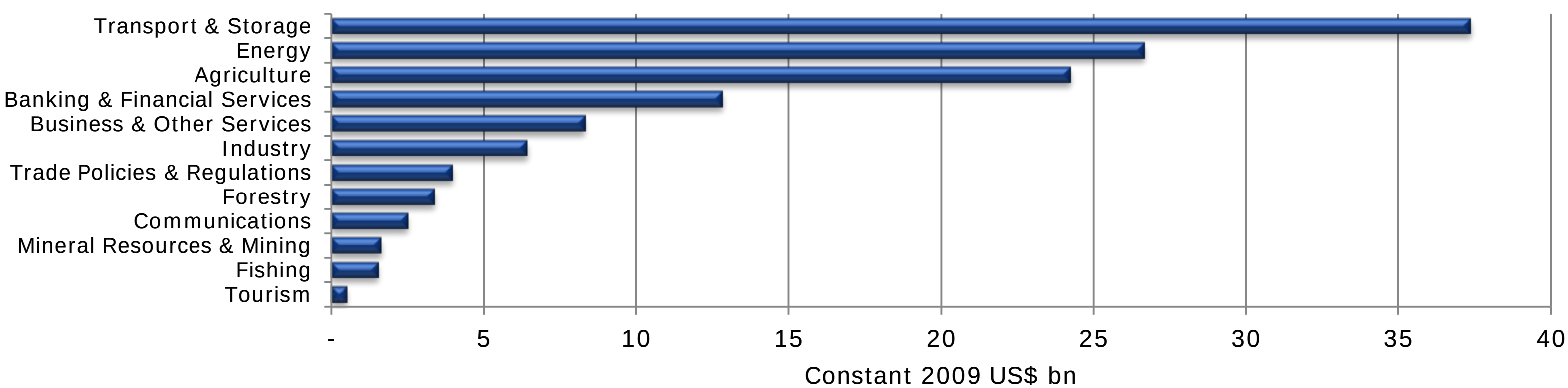
Fig 2. Total Aid-for-Trade flow by top recipients, 2006-2010 [US$ billion, constant 2009]



Source: Authors calculation based on OECD DAC database 2011

– Aid for trade has been effective, but there are donor/recipient specific factors that influence the effectiveness of Aid-for-Trade. These include:
  - The identification of Aid-for-Trade needs does not always align to the trade-related binding constraint of the recipient country/region.
  - Coordination failures inhibit the design and implementation of Aid-for-Trade investment programmes.
  - The monitoring and evaluation of Aid-for-Trade tends to be based on stretched results chain and the lessons do not adequately feed into future design of Aid-for-Trade programmes.

Fig 3. Sectoral distribution of Aid-for-Trade flow, 2006-2010 [US$ billion, constant 2009]



Source: Authors calculation based on OECD DAC database 2011

Econometric evidence

- Few empirical studies assess the effectiveness of Aid for Trade.
- Data availability remains an important issue.
- The concept of Aid for Trade is difficult to define.
- Few studies focus on specific Aid for Trade interventions/instruments.
- Several econometric techniques have been used (e.g. gravity models, DID, panel data, GMM, OLS, etc.) – which one works best?
- More analysis at the macro rather than micro level.
- Country coverage is heterogeneous.
- Some evidence on differences by income level and geographical region.
- Scarce evidence on differences by productive sectors.

Econometric evidence (contd.)

- Empirical literature confirms that **Aid for Trade can be effective**
- But **impacts vary depending on**:

→ **type of intervention**

- highly targeted Aid for Trade flows are more effective
- Aid to trade-related infrastructure is particularly effective

→ **recipient's income level**

- aid to infrastructure more effective in LICs
- aid to business sector more effective in higher-income countries

→ **recipient's sector of aid**

→ **geographical regions of recipient country**

- SSA is one of the regions that benefit the most

Key findings

This paper finds that **Aid-for-Trade works best, when**:

- **It is targeted at reducing the cost of trading**, for example through investment in infrastructure, improving trade facilitation and strengthening value chains. These should be driven and guided by support to the capacity of institutions that devise trade policies and regulations. Experience shows that investment in infrastructure, trade facilitation and the strengthening of value chains is most effective when it is integrated into and driven by a country's broader trade policy and strategy.
- **It addresses the binding constraint to growth.** This will be largely country-specific and, according to traditional growth diagnostics, can relate to factors that affect the availability of finance of an investment project or factors (e.g. infrastructure, skills, transport costs) that affect returns to an investment.
- **There is effective coordination between donors and recipients** around the design, implementation and monitoring of the Aid for Trade programmes, as well as coordination among different donors, within donor agencies themselves (e.g. between country offices and headquarters), between different ministries within a recipient country government and between recipient governments and their regional trading partners.
- The selection of instruments and modalities for delivering Aid for Trade are **able to address trade-related constraints at the transnational and regional level.** Many Aid for Trade projects are targeted towards improving trade for individual countries, when in fact greater gains can be made by focusing on ensuring greater integration of trade within regions.
- **The M&E** of impacts, outcomes and outputs **is realistic** (the achievement of objectives can be traced along a feasible results chain), **based on the collection of baseline data, and lessons contribute to the design of future projects.**

Research phase II

This research is part of a two year research project on Aid for Trade funded by the Gates Foundation. We have now embarked on the second phase of the research project, which will be examining the following:

- How Aid for Trade can best be used to work with the private sector through promoting global value chains relevant to development;

- How Aid for Trade can improve agricultural productivity and trade (and hence food security) through the provision of the right type of infrastructure;

- Whether aid to trade facilitation (and, where appropriate, different types of Aid for Trade) can lead to better results for trade, growth and the investment climate;

- Lesson learning from the experiences of the emerging economies, such as China, India, Brazil and South Africa, as well as newly emerging middle-income countries (MICs) like Vietnam.

Source: