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AID FOR TRADE AT A GLANCE: CONNECTING TO VALUE CHAINS
CHAPTER 5. AID FOR TRADE RESULTS: THROUGH THE EVALUATION PRISM

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Introduction

1.   Aid for trade (AfT), always an important component of development assistance, has risen substantially since the WTO ministerial in Hong Kong in December 2005. According to the OECD measurement of aid for trade commitments (in current prices) have risen from USD 19 billion in 1995 to USD 23 billion in 2005 and now stand at USD 41.7 billion in 2011. The acceleration evident in the period 2006-2010 seems to have tailed off somewhat from its peak of USD 44.9 billion in 2010 under the pressure of the great recession, but there can be little doubt that donor governments have invested heavily in building trade capacity (see chapter 2). Concomitantly, trade from developing countries has grown substantially and in an accelerating pattern not dissimilar to AfT over this same 1995-2011 period. Exports of developing countries rose from about USD 4 trillion to surpass USD 15 trillion.

2.   Since the onset of the global economic crisis in 2008, donor budgets have come under increasing strain, and this has raised the level of scrutiny of all expenditures, including development assistance, to show results. The OECD and WTO have worked intensively to analyse evidence on ways aid for trade has affected trade performance as a stimulus to economic growth and poverty reduction (OECD, 2011c). This chapter explores the evidence of links between aid for trade and growth of trade in developing country recipients and reviews studies that speak to three questions:

  i.   Is aid for trade effective in increasing trade, thus fostering more rapid economic growth and sharper reductions in poverty, and if so, under what circumstances is aid most effective?

  ii.   As global and regional value chains come to become a central feature of the trade landscape, what changes does this imply for aid for trade, and has past AfT contributed to effective participation in global and regional production chains?

  iii. Do management systems of governments in partnership with donors improve the effectiveness of aid for trade?

3.   To answer these questions, the chapter argues that a full picture of the effect of aid on trade only emerges by looking at this relationship through various methodological prisms – including aggregate cross-country studies, programme reviews, and project evaluation. A first section reviews the general findings about the relationship of aid for trade and trade creation. A second section updates some of the past empirical findings, and pushes the cross-country analysis into new areas, looking at the impacts of different types of aid for trade on particular categories of developing countries. A third section highlights the emerging role of value chains, and works through the implications for aid for trade. A penultimate section looks at the role of government management systems, and charts how they interact with aid for trade donors to understanding which models seem to work best. From this analysis, a final section draws some conclusions and policy lessons.

1 Evaluating the effectiveness of aid for trade

4. Much like all development assistance, aid for trade has as its ultimate objective raising standards of living and reducing poverty through its effects on economic growth. As described by the OECD (2011b) three generalised propositions link the transmission of aid for trade to growth and poverty reduction: (*i*) aid for trade leads to more rapid growth of exports and imports; (*ii*) more rapid growth of trade raises productivity and income growth; and (*iii*) rising incomes with growth lift people out of poverty. This chain of causation, while arguably robust as cross-country generalisations over long periods,[1] does not necessarily hold for every country at any given time. For example, many factors affect the link between trade growth and income growth – conflict, indebtedness, governance, or the absence of complementary policies in finance, education, and/or investment. Similarly, in the last link of the chain, from growth to poverty reduction, the basic structure of the economy – distribution of land or natural resource ownership, the skill of the labour force, or the labour-intensity of production – strongly affects the distribution of the benefits of income growth and the poverty elasticity of growth. In exploring the literature on the effectiveness of aid for trade, this chapter concentrates on the first proposition, the evidence that aid for trade promotes more rapid growth of exports and imports. The objective is to identify the types of trade-related projects and country situations where aid for trade has the highest probability of success.

What is success in aid for trade?

Expanding Trade Outcomes

5. For trade negotiators from developing countries in Hong Kong at the 2005 WTO Ministerial Conference, the measure of success of aid for trade was to expand exports, and create the domestic productive capacity to take advantage of new market access to be achieved under the Doha round. The 2006 WTO Task Force on Aid for Trade that resulted from the Hong Kong ministerial summarised objectives this way:

> "Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access. Effective Aid for Trade will enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral trade reforms and distribute the global benefits more equitably across and within developing countries.[2]

6. Beyond expanding exports to propel growth, other goals, though largely unmentioned in the Task Force report, emphasised progressively changing the composition of trade. This includes diversifying

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[1] Several studies provide robust evidence on the main linkages. For the relationship between more rapid growth of trade and increases in productivity and income growth, see Newfarmer and Sztajerowska,(2012) for a summary of the 14 most recent econometric studies. The OECD also reaches this conclusion: "…[B]oth import and export expansion boosts economic growth, although the constraints to exports differ noticeably from constraints affecting imports. This finding [implies]…that trade reform (and aid for trade) should focus not only on export promotion but also on enhancing imports to achieve growth, poverty reduction and development" (OECDb, 2012:2). For the link that rising incomes lift the poor, see Roemer and Gugerty (1997), Rodrik (2000), Dollar and Kraay (2005) and Ravallion (2007). This link is also supported by more than a dozen country studies undertaken in the last decade years.

[2] WTO 2006 "Recommendations of the Task Force on Aid for Trade" WT/AFT/1 Geneva: WTO July 27, p. 1. This definition is echoed most evaluations, for example, that of Finland: "Aid for Trade (AfT) aims to contribute to increasing the volume and value of products developing nations export, to promoting their integration into the multilateral trading system and to enabling them to benefit from increased market access (2011: 25)."

exports away from reliance on a few raw material commodities with volatile prices, increasing the domestic value added in exports and expanding intra-regional and South-South trade.

Reducing trade costs

7.   In this context, negotiators realised that expanding and diversifying exports required aid for trade with the specific purpose of *creating greater capacity to trade.* This has two conceptually overlapping dimensions. One is augmenting investment in expanding the supply of exports through investment in new productive capacity and the new infrastructure necessary to support it. The second element is to lower trade costs through enhancing the efficiency of modern infrastructure use and adopting new technologies to achieve productivity gains and improvements in trade-related institutions, regulations and policies.[3]

8.   OECD analysis (*e.g.* OECD, 2012; Moïsé and Le Bris, 2013) shows that poor *infrastructure* is a major contributor to high costs that impede trade, including developing countries' agricultural exports (Moisé *et al.*, 2013), and therefore an appropriate target for aid for trade. Limao and Venables (2001) were among the first to study the relationship between roads and telecommunications and shipping costs, and then the relations between shipping costs and trade volumes. Landlocked countries face higher transport cost since their ability to trade depends also on the infrastructure of the neighbouring transit countries. For example, in East Africa, goods bound for landlocked countries faced the time equivalent of at least three clearance processes of coastal countries. Their conclusion: "Poor infrastructure accounts for 40% of predicted transport costs for coastal countries and up to 60% for landlocked countries" (Limao and Venables, 2011). Several subsequent studies have confirmed this view of infrastructure as an underlying cause of high trade costs.

9.   Similarly, *trade-related institutions* and *policies and regulations* (for example port operations, customs authorities, exchange rate policies, export taxes, or policy barriers to entry into key service sectors) also have a substantial impact on trade costs and undermine the effectiveness of aid for trade. As shown by the OECD (Moïsé and Sorescu, 2013), in some African countries revenue losses from inefficient border procedures are estimated to exceed 5% of GDP. To help governments improve their border procedures, reduce trade costs, boost trade flows and reap greater benefits from international trade, the OECD has developed a set of Trade Facilitation Indicators that identify key areas for action and allow assessing the potential impact of reforms (Moïsé and Sorescu, 2013).

10.   All this points to the fact that AfT programmes and projects that centre on infrastructure, institutions and policies as a way of increasing investment in trade capacity and lowering trade costs are, if properly designed and implemented, likely to pay high dividends in the form of more rapid growth of trade. Regulations that restrict competition in the trade logistics chain can result in high mark-ups and inefficient service; the process can be self-reinforcing as incumbents can lobby for continued restrictions on entry or technical regulations that become barriers to entry (Portugal and Wilson, 2009). Raballand *et al.* (2010) find that prices of trucking services were inflated because of competition-restricting market regulations. These policy problems are particularly acute for landlocked countries. Arvi, *et al.* (2010) underscored the fact that for landlocked countries not only was regulation was not only important in the exporting country important but also in the transit countries. Teravaninthorn and Raballand (2008) show that market restrictions in West and Central Africa have kept prices high, while competition in East Africa has produced lower costs to users. The Southern corridors are the most efficient in Africa, in large measure because they are the most unregulated and competitive

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[3] While conceptually distinct, the formal economic literature has subsumed this into the concept of reducing trade costs (Cadot *et al.*, 2013).

11.   In addition, trade economists and development organisations have long emphasised the need for complementary policies to offset any negative by-products of trade adjustment or trade-led growth. Policies of particular importance include those to improve the investment climate to attract new investment through more secure property rights and macroeconomic stability, and policies to increase public investments in education and other public goods that would improve competitiveness (OECD, 2011b). Policies that at the same time embed trade reforms in a context of a sound investment climate and the protection for workers, the maintenance of high-quality working conditions and the facilitation of labour transitions can play an important role in realising the potential wage, employment and income gains associated with trade (Newfarmer and Sztajerowska, 2012).

12.   All this suggests an important corollary to AfT evaluation: since complementary policies can support or detract from the effectiveness of a particular AfT programme, an analysis of the policy context should be central to any final assessment of aid for trade.

2   Results through the evaluation prism

13.   The most difficult problem associated with assessing the impact of aid for trade is establishing the causal attribution of aid for trade inputs to impacts in terms of rising income and poverty reduction. Because of the diversity of trade objectives, intermediate objectives, instruments, sectors and activities, to say nothing of a country's initial conditions, firm conclusions about aid for trade outcomes and impacts cannot be drawn solely from one method.[4] A comprehensive assessment of the effectiveness of aid for trade therefore requires using multiple lenses to look at the effects on trade – in effect, a prism of evaluation approaches (Cadot and Newfarmer, 2011). This chapter briefly reviews recent findings about the effects of aid for trade, organised into three categories: aggregate cross-country approaches, sectoral reviews, and project level evaluations. The discussion centres mainly on WTO Task Force stated objective of expanding developing country exports.

Aggregate cross-country evaluations

14.   One way to approach the analysis of the effect of aid for trade on trade growth is to apply econometric techniques to multi-country panel data.[5] These typically attempt to solve the attribution problem by isolating aid for trade from other probable determinants of trade (or trade costs) performance.

15.   Cali and te Velde (2010) look at the synergistic effects of aid to trade to both the exporter and its bilateral importing trading partner using a gravity model. They show that aid for trade has an overall positive and significant impact on exports – an effect that is almost entirely driven by economic infrastructure. They also demonstrate that aid for trade allocated to infrastructure results in an expansion of exports, especially in the mining and manufacturing sectors, with effects being the greatest in Africa. Aid for trade allocated to productive capacity (as opposed to infrastructure or trade facilitation) has no statistically significant effect on exports.

16.   Three of the case stories presented to the OECD and WTO in 2011 also reported econometric findings. The Commonwealth Secretariat reports studies suggesting that a doubling of aid for trade to economic infrastructure would raise merchandise exports by 3.5%; while a doubling of aid to trade facilitation would lower import costs by 5%. Similarly, UNECA's econometric studies of Africa show that a 10% rise in AfT correlates with a 0.4% increase in an index of economic diversification (see OECD, 2011a: 144-145). The US evaluation of its AfT programme, a review comprising 265 projects over

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[4] The OECD (2011c) presents a useful annex on the variety of evaluation systems.

[5] Basnett, *et al.* (2012), in one of the most comprehensive overviews of the recent aid for trade evaluation literature, includes a useful discussion of the methods and variables used in the aggregate analyses.

2002-2006, concluded that "each USD 1 invested yielded a return of USD 42 in developing country exports two years later" (US, 2010).

17.   Other aggregate studies focus on aid aimed at reducing trade costs. Development assistance to *trade facilitation* has been widely studied, if with widely differing definitions. The general finding is that improvements in trade facilitation measures are associated with increases in trade flows (see Basnett, *et al.*, 2012). Reforming customs to increase efficiency, reducing transaction costs at the border, eliminating bureaucratic interventions that create opportunities for corruption, and adopting procedures to speed goods across borders can lower trade costs for importers and exporters alike. Helble *et al.* (2012) undertake an analysis of these potential benefits, using gravity estimates from cross-country regressions, with a focus on aid for trade. In particular, they compare the effects on bilateral trade flows of trade-related development assistance (*i.e.* productive capacity building), trade policy assistance, and infrastructure support. They conclude that aid for trade targeted at trade policy and regulatory reform projects produces a high rate of return. They estimate that USD 1 of aid for trade targeted at trade policy and regulatory reform could lead to about USD 1.3 of additional trade.[6] Cali and te Velde (2010) also find strong relationships between aid reductions in trade costs: a USD 1 million increase in aid for trade facilitation is associated with a 6% reduction in the cost of packing goods, loading them into a container, transporting the consignment to the port of departure, and loading it on a vessel or truck.

18.   Aggregate cross-country econometric approaches have the advantage of neatly establishing a statistically significant general relationship between aid for trade and trade flows or reductions in trade costs, while controlling for other factors that might explain trade performance. The results are also, in principle, generalised across a variety of contexts, since they identify *average* relationships, controlling for several other economic factors. However, this approach has three limitations. First, the identification of causal linkages has to be tempered with the understanding that even the cleverest econometrics cannot always filter out many confounding influences, account for all omitted variables, or control adequately for possible reverse causality. Second, these econometric studies, simply on grounds of parsimony, have difficulty incorporating effects on subsequent links in the results chain, or on simultaneous effects on cross-cutting issues, such as gender, income distribution and environment. For these, the analyst is compelled to rely on literatures. Finally, country averages rarely help in providing specific policy direction for a particular country. To get a more complete picture of aid for trade, we need to look at the next lens in the evaluation prism.

Sectoral and programme evaluations

19.   Several donors have conducted evaluations of their aid-for-trade programmes. These typically involve extensive review of a collection of projects over time to assess their aggregate impact on trade, growth and poverty, often looking at effects on cross-cutting issues. The OECD undertook a review of the first generation of trade-related evaluations in 2006.[7] The report emphasising that "determining the effectiveness and longer term impact of trade-related donor assistance is often challenging", and noted "a number of 'trade development programmes' have…been assessed as 'improving the enabling environment' "(OECD, 2006: 10). Half of the reviewed evaluations found trade-related assistance to have increased partner country understanding of the importance of trade for growth and poverty reduction. The report eschewed drawing firm conclusions from the donor evaluations about the effects of aid for trade on trade

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[6] The working paper, using a different methodology, had increased an associated increase of nearly USD 700 (Helble *et al*. 2009). The journal version revised this estimate downwards.

[7] The references to these studies can be found in the OECD's (2006) thorough summary of them: *Trade Related Assistance: What do Recent Evaluations Tell Us?,* OECD, Paris. Studies reviewed include evaluations undertaken by the EC (2004), USAID (2004), UK (2005), The Netherlands (2005), the World Bank (2004 and 2006), UNCTAD (2002), ESCAP (2003) and the Integrated Framework (2003).

growth, trade costs, or trade composition. Rather it highlighted several challenges that at times impeded the effectiveness of aid for trade.

20.	Some of these challenges have undoubtedly seen improvement in the years since the 2006 OECD Review. For example, the finding that "needs assessments were unsystematic or incomplete" has been at least partially remedied with the dozens of Diagnostic Trade Integration (DTIS) studies that have been undertaken since 2003 as well as numerous sector studies for more advanced developing countries. (These studies are themselves an invaluable form of aid for trade.) Moreover, the discussion on aid for trade launched in Hong Kong in late 2005 and operationalised through the WTO and OECD work since has raised the visibility of trade and trade-related assistance, undoubtedly not only affecting the amount of aid for trade but also its "mainstreaming" into policy. One simple example from Uganda conveys the point: an analysis of annual budget speeches since 2000 of the Ugandan Minister of Finance as well as the national planning documents indicated a steady and sharp rise in the attention to trade as measured by trade-related word-count total (see World Bank, 2013). Similarly, Kosak's (2008) analysis of PRSPs undertaken for UNDP found a rather steady increase the inclusion of trade in government-supported programmes.

21.	The case studies prepared for the OECD's January 2013 Policy Dialogue on Aid for Trade confirm that in most countries trade now figures more prominently among policy concerns than in the past. Moreover, systems of managing for results, a key recommendation of the 2006 OECD study, have proliferated and so project management has probably improved (though is still likely to be a continuing problem in several low-income countries). Similarly, donor co-ordination, though still sub-optimal in some countries, has improved with the establishment of in-country working groups, some in Least Developed Countries (LDCs) prompted by the Enhanced Integrated Framework (EIF).

22.	Since 2006, additional post-Hong Kong evaluations have been undertaken, including by Sweden (Goppers and Lindahl), Finland (Bird *et al.*, 2011), the EU, USAID , the World Bank (2009), the International Centre for Trade and Sustainable Development (Adhikari, 2011), and Japan (Mizuhu, 2012) as well as the UK (Basnett, *et al.,* 2012). The OECD undertook a meta-evaluation of 162 trade-related aid programmes in Ghana, Vietnam and in the Transport and Storage sector (2011a). These reviews present a generally more sanguine view of the effectiveness of aid for trade, if clothed in qualifications. For example, the UK evaluation concludes:

23.	Taken together, the existing empirical literature tends to confirm that Aid for Trade can be effective at both the macro and micro level. However, its impacts may vary considerably depending on the type of Aid for Trade intervention, the income level and geographical region of the recipient country, and the sector to which the aid flows are directed (Basnett, *et al.*, 2012: 25).

24.	Among their more specific conclusions:

- While evidence is mixed for different types of aid flows, it appears that aid flows targeted to specific trade-related activities – such as trade facilitation and infrastructure --are most effective in promoting exports.

- Some evidence suggests that aid to infrastructure, particularly transportation, are more effective in low income countries, while aid flows to the business sectors are more effective in higher-income developing countries.

- Evidence suggests that sub-Saharan Africa is one of the regions that is most likely to benefit from aid for trade (Basnett, *et al.,* 2012: 24).

25.   The Japan review concurs with the general view that aid for trade promotes trade, writing: "Based on the apparent improvements in economic performance (economic and export growth) in the main countries receiving Aid for Trade from Japan, positive conclusions could be reached regarding the 'effectiveness of results'…" (Mizuho, 2012).

26.   The Swedish review broadly concurs, but laments the inability of evaluation to work systematically through results chain to final impacts:

> "In general the projects appear to be well implemented in terms of delivering inputs and planned outputs. Trade education of good quality has been delivered, standards and certification systems established, accreditation institutions set up, market systems developed, etc. Beyond this, the outcomes of the trade related technical assistance projects in terms of reaching their development objectives, such as influence on trade policy, provision of services to the trade sector, improved competitiveness and increase trade, are much less clear based on available results reporting" (Goppers and Lindahl, 2009: 9)

27.   Early reports from the ICTSD country case studies also give weight to the effectiveness of Aid for Trade on trade performance, if with somewhat different conclusions for each of four countries (Malawi, Mauritius, Cambodia, and Nepal) (ICTSD, 2012a:4).

28.   These recent evaluations point to the persistence of some challenges and a few new ones, including:

- While virtually all of the programmes have found that aid for trade has been effective for the most part in helping developing countries to take advantage of opportunities in international trade, tracing the complex link from donor funds as inputs through the results chain to greater trade and greater trade-led growth, much less poverty reduction, remains a persistent challenge.

- Some evaluations have highlighted the inadequate attention of donors on complementary policies that are needed to ensure that trade and liberalizing trade reforms do not have negative effect in creating losers (*e.g.*, World Bank, 2006).

- Attention to establishing measurable objectives, quantitative baselines, and reasonable comparator groups against which to evaluate success remains a common failing (see, for example, OECD (2011a) case stories).[8]

- Donors too frequently pay attention to an issue in one country or sector evaluation, but then ignore the same issue in another country or sector, a shortcoming noted in the OECD's (2011c) review of Ghana, Vietnam and transport and storage projects

- Moreover, donor evaluations also paid too little attention to the overall policy context and how it might affect a programme or project; for example, high tariffs and/or other trade restrictions could affect the social rate of return of many projects (either positively or negatively), but were rarely discussed in the evaluations – and indeed were rarely mentioned (OECD, 2011c: 49)

- Inadequate donor expertise on trade-related matters, especially in field missions, continues to short change a robust dialogue on trade-related issues.

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[8] See Cadot and Mattoo, 2011 (eds.) *Where to Spend the Next Million?* Washington: World Bank

- Insufficient donor co-ordination between headquarters and field level staff continue to cause a disconnect, a problem noted in the recent Japanese and Finnish reviews (Muzuho, 2012; Bird *et al.*, 2011).

- The Paris-Geneva based aid for trade discussions do not necessarily resonate with in-country processes, many of which are organised around private sector development, infrastructure development or agriculture. Some country case studies[9] have shown that private sector development working groups, commonly comprised of donors and government officials, have often concentrated on World Bank Doing Business indicators as measures of success, only some of which pertain to trade.

29.   The breadth of aid for trade definition also suggests another fertile area for inclusion in the evaluation prism, namely sectoral evaluations of donor programmes in what might be called the "aid for trade sectors" – such as transportation, agriculture, and energy infrastructure as well as private sector development. These do not normally feature trade centrally, if at all, in their analysis – nor should they because non-trade factors may figure more prominently in determining outcomes. One example where trade is mentioned, though in passing, is the World Bank's (starkly critical) evaluation of its efforts in agriculture in Africa:[10]

> "One of the strongest areas of analysis at present …in this area has been produced to back the Bank's efforts in lobbying for a genuinely pro-development Doha Round and for eliminating OECD agricultural subsidies. Even so, the Bank's most recent trade-related analytical work has not had much influence on lending or country dialogue."

30.   On the other hand, more typical is the World Bank's study of transport[11] activities in which trade goes unmentioned, except by inference of the reader:

> "…past performance has been …effective, especially for intercity highway construction and rehabilitation, and the Bank's approach to transport contributed to private sector development. …However, transport must now focus more attention on confronting cross-cutting issues such as traffic congestion, environmental damages, safety, and efficiency."

31.   In summary, these evaluations offer the opposite mirror image of the strengths and weaknesses of the cross-country studies. They are enormously helpful in providing a rich country context and associated lessons, but they tend to be only loosely quantitative and generalizations often rely on qualitative inferences. Where the cross-country studies typically have a narrow focus (*e.g.*, expansion of exports), evaluations undertaken by donors often have such a wide focus – on various countries, sectors, instruments and dependent variables – losing at times clearly conclusions that would promote learning.

Project-level evaluations – and the potential of impact evaluations

32.   Project-level evaluations are common for trade-related interventions. Most development agencies conduct elementary *ex post* evaluations at the end of each project. There are several types of evaluations for projects (OECD, 2011): a quality assurance exercise at different stages of the project cycle applied to a subset of projects; a project implementation completion report undertaken jointly with

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[9] See the case of Rwanda as described by Newfarmer, Savini and Vijil (2013) in the OECD series. A similar problem is described in the World Bank DTIS for Uganda (2013).

[10] World Bank (2007), Independent Evaluation Group, *Agriculture in Africa, Washington: World Bank.*

[11] World Bank (2006),Independent Evaluation Group *Transport, Washington: World Bank*

beneficiary governments that assesses the project's development outcomes and financial effectiveness; and increasingly independent evaluations are for selected projects as well as for selected programmes (such as trade); and finally the relatively recent Development Impact Evaluation (the DIME Initiative) has been conducting impact evaluations for selected projects (if with relatively few trade projects to date). Despite these efforts, integrating necessary information to evaluate projects quantitatively has yet to become ingrained in the culture of the trade community. One indication is the fact that in the 269 case stories submitted to the OECD/WTO in 2011, only 44% included *any* quantitative measure of successful outputs and only 22% included even partial quantitative measure of outcomes, and the great majority of these were at best rudimentary and limited in scope.[12]

33.　　The sparse evidence that exists suggests rather positive performance of aid for trade projects. The World Bank in review of trade-related projects that had closed in 2002-2008 found that 83% were rated satisfactory. Trade-related projects had an average economic rate of return of 32.4% compared to non-trade projects' return of 23.7% (World Bank, 2009). But a deeper examination of these projects gives pause before accepting a completely sanguine view. Cadot *et al.* (2011) examined 85 World Bank trade-related investment projects in 1995–2005, and found that too frequently evaluations were partial or absent altogether. Most projects used simple economic rates of returns calculations (31%), sometimes combined with stakeholder workshops and/or surveys to assess qualitative elements (an additional 26%), while 10% of surveyed projects had no evaluation at all. Even when quantitative, many *ex post* assessments did not control for outside influences and attributed to projects benefits associated with favourable conditions; inversely, when project outcomes fell short, these were at times ascribed to external conditions.

34.　　Project-level evaluation and sorting out attribution might be made much more informative by adopting techniques from formal impact-evaluation methods. These generally compares before and after performance of both a policy-affected group (the "treatment group") with a comparator group that has not benefited from the policy intervention (the "control group"), both randomly selected from the larger respective subpopulations. These techniques are widely used in health, education and other areas of development work.[13] By construction, such methods are applicable only to policy interventions that affect selected firms differentially, such as export promotion, technical assistance, or geographically limited interventions.

35.　　These are more difficult to undertake for trade-related projects for several reasons, and lead the OECD (2011) to caution against their adoption. One problem is that trade policies or many infrastructure programmes affect the country as a whole and so it is virtually impossible to distinguish beneficiaries from non-beneficiaries, necessary to set up a randomized control/treatment group test. Moreover, it would be time consuming and difficult – and enormously costly – to undertake pilots in a controlled experiment, wait the necessary year or two for definitive results, and then act. Costs are nontrivial. For many small scale technical assistance projects they could readily cost as much as the activity itself. Finally, where impact evaluations can identify causal mechanisms precisely, quantify results, and provide highly relevant lessons on the ground, it is often not clear how those lessons would carry over to different settings.

36.　　Still, much more could be done. Cadot *et al.* (2011) suggest ways of conducting "quasi-experiments" circumventing the strictures of more classical randomized approaches through the use of so-called matching and difference-in-differences methods. One example of a quasi-experimental design is that of Estevadeordal and Taylor (2009), who used the wave of trade liberalisations after 1990 to set up a natural experiment by dividing countries into a "treatment group" ("liberalisers") and a control group

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[12]　　Reported in Cadot and Newfarmer (2011) on the basis of data in OECD, 2011c, table on p.147.

[13]　　For more on this approach in development economics, see Banerjee and Duflo (2011) and Karlan and Appel (2011). For limited trade applications, see Cadot, Fernandes, Gourdon and Mattoo (2011), and Cadot and Newfarmer (2011).

("non-liberalisers"). They find strong evidence that liberalising tariffs on imported capital and intermediate goods, raised growth rates by about one percentage point annually in the liberalising countries. Changes to tariffs on consumption goods were only weakly correlated with growth outcomes.

37.   Project level eexamples that quantify benefit of aid for trade are too few to make generalisations about aid for trade outcomes. Brenton and Von Uexkull (2009) used a difference-in-differences method to examine the effects of 88 export development programmes in 48 different countries. They found that, on average, export development programmes have coincided with or predated stronger export performance. Volpe and Carballo's (2008) evaluation of export promotion programmes in six Latin American countries also found positive impacts on exports.

3   New Evidence: Updating the Aid for Trade – Trade Growth Relationship

38.   Since the early aggregate studies looking at the relation of aid for trade to trade growth were undertaken, trade growth of developing countries has continued to outpace growth of world exports and their own growth of GDP. Moreover, the composition of trade is shifting in favour of global value chains. It is therefore timely to revisit some of these early findings and explore further the broad link between aid for trade flows and trade growth.

39.   Building on an empirical framework similar to Helble, *et al.* (2012), Cali and te Velde (2010), and Vijil (2012),[14] research for this chapter used a gravity model of trade to estimate the impact of bilateral aid for trade commitments during last fifteen years in a panel of developing countries for 1995-2011, the period for which disaggregated OECD data on commitments are available and for which trade numbers of many small low-income countries are reported. The sample included trade of all non-oil exporting developing countries that were classified as developing in 1995 (since the analysis is intended to capture all historical effects); this resulted in the analysis comprising 110 exporters from developing countries and more than 200 of their bilateral importing countries (that included trading partners in rich countries), with 140,000 positive observations of bilateral pairs of trade flows over the 16 year period.[15]

40.   To ascertain the effectiveness of aid for trade on increasing non-mineral non-oil exports, the impact of DAC-reported bilateral aid for trade commitments in a given year on non-mineral exports three years later were estimated using a gravity model. Lagging the expected export results is to account for the fact that commitments take some time to produce real investments and exports. Employing lags also provides some credence to the hypothesis that the direction of causality runs from aid to trade rather than the reverse. To ferret out the role of aid for trade from other possible explanations, estimates controlled for 11 other conventional determinants of trade levels in gravity models -- including, for example, country characteristics of both exporters and importers (such as size), distance from trading partners, and membership in trading agreements as well as factors that might bring down trade, such as social conflict and recession. Idiosyncrasies affecting trade were controlled through introducing country and year fixed effects. (See Annex B for detailed explanation of methodology and detailed regressions).

AfT is positively associated with greater exports…

41.   Aid for trade does indeed have a significant and positive association with greater exports. Our results suggest that a 10% increase in the amount of bilateral aid for trade committed to developing

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[14] Ivanic, Mann and Wilson (2006) and Portugal-Perez and Wilson (2010) are other examples of the use of gravity models in this literature.

[15] Oil exporters are excluded from the sample as exporters. These countries are either among the top 15 exporters of oil following the US Energy Information Administration or their share of oil exports in total exports is higher than 75% during this period. See Annex Table B.3.

countries would have increased their exports by, at least, 0.3%. While these amounts may appear small, they indicate that an aid for trade increase of 10% (or about USD 1 billion) would increase exports of developing countries by about [USD 9 billion] in recent years (see Table 1).

42.   The impact of aid for trade is not only constrained to export flows of the recipient country. Aid for trade given to the bilateral trading partner has an additional effect of promoting more imports from the exporter. For example, if in a given period Rwanda exports to Kenya, aid for trade would not only help Rwanda export more than non-recipients; but if Kenya also receives aid for trade, that fact will lead to even greater exports from Rwanda. This reflects the fact that aid to Kenya's transport infrastructure or border posts will also benefit exporters from Rwanda. In fact, for bilateral flows between two recipient countries, the increase of aid for trade to both partners increases the size of the twin coefficients to approach 0.4%.[16]

…especially for low-income countries

43.   Aid for trade is particularly powerful for the IDA-eligible poorest countries. To arrive at this conclusion, the analysis separated the sample into three groups based on the World Bank income classifications of 1995.[17] These are roughly subsuming LDCs for which data were available and other low income countries. It excludes therefore developing countries that had reached upper-middle income status by 1995. The 53 countries that were IDA eligible in 1995 (with published trade data) recorded particularly high benefits in aid for trade, i.e. one dollar invested in aid for trade is associated with a nearly USD 20 return (Table 1). Based on their average export earnings in 2009-2011, a 10% increase would imply a nearly USD 8 billion increase in their collective exports. A 25% increase would be associated with a USD 20 billion increase in trade. For very low-income countries, the effects are much lower, no doubt because the more numerous obstacles they face in ramping up exports in volume. A 10% increase is associated with a USD 1.4 billion increase in exports, in part because of the much lower base of export volume.

Table 1. Expected increase in total exports associated with increases in aid for trade

USD million

	Return rate	Aid for Trade increases				
		5%	10%	15%	20%	25%
Low income	2.7	720.5	1,441.0	2,161.4	2,881.9	3,602.3
Lower middle income	9.1	2,109.4	4,218.8	6,328.1	8,437.5	10,546.8
IDA	19.5	3,986.2	7,972.4	11,958.6	15,944.8	19,931.0
Developing countries	8.1	4,554.1	9,108.1	13,662.2	18,216.2	22,770.2

Source: Calculated from Annex A.2. Country groupings were based on 1995 World Bank calculations; [IDA countries comprise some low-income and a few LMI countries shown also in rows one and two.] Trade volume increases are calculated on the basis of average annual trade 2009-2011 aggregated for each income category in the sample.

44.   The results also confirm the disadvantages that countries in conflict face in trying to expand exports. The coefficients for conflict countries are constantly negative and strongly so (in all annex tables), underscoring the importance of peace and security for trade – and for a supportive environment that will allow aid for trade to be productive.

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[16] Other control variables included in the regression analysis show a consistent and usual impact on bilateral export flows. For instance, regional trade agreements tend to increase the total amount of traded goods between two countries and conflicts have a negative impact of exports.

[17] We used income classifications of 1995, rather than today, so the analysis could look at the beneficial effects of AfT on exports over time; see Annex B.

45.   It should also be noted that participation in preferential trade agreements has robust and uniformly positive effects on exports – even controlling for other factors that could otherwise explain this finding (such as having a common border or language). These results held in virtually all the estimations in the Annex tables. These coincide with Vijil's (2012) finding that aid for trade tends to be particularly effective in the presence of preferential regional trading arrangements, especially for aid for trade aimed at institutional improvements (see also chapter 4).

But generalizations about optimal use of aid for particular countries are elusive

46.   Some studies have tried to generalize about particular aid for trade allocations – whether for infrastructure, productive capacity, policies and regulations, etc. – and their appropriateness for selected categories of developing countries. Cali and te Velde (2010), studying effects of aid for trade disbursements on trade performance by sub-category for the period 2002-7, found that aid for trade for infrastructure is more important for low-income countries, while aid to productive sectors is more important for middle income developing countries.

47.   The OECD (2012b), based on its detailed study of the binding constraints to trade facing developing countries, presented some broad generalisations for the several key WTO constituencies about the key constraints that might be alleviated in part with AfT:

- For *landlocked countries*, geographical constraints were not found to be the only reason for their relatively low trade performance. As has been shown in fast-growing countries as diverse as Rwanda, Uganda, Botswana, and Burkina Faso, solid domestic policies can promote trade growth. Restrictive trade policies – particularly for services -- have a larger impact on trade performance in landlocked countries than in other countries. Policies fostering investment were found to have a sizable trade impact, if slightly smaller than in the full sample of countries. Macroeconomic policies also contribute to better economic performance, particularly in exchange rate management and, to a lesser extent, fiscal policy. Infrastructure, particularly access electricity, was seen as a major constraint to trade development.

- For *small and vulnerable economies (SVEs)*, trade is the lifeblood of necessary to foster economic growth. Small market size results among other things in a substantial concentration of exports in a few product groups. Infrastructure – particularly power and (in contrast to other categories of countries) telecommunications -- plays a key role in SVEs performance.

- For *commodity exporters*, governance and macroeconomic policy is a priority. Better fiscal spending to raise the productivity of public investment, and better monetary policy to diminish overvaluation of the real effective exchange rate were considered crucial. The tariff regime is a constraint to trade performance (imports and exports).

48.   Using our longer time frame and somewhat different formulation, the analysis for this chapter described above explored the effects of three categories of bilateral aid for trade: economic infrastructure, building productive capacity and other (predominantly trade related policy and regulation). Aid for trade related policies and regulations appear to be the most important component of aid for trade for all countries. This may reflect the magnified effects of relatively small amounts of support for technical assistance, even controlling for other aid for trade programmes, with greater exports. Beyond this, for low-income countries, aid to building productive capacities seems to be more important than infrastructure;

while the reverse is true for the lower-middle income countries (LMICs) (the coefficient for productive capacity is positive but small and insignificant, and hence not registering in Figure 5.2 below).[18]

Figure 5.2. Expected impacts on exports of aid for trade increases

Source: Results in Table 7.
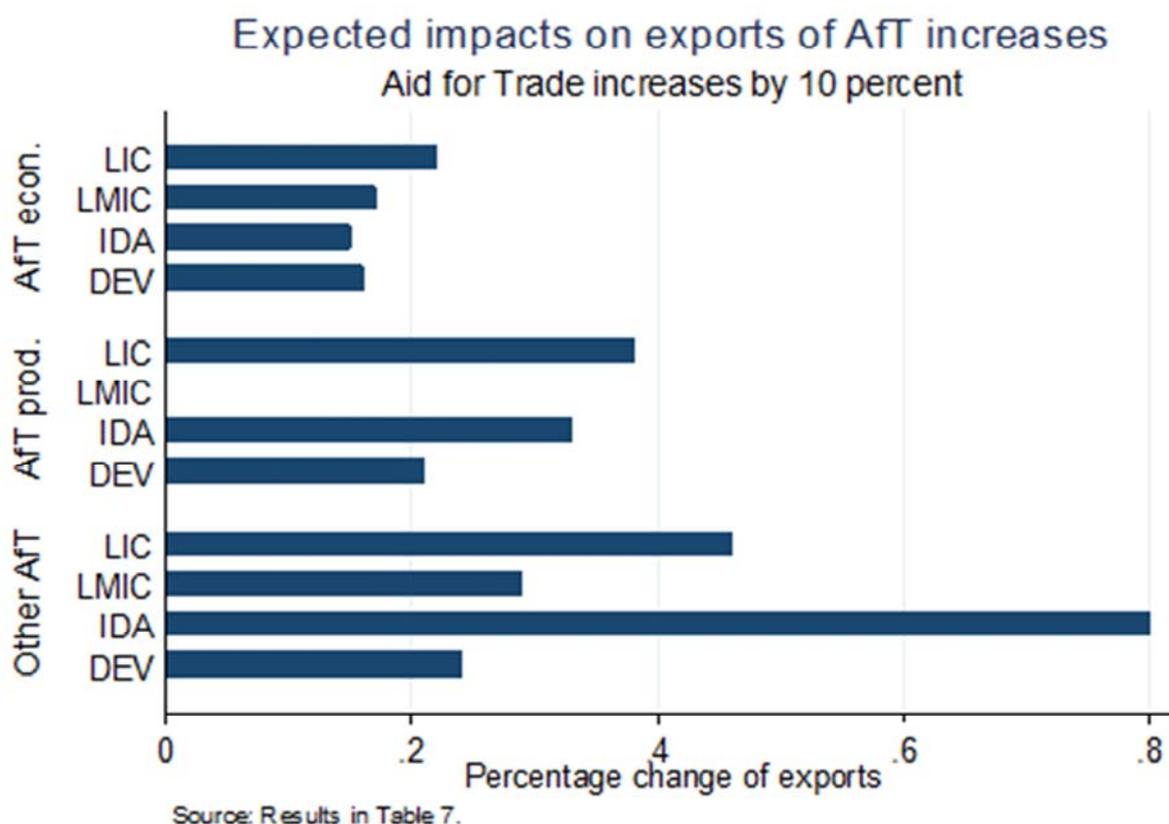
Source: Annex Table A.2

49.   These findings are the reverse of those found by Cali and te Velde (2010). This may be because of different methodologies in their study as compared with that used in this chapter (*e.g.*, disbursements versus lagged commitments, differing time periods 2002-2007 compared to 1995-2011, and different specifications of country income categories). Therefore more definitive generalisations have to await further research. In any case, generalizations of this type arguably fade toward insignificance when applied to specific country settings; binding constraints vary widely within specific categories of countries, so these generalisations provide no answers about remedies for a given country's trade problems, but only a first order indication of where to begin looking.

Aid for trade and other ODA

50.   In the statistical analysis for this chapter, distinguishing the effects of aid for trade from other forms of official development assistance on exports presents a mixed picture. On the one hand, increases

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[18] See Annex Table 3]

in other (non-AfT) bilateral ODA tends to dampen export performance.[19] This may reflect the effects of development assistance inflows on the real exchange rate; it is not uncommon for large ODA inflows to drive up the real value of the local currency and thus depress export competitiveness. On the other hand, this effect is not large, and is offset by the fact that other ODA to importing trading partners has a positive effect, so any effect seems to be effectively neutralised.

4   The Emergence of Global Value Chains: Implications for Aid for Trade

51.   As highlighted in chapter 3 If anything, the emerging prominence of GVCs underscores the urgency of aid for trade. The recent OECD report of policy determinants for participation in GVCs listed six elements: regional trade agreements; lower investment barriers to multinational corporations; high quality infrastructure; speed and flexibility of movement of physical goods and information; effective legal and regulatory systems; efficient services; and the capacity of domestic firms (often SMEs) to contribute to the supply chain (OECD, 2013b).

In each of these areas, aid for trade has demonstrated that it can be a useful instrument to promote much needed investment and better policies. While the existing pattern of aid for trade would speak to all of these constraints, their growing importance underscores particular areas of action as set out in chapter 3:

- *Border administration* and trade facilitation as time spent at borders and ports are more important in GVCs;

- *Market access* barriers including non-standardized, restrictive safety and sanitary regulations;

- *Services development* because transport and communications, standards, accounting norms, quality assurance functions, and transport logistics are of increased importance.

- *Business environment* since regulations can handicap supply chains and physical insecurity born of social conflict or lawlessness stifles supply chain growth.

Does aid for trade spur participation in GVCs?

52.   To assess whether aid for trade has facilitated an increased participation of developing countries in value chains, research for this chapter was conducted similar to that in the previous section, but here focusing on exports of parts and components as the variable of export interest. Parts and component trade, whether intra-firm, part of lead firm network, or market based transactions, generally capture the presence of trade in value chains, both regional and global. The analysis used Kimura *et al.*'s (2007) definition of these goods.

53.   Econometric analysis for this chapter confirms that aid for trade has a positive and significant correlation with increased exports of parts and components from developing countries. In fact, the results are somewhat stronger. A 10% increase in aid for trade to all developing countries is associated with a 0.4% increase in parts and components exports as compared to a 0.3% increase in all exports.[20] Moreover, as with the relation of aid for trade to all non-mineral exports, aid for trade to importing developing country also is associated with positive increases in trade. Here too the combined effects a 10% increase of aid for trade to both exporters and importers is to induce a 0.5% increase in parts and components trade as compared to a 0.4% increase for all non-mineral exports. Possible increases in aid for trade could have a substantial impact on increasing value chain trade; Figure 5.3 shows the direct effects on exports

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[19] See in particular the coefficients shown in Tables A.1 and A.2.

[20] This can be seen by comparing the AfT coefficients in Annex Table 4 with those in Annex Table 2.

associated with differing levels of increases, leaving aside the influence of aid for trade on importing countries.

Figure 5.3 Impact on exports of Aid for trade increases

Impact on exports of AfT increases
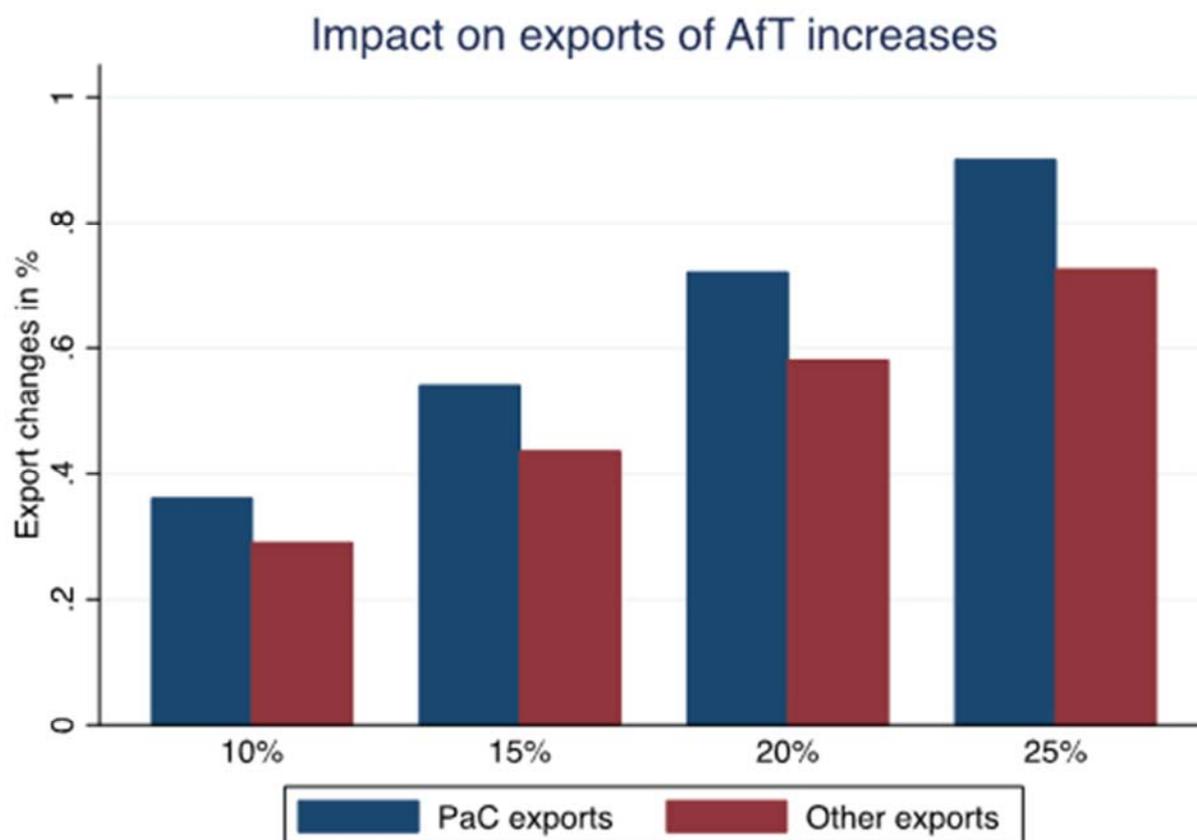
54.   In conclusion, many aid for trade programmes are dealing with GVC-related issues already – that is, border administration, market access, trade facilitation, and business environment – and this is reflected in value chain development as captured by intermediate trade. This implies that the new trade opportunities created with GVCs will likely require only incremental shifts in aid for trade strategies. In fact, the analysis of the OECD/WTO survey in Chapter 1 and 3 shows that this salutary movement is already beginning to take place.

5   Management Systems: Using Aid for Trade Effectively

55.   As aid budgets have come under strain, the pressure on both donors and governments to increase the effectiveness of scarce resources has risen. Beneficiary governments play the most important role in ensuring a positive economic return to all development assistance, including aid for trade. Since the days when the Paris Principles were adopted in 2006, donors and governments have sought to establish frameworks for mutual accountability to ensure the most productive use of development assistance. On the one hand, donors were charged with aligning their assistance programmes with the central priorities of beneficiary governments, coordinating with each other to better support agreed programmes, and using beneficiary country systems where feasible. For their part, developing countries committed to provide

strategic leadership on setting development priorities, work with all domestic and donor stakeholders in establishing effective managements systems to achieve results.[21]

56.   Countries, working with donors and the multilateral financial institutions, have instituted various forms of management systems to monitor individual projects and programmes against original objectives. These are intended to track more than inputs and outputs (*e.g.*, the amount of money spent on road construction; the number of kilometres of roads built) and instead focus on outcomes (*e.g.*, lower transport costs and increase in goods exported) and impacts (*e.g.*, rising export volumes and growth in income). This entails identifying the chain of results from project inputs, to activities, outputs, outcomes and long-term impacts.

   "The results chain provides a framework within which to monitor and measure expected changes that will result from project activities. Key changes described in the results chain are translated into targets, and indicators are identified for tracking results at each step in the programme logic. Indicators are therefore a critical component of the results-based management systems" (OECD, 2011c: 75).

Figure 5.4. Seven phases of effective results-based management
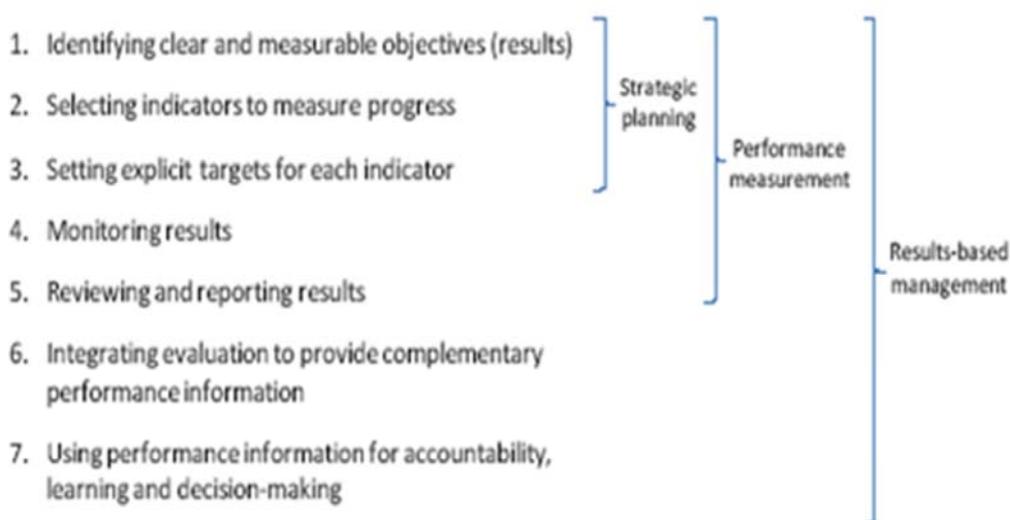
Source: OECD (2011c)

Results- based Management of Aid for Trade

57.   To help developing countries and donor agencies to identify quantifiable objectives for aid for trade programmes the OECD has collated indicators to measure progress towards them (OECD, 2013,a). This tool has been based on six case studies of existing results based management in differing development situations. These were Bangladesh, Colombia, Ghana, Rwanda, Vietnam and the Solomon Islands. In all six countries, the case studies reveal that trade had been mainstreamed in national development strategies, if mainstreaming were understood to mean integrated centrally into national development plans. These

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[21] These mutual responsibilities under the Paris Principles and Accra Declaration are clearly recounted with some elaboration in OECD *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action 2005/2008,* Paris: OECD. In summary, Paris Principles include: ownership, alignment, harmonization, managing resources for results, and mutual accountability.

findings were confirmed by ICTSD in its three country case studies – Cambodia, Nepal and Malawi –who also reported that "public recognition of trade as a vital component of economic growth was the first pre-requisite of sustained trade-related development efforts" and "Subsequent mainstreaming of trade into official development strategies led, in principle, toward better coordination and alignment…" (ICTSD, 2012: 11). The World Bank found the same to be true in its DTIS of Uganda (World Bank, 2013).

58.   Of course mainstreaming in the six case study countries took different forms in each country: In Bangladesh, the Perspective Plan, a ten year programme of activities covering 2011-2021 was the principal vehicle. Ghana in the mid-1990s had prepared a Vision 2020 document, and then used this framework to prepare three year programmes, the latest of which was the Ghana Shared Growth and Development Agenda covering 2010 to 2013. The Solomon Islands prepared a National Development Strategy 2011-2020. In all six of the countries, overarching objectives were projected over a timeframe of one or two decades, usually with subordinate, more specific national planning documents with a 2-3 year horizon. All of these featured trade outcomes as prominent objectives and even more frequently objectives for the underlying determinants of trade capacity, particularly infrastructure and human skill developments. For example, one of the five pillars of Colombia's National Development Plan was "sustainable growth and competitiveness: innovation, competitiveness and productivity growth, growth engines and job creation" (OECD, 2013a).

59.   The national development plans, both long term and shorter terms, provided a framework for sectoral strategies evident in many of the case study countries. In Ghana, for example, accelerating agricultural modernisation through implementation of sector-specific programme was the objective of its Food and Agriculture Sector Development Policy and its corresponding investment plan articulated in its Medium-term Agricultural Sector Investment Plan. In Rwanda, the relevant ministries and agencies had formulated more than two dozen sectoral and sub-sectoral strategies for implementation in association with their respective ministries' plans. Although in all the case study countries trade objectives had indeed become mainstreamed in national programmes, the formulation of explicit targets for purposes of monitoring and evaluation – topics toward the lower end of the results framework described in Figure 5.4 – was only clear in the Rwanda, Colombia, Ghana, and, to a lesser extent, Vietnam. These countries reported report fairly specific trade-related objectives and measurable indicators, while Bangladesh and the Solomon Islands did not. Similarly, even fewer countries evidenced detailed monitoring and evaluation systems that provided regular feed-back to policy makers that could be used to make course corrections.

60.   The ICTSD reported for its three country studies that "…mainstreaming of trade at a formal level…does not necessarily imply mainstreaming in practice…" (ICTSD, 2012: 11). Uganda, according to the World Bank's DTIS (2013), does have a workable system of RBM and M&E, and, while only partially effective, it does permit monitoring of AfT implement and transmittal of M&E information upwards for subsequent implementation improvement.

Evaluating Donor Performance

61.   Because mutual accountability implies not only government obligations to donors, but donor's obligations to government, some governments have begun to work with donors to establish an agreed evaluation scheme for donor performance. For example, in Uganda, the 2013 DTIS (World Bank, 2013) reports that the Office of the Prime Minister (OPM) produces annually an evaluation of donor performance against Paris Principles. In 2010/11 the government conducted its third survey of the Paris Declaration to measure progress against 15 pre-defined indicators. In 8 of 15 indicators, the survey revealed some improved performance, particularly in "alignment with national priorities, better aid coordination, and avoidance of parallel systems for project implementation". Meanwhile, six indicators showed either no or a declining trend in performance. These included using country systems, increasing predictability of funds, and ensuring better use of result-oriented frameworks.

62.   The ICTSD embarked on developing a comprehensive methodology for evaluating implementation of the Paris Principles (see Adhikari, 2011). This was then applied to six country case studies. Though one might argue that the method by its nature tended to set impractically high standards for donor accountability, the case studies did find that donors often fell short in their part of the mutual accountability framework.

A Leading Example: Rwanda

63.   Rwanda has developed a results-based management system that is as thorough and sophisticated as found among low-income countries. It is an example of effective implementation of all of the stages results based management evident in Figure 5.4. It is also an example of an aid-for-trade partnership that, together with other initiatives, has produced rapid growth and poverty reduction. Bruno Versailles (2012) concluded that "…Rwanda now boasts what is very close to 'best practice' in mutual accountability frameworks".

Results Based Management

64.   The aid for trade programme is set in the general context provided by the objectives set out in the government's *Vision 2020,* and operationalized in the five year *Economic Development and Poverty Reduction Strategy (EDPRS).* The government has set out a series of monitorable targets and indicators put forward in a Common Performance Assessment Framework (CPAF). To integrate development partners into the process, once these are traced from the economic cabinet, the government has set up 16 Sector Working Groups (SWGs) and/or districts down to the implementing agency comprised of both ministerial and agency representation and donors to systematically track policy implementation and progress against the indicators. Results are evaluated annually and then reported back up the chain of implementation, eventually to the economic cabinet.

65.   The system is predicated upon a set of output and outcome indicators to be attained through enumerated (and often quantified) policies and actions that begin at the highest level of government and cascade down through the various ministries and agencies. Each level of government has its own outputs/outcomes and associated implementation plan. Taking into account only the Ministry of Industry and Commerce (MINICOM) and the Ministry of the East African Community (MINECOFIN), the government tracks some 90 indicators related to aid for trade and more than 540 associated actions – and this is not counting the other ministries' annual action plans and performance contracts (Table 2). Finally, annual performance results are fed back into planning and action plans for future years, so that feedback loops do indeed play an important role in ensuring the effective use of development assistance.

Table 2. Rwanda's RBM system includes both outcome indicators and of policy implementation at various levels of government

	Total		Trade-related	
	Indicators	Policies	Indicators	Polices/ actions
Plans				
EDPRS 2008-12	73	..	25	29
CPAF Oct. 2011	45	80	12	22
PSD Sector Working Group			2	4
Other SWG (AfT-related)			10	18
Annual Performance				
MINICOM APR 2011/12			4	123
MINICOM Imihigo contract 2012/13			3	59
MINEAC APR 2011/12			9	52
MINEAC Imihigo contract 2012/13			5	62
Leadership Retreat	6	70	4	52
Strategies				
National Export Strategy			10	56
Trade Strategy 2009-12			30	113
Total (1+2+3+4)			90	546

Source: Newfarmer *et al.* (2013)

Note: Does not include indicators and policies from sectoral strategies in infrastructure and productive sectors or APRs from relevant ministries. In some cases, "policies" include implementation of specific programmes or other actions.

Donor Accountability: Paris Principles

66.　　　Since mutual accountability also implies obligations of donors to the partnership, the government, working with donors, has also established a comprehensive Donor Performance Assessment Framework (DPAF) as part of its administration of official development assistance (ODA). This has proven effective in encouraging donors to consider ways they might contribute more to the realization in Rwanda of the five fundamental principles outlined in the 2005 Paris Declaration on Aid Effectiveness. The resulting DPAF is divided into five groups of indicators: financing national strategies to achieve the MDGs and the Vision 2020; use of national systems to strengthen ownership and accountability; facilitating long-term planning through predictable development financing; reduction of transaction costs through the adoption of harmonized approaches; and budget support in a manner that enhances ownership predictability and lowers transaction costs. Each of these areas is associated with three to seven indicators that encapsulate the objective. By and large, for the 14 donors with time series data available, the trend is towards improved performance. That said, overall performance is still well below the aspirational targets. Of the 22 indicators across the five areas, donors had fully met the target in only two ("percent of technical co-operation provided through co-ordinate programmes", and "percent of total missions that are joint with the government").　 While a few other countries have also begun to establish donor accountability frameworks, Rwanda's is arguably one of the most advanced.

Do Effective Results Based Management Systems Improve AfT Performance?

67.   The case studies suggest the hypothesis that solid results based management system can raise the effectiveness of aid for trade. While the aid effectiveness literature provides a plethora of convincing studies on the broad relationship of "effective governments" to better use of official development assistance, it is virtually silent on aid for trade.

68.   To begin to remedy this lacuna, research for this chapter uses econometric techniques to estimate the interactive effects of aid for trade in the presence of good management. As noted above, these estimations revealed significant and positive associations of aid for trade on exports of recipient countries, controlling for the country characteristics of the trading partners, their trading situation (*e.g.*, distance, regional trade agreements, conflicts, etc.), and year. To understand the effect of good management, analysis used these same models, but for this section inter-acted the aid for trade measure with indicators of government effectiveness. The best proxy for good management – because it spanned the entire period 1995-2011 – was the World Bank's measure of "government effectiveness".[22] The results revealed that when the measure of "government effectiveness" was interacted with aid for trade, significantly greater than average increases in exports resulted.[23] Perhaps more revealing, when the management interaction term was included in the analysis, the separate positive effects of aid for trade evident in the base runs turns significantly negative; this suggests strongly that management is crucial to the effectiveness of aid for trade.

69.   Similarly, good management also indicated a strong positive spill over effect from other forms of development assistance on exports. This suggests an additional interpretation of the negative coefficient in the earlier regressions.   It may well be that effective use of all development assistance because of better management contributes to better trade performance while only those receiving substantial aid in less well managed contexts suffer the deleterious effects of trade dampening through the exchange rate channel. This hypothesis requires further investigation.

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[22] Other measures that were tested included, among others, a combination of public sector and trade sub-indices for the World Bank's Country Policy and Institutional Assessment 2007-09) and the IMF's Public Investment Efficiency Index (2010). These had the disadvantage of providing only partial country coverage (*e.g.*, the IMF index) or limited time coverage (*e.g.*, the available CPIA data).

[23] See coefficients in Annex Table A.5.

6   Conclusions and Policy Implications

Aid for trade is effective…and especially in a supportive environment

70.   This chapter explored the effectiveness of aid for trade in promoting trade – both exports and imports – and conditions which tend to make it most effective. This review provides abundant evidence that suggests bilateral aid for trade is indeed broadly correlated with increases in trade. Analysis in this chapter suggest that aid for trade destined to low and lower-middle income countries is likely to have a high pay-off. Typically, one dollar invested in aid for trade is associated with an increase of nearly USD 8 of exports from all developing countries – while one dollar of aid for IDA countries amounted to USD 20 in new exports and to USD 9 for all low and lower-middle income countries.

71.   Furthermore, there is abundant evidence that aid for trade is appropriately targeted on lowering trade costs – in the form of additional infrastructure, better institutions such as customs, standards authorities, and more trade friendly policies and regulations, whether in tariffs and NTBs, or in regulatory measures that expose logistics companies to new competition. However, because country situations are so different, trade obstacles and opportunities in a specific country should dictate appropriate instruments rather than cross-country generalisations.

72.   These broad conclusion notwithstanding, it is also clear that aid for trade is not effective in all country situations in attaining its intermediate outcome objectives of raising trade, much less its impacts in promoting rapid growth and reducing poverty. Aid for trade is most effective at increasing trade and promoting trade-led growth when recipient countries have a supportive business environment, particularly stable macroeconomic policies and an investment climate that encourages private investment. These factors are of course the same reason why aid-for-trade support is being sought by partners. As such, initial successes may have strong multipliers as issues are progressively resolved.

73.   The absence of peace and security have a large dampening effect on export performance, and these have the power to wipe out any benefits from investment in aid for trade. Similarly, well known lessons that high and unstable inflation, corruption, unstable property rights, and erratic microeconomic policies undermine the effectiveness of all aid also apply to the subset of aid for trade (OECD 2012b).

Aid for trade can promote regional and global value chains

74.   The role of aid for trade in promoting trade in regional and global value chains is only now receiving academic and policy-making attention. However, three pieces of evidence reviewed in this chapter point to a nontrivial contribution of aid for trade to value chain development. First, aid for trade provided to both sides of the bilateral trading partnership reveal a synergistic effect. This stands to reason: if aid for trade helps make border crossings more efficient on both sides of the border, it will facilitate expanded trade of the bilateral partners as well as third parties. Similarly, aid for trade to infrastructure, such as roads or communication, stimulates two-way trade. A second indication that aid for trade promotes regional and global value chains is the fact that exports are even higher when the aid for trade recipient is a member of a regional trade agreement, shares a common border, and has a common language. Finally, even more compelling is the direct evidence that aid for trade in intermediates, parts and components, are key indicators of value chains.

75.   Econometric analysis in this chapter found that aid for trade was positively and significantly associated with the growth in parts and components. Thus even though the progressive proliferation of global and regional value chains are reshaping the architecture of global trade and widening the set of trading opportunities open to developing countries, this appears not require major shifts in the focus of aid for trade efforts.

Improving in-country management systems can contribute to better AfT effectiveness

76.   If policy matters, so do government management systems. Governments that work together with donors in the context of a well formulated programme with specific goals to overcome supply side constraints are likely to have the greatest pay-off.   This implies government ownership, mutual accountability and overall alignment and harmonisation -- namely the now familiar Paris Principles. As shown in this chapter, countries have varying capabilities to articulate needs, plan, budget, monitor and evaluate aid for trade.   Assistance to help governments build this type of results-based management capacity has a high pay-off for all development assistance as well as for trade.

Evaluations of aid for trade could be more comprehensive

77.   This review also suggests that evaluations still could be improved. A first step is to build in clear objectives and quantified measures of each phase of the results chain for every project. OECD (2013) provides a comprehensive map of possible indicators from which to select. Second, evaluations have to take into account the larger policy environment, particularly the trade policy environment but also policies that the trade literature has dubbed "complementary policies". Finally, importing efficiently is as important as exports, and too frequently evaluations fail to exhibit concerns about this dimension of competitiveness, a point that came out clearly in the case story submissions to the WTO/OECD and in the OECD's meta-evaluation of projects in Ghana, Vietnam, and the transport and storage sectors (OECD, 2011c).

Calibrating expectations about aid for trade: the elusive quest for poverty reduction

78.   One corollary is important: Complementary policies essential for successful aid for trade need not – indeed could not -- be included in every aid for trade project. Often issues of job creation, education, environment and social protection – important complements of trade -- require separate policies distinct from aid for trade. This implies that, for example, a power project or a one-stop border post, to be effective, need not show direct linkages to poverty reduction or to some of the other cross-cutting objectives that are of concern to the development community, such as environment, gender, or creation of social capital. Moreover, many aid for trade projects, broadly defined, have their own channels to poverty reduction, independent of the trade channel.

Table A.1: Effect of AfT on exports (excluding minerals and oil) of developing countries

(1995 classification)

Dependent variable Exports from country i (DEV95) to country j (ALL)in year t	(1) Gravity	(2) Extended Gravity	(3) AfT	(4) AfT + no aid dummies
ln GDP_i	0.353***	0.376***	0.368***	0.366***
	(0.017)	(0.017)	(0.017)	(0.017)
ln GDP_j	0.296***	0.337***	0.328***	0.329***
	(0.014)	(0.014)	(0.014)	(0.014)
ln POP_i	-0.762***	-0.467***	-0.560***	-0.555***
	(0.067)	(0.064)	(0.065)	(0.066)
ln POP_j	0.169***	0.396***	0.343***	0.343***
	(0.049)	(0.047)	(0.048)	(0.048)
ln Distance_ij	-1.146***	-0.819***	-0.819***	-0.819***
	(0.004)	(0.005)	(0.005)	(0.005)
Both landlocked		-0.623***	-0.622***	-0.622***
		(0.025)	(0.025)	(0.025)
Ln Remoteness ij		0.597***	0.605***	0.605***
		(0.057)	(0.058)	(0.058)
Common border		0.889***	0.889***	0.889***
		(0.019)	(0.019)	(0.019)
Common colonizer		0.393***	0.393***	0.393***
		(0.012)	(0.012)	(0.012)
Colonial relationship		0.783***	0.783***	0.783***
		(0.028)	(0.028)	(0.028)
Common language		0.402***	0.402***	0.402***
		(0.010)	(0.010)	(0.010)
Conflict i		-0.098***	-0.091***	-0.091***
		(0.016)	(0.016)	(0.016)
Conflict j		-0.005	0.002	-0.000
		(0.018)	(0.018)	(0.018)
RTA dummy		0.611***	0.613***	0.613***
		(0.011)	(0.011)	(0.011)
AfT received by i in t-3			**0.028***	0.029***
			(0.003)	(0.003)
zero AfT received by i in t-3				0.019
				(0.019)
AfT received by j in t-3			**0.012***	0.008**
			(0.003)	(0.004)
zero AfT received by j in t-3				-0.028*
				(0.017)
Other ODA received by i			**-0.012***	**-0.011**
			(0.004)	(0.005)
zero Other ODA received by i				0.008
				(0.036)
Other ODA received by j			**0.018***	**0.011**
			(0.004)	(0.005)
zero Other ODA received by j				-0.058*
				(0.030)
Country fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	142,448	142,448	142,448	142,448
R-squared	0.709	0.734	0.734	0.734

Table A.2. Effect of AfT on exports, by income group

Dependent variable Exports from country i (DEV95) to country j (ALL) in year t	(1) LIC95	(2) LMIC95	(3) IDA95	(4) LIC95 + LMIC95	(5) DEV95
AfT received by i in t-3	**0.053***	**0.021***	**0.051***	**0.034***	**0.029***
	(0.007)	(0.005)	(0.006)	(0.004)	(0.003)
zero AfT received by i in t-3	0.069	0.207***	0.166***	0.193***	0.019
	(0.062)	(0.034)	(0.039)	(0.029)	(0.019)
AfT received by j in t-3	**0.009**	**0.013****	**0.002**	**0.010****	**0.008****
	(0.007)	(0.006)	(0.006)	(0.005)	(0.004)
zero AfT received by j in t-3	0.037	-0.084***	-0.060**	-0.041**	-0.028*
	(0.032)	(0.026)	(0.029)	(0.021)	(0.017)
Other ODA received by i	**-0.026****	**-0.028***	**-0.049***	**-0.029***	**-0.011****
	(0.012)	(0.009)	(0.009)	(0.007)	(0.005)
zero Other ODA received by i	(dropped)	-0.132**	0.182	-0.080*	0.008
		(0.054)	(0.144)	(0.048)	(0.036)
Other ODA received by j	**0.001**	**0.022***	**0.024***	**0.013****	**0.011****
	(0.009)	(0.008)	(0.008)	(0.006)	(0.005)
zero Other ODA received by j	0.016	-0.061	0.018	-0.032	-0.058*
	(0.062)	(0.047)	(0.053)	(0.038)	(0.030)
Control variables from table 1	Yes	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Observations	37,131	57,452	48,799	94,583	142,448
R-squared	0.668	0.758	0.687	0.722	0.734

Table A.3. Effect of each category of AfT on exports, by income group

Dependent variable Exports from country i (DEV95) to country j (ALL) in year t	(1) LIC95	(3) LMIC95	(4) IDA95	(6) DEV95
AfT econ. infra. received by i in t-3	**0.022***	**0.017***	**0.015***	**0.016***
	(0.006)	(0.004)	(0.005)	(0.003)
AfT prod. cap. received by i in t-3	**0.038***	**0.005**	**0.033***	**0.021***
	(0.009)	(0.006)	(0.007)	(0.004)
Other AfT received by i in t-3	**0.046***	**0.029***	**0.080***	**0.024***
	(0.011)	(0.007)	(0.008)	(0.006)
zero AfT received by i in t-3	0.043	0.191***	0.119***	0.012
	(0.062)	(0.033)	(0.038)	(0.018)
AfT received by j in t-3	**0.011**	**0.016***	**0.007**	**0.008****
	(0.007)	(0.006)	(0.006)	(0.004)
zero AfT received by j in t-3	0.050*	-0.065***	-0.023	-0.029*
	(0.030)	(0.024)	(0.027)	(0.016)
Other ODA received by i	**-0.025****	**-0.024***	**-0.036***	**-0.010***
	(0.012)	(0.009)	(0.009)	(0.005)
zero Other ODA received by i		-0.122**	0.189	0.011
		(0.054)	(0.144)	(0.036)
Other ODA received by j	**0.005**	**0.022***	**0.022***	**0.012****
	(0.010)	(0.008)	(0.008)	(0.005)
zero Other ODA received by j	0.041	-0.054	-0.013	-0.034
	(0.049)	(0.037)	(0.042)	(0.024)
All controls from table 1 included	Yes	Yes	Yes	Yes
Country fixed effects and	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	37,131	57,452	48,844	142,448
R-squared	0.668	0.758	0.687	0.734

Table A.4. Effect of AfT on exports of parts and components of developing countries

Dependent variable Intermediate exports from country i (DEV95) to country j (ALL)in year t	(1) Gravity	(2) Extended Gravity	(3) AfT	(4) AfT + dummies
ln GDP_i	0.552***	0.571***	0.552***	0.547***
	(0.017)	(0.017)	(0.017)	(0.017)
ln GDP_j	0.208***	0.270***	0.266***	0.262***
	(0.015)	(0.015)	(0.015)	(0.015)
ln POP_i	-0.771***	-0.565***	-0.723***	-0.796***
	(0.072)	(0.071)	(0.072)	(0.074)
ln POP_j	-0.060	0.133***	0.098**	0.099**
	(0.048)	(0.047)	(0.049)	(0.049)
ln Distance_ij	-0.750***	-0.590***	-0.589***	-0.590***
	(0.004)	(0.006)	(0.006)	(0.006)
Both landlocked		-0.156***	-0.153***	-0.155***
		(0.037)	(0.037)	(0.037)
ln Remoteness ij		1.311***	1.297***	1.230***
		(0.059)	(0.059)	(0.060)
Common border		0.336***	0.335***	0.335***
		(0.017)	(0.017)	(0.017)
Common colonizer		0.365***	0.365***	0.366***
		(0.014)	(0.014)	(0.014)
Colonial relationship		0.307***	0.307***	0.307***
		(0.025)	(0.025)	(0.025)
Common language		0.203***	0.202***	0.202***
		(0.011)	(0.011)	(0.011)
Conflict i		-0.070***	-0.058***	-0.053***
		(0.016)	(0.016)	(0.016)
Conflict j		-0.008	-0.004	-0.001
		(0.020)	(0.021)	(0.021)
RTA dummy		0.279***	0.283***	0.281***
		(0.012)	(0.012)	(0.012)
AfT received by i in t-3			**0.035***	**0.036***
			(0.003)	(0.004)
zero AfT received by i in t-3				0.002
				(0.025)
AfT received by j in t-3			**0.007*	**0.016***
			(0.004)	(0.004)
zero AfT received by j in t-3				0.071***
				(0.021)
Other ODA received by i			**-0.006	**0.025***
			(0.004)	(0.005)
zero Other ODA received by i				0.304***
				(0.038)
Other ODA received by j			**0.001	**0.012**
			(0.004)	(0.006)
zero Other ODA received by j				0.050
				(0.031)
Country fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	82,322	82,322	82,322	82,322
R-squared	0.580	0.596	0.597	0.597

Table A.5: Effect of AfT in good management situations on exports of developing countries, by income group

(using "government efficiency" proxy)

Dependent variable Exports from country i (DEV95) to country j (ALL) in year t	(1) LIC95	(2) LMIC95	(3) IDA95	(4) DEV95
AfT received by i in t-3	**-0.063*****	**-0.019**	**-0.094*****	**0.011**
	(0.023)	(0.020)	(0.021)	(0.011)
AfTi in t-3* Gov. efficiency_i	**0.262*****	**0.082****	**0.327*****	**0.031**
	(0.052)	(0.041)	(0.046)	(0.021)
zero AfT received by i in t-3	0.024	0.179***	0.146***	0.003
	(0.062)	(0.034)	(0.039)	(0.019)
AfT received by j in t-3	**0.012***	**0.016*****	**0.007**	**0.009****
	(0.007)	(0.006)	(0.006)	(0.004)
zero AfT received by j in t-3	0.057*	-0.065***	-0.021	-0.027*
	(0.030)	(0.024)	(0.027)	(0.016)
Other ODA received by i	**-0.128*****	**-0.047*****	**-0.081*****	**-0.064*****
	(0.019)	(0.018)	(0.016)	(0.009)
ODAi * Gov. efficiency _i	**0.235*****	**0.038**	**0.060****	**0.112*****
	(0.036)	(0.033)	(0.030)	(0.016)
zero Other ODA received by i	(dropped)	-0.190***	0.073	-0.049
		(0.058)	(0.144)	(0.036)
Other ODA received by j	**0.005**	**0.022*****	**0.023*****	**0.012****
	(0.010)	(0.008)	(0.008)	(0.005)
zero Other ODA received by j	0.048	-0.053	-0.012	-0.030
	(0.049)	(0.037)	(0.042)	(0.024)
All controls from table 1 included	Yes	Yes	Yes	Yes
Country fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	37,131	57,452	48,844	142,448
R-squared	0.670	0.758	0.687	0.735

ANNEX B – METHODOLOGY FOR ECONOMETRIC ANALYSIS IN CHAPTER

This annex elaborates on the data and the procedures for the econometric analysis in this chapter. Table B.1 compares this study with three recent similar studies of the study of the impact of aid for trade on export performance of countries to distil the similarities and differences with our approach. Compared to previous studies, our analysis covers the most recent years of aid for trade assistance to developing countries; it covers sixteen years of assistance, beginning with the earliest date of the CRS AfT data set, 1995. As with other studies, our definition of AfT covers all CRS bilateral assistance of donors to developing countries included in the CRS. Note that data are limited to assistance provided from reporting OECD countries that are members of the Development Assistance Committee; data from non-OECD donors, such as China, India, Brazil, and Kuwait and some multilateral agencies are therefore not possible to include. As with Cali and te Velde (2010) and Vijil (2012) multilateral assistance that reporting data are incomplete for earlier years and recent data takes the form of budget support and/or sector loans which are difficult to associate with aid for trade.

Helble *et al.* (2012) create their own stream of disbursement data going back to 1990 using the OECD CRS database, though data before 2002 on AfT projects are systematically underreported because multilateral projects did not report. Cali and te Velde (2010) use disbursement data from 2002-2007, with effect on exports lagged one year. Vijil (2012), as with our analysis, uses the information on commitments to take advantage of a longer time period. Another major difference with respect to Cali and te Velde analysis is that they use aggregate export volumes for each country included in their sample as their dependent variable; we use bilateral export trade pairs from developing countries and the rest of the world; this allows us to examine the effects of aid for trade received by importing countries in the analysis. Furthermore, other official development assistance flows besides those classified under aid for trade assistance are included as in Helble *et al.* (2012) and Vijil (2012).

Table B.2 shows the source of data used in this analysis. The four main sources considered here are the UN Comtrade for bilateral export flows of developing countries, World Development Indicators for information such as GDP and population for both partners, CEPII datasets for gravity variables and bilateral distance measures, and OECD CRS for aid for trade and other official development assistance from OECD countries to developing countries. The World Governance Indicators and Country Policy and Institutional Assessments' datasets are used to measure government management and performance. The Correlates of War dataset is used to create a dummy variable for countries in (external or internal) conflict in a given period. Based on aid flows received by developing countries as reported in the OECD CRS dataset, a dummy variable is created for countries not received AfT and ODA flows in a given period and these controls are included in the regression analysis as suggested by Cali and te Velde and Vijil among others. Exports of ores and minerals under HS codes 26 and 27 are excluded from the analysis; countries for which the share of oil exports exceeds 75% of total exports are also excluded from the analysis. The dummy for Regional and Free Trade Agreement is built based on information published by the World Trade Organization, and is scored 1 when both of trading country pairs are members of the same agreement.

The bottom panel of Table B.3 presents the complete list of countries following the Income Classification of the World Bank in 1995 according to historical thresholds published by this institution. The top panel of the table presents the summary statistics for the most relevant variables: exports (excluding minerals and oil) in billion current USD, average distance of export flows in thousand kilometres, GDP is billion current USD, total population in million inhabitants, and aid for trade and other official development assistance flows in million current USD.

Some clear patterns already emerged while looking at these averages and they are valid while comparing income groups of the WB income classification or even by observing the performance of least developed countries. The first is that exports are greater for countries at higher levels development and the per capita performance exceeds the aggregate performance as the total population of countries becomes smaller at higher the level of development. Average distance of exports increase slightly with the level of development. Finally, there is a clear pattern of support to less developed countries, as they tend to concentrate large amount of aid flows in AfT and other official development assistance.

Table B.4 gives partial correlations between total exports of developing countries and some explanatory variables used while applying the gravity framework to the explanation of trade flows. The GDP and the population of the exporting country are the variables the most significantly correlated with aggregate values of exports. Aid for Trade and other Official Development Assistance flows are also positively correlated with export levels but at lower levels of correlation. Other significant correlations are observed between the two flows of development assistance and also between aid flows and the total population of the country, which is an expected result given that the amount of aid commitments will evolve with the size of the country.

The baseline framework for our empirical analysis is presented in Table A.1. Column 1 in this Table presents the results of the gravity model where bilateral exports of developing countries are a function of the size of the exporting economy, the size of the importing economy and the distance between the two countries as in the following specification:

$$X_{ij} = G \frac{Y_i^{\alpha} Y_j^{\beta}}{T_{ij}^{\theta}}$$

where X_ij denotes exports (excluding minerals and oil) of country i to country j, G is the gravitational constant between the two countries, Y_i and Y_j are the sizes of the exporting and importing economies respectively and T_ij are measures of trade barriers between the two countries. Initially, we use the distance from the CEPII dataset as a proxy for trade barriers for the estimation of the log-linearized version of the gravity model. All regressions include exporter-, importer-, and year fixed effects. Column 2 adds some commonly used control variables to the baseline specification *i.e.* common border, common language, colonial relationships and landlockedness of countries. It also adds other controls such as remoteness of countries calculated as the product of the GDP-weighted distances of both countries with respect to all other partners, a dummy for conflict (time variant) and a dummy for regional trade agreements as listed by the World Trade Organization. Column 3 includes the aid flows received by the exporting and the importing countries in logs for aid for trade flows and other official assistance committed by bilateral donors. Column 4 includes dummy variables for countries not receiving aid flows and this mainly affects importing countries given than most of exporting countries receive aid flows. In order to avoid potential endogeneity issues related to aid for trade flows, we use a 3-year lagged AfT commitments. A sensitivity analysis of exports to lagged AfT commitments is presented in Table B.5 of this Annex. It demonstrates that improvements of in exports can best be observed after a certain lag (3 years) and the impact of commitments increases over time.

Table B.1. OECD analysis in comparison with other recent studies

	Helble *et al.* (2012)	Cali and te Velde (2010)	Vijil (2012)	OECD (2013) – Newfarmer-Urgarte
Period covered	1990-2005	2002-2007	1995-2005	1995-2011
Country coverage	170 trading countries	120 developing countries	All positive trade flows	109 developing countries exporting to all countries
Observations	108,304	508	95,280	142,448
Explained variable	Imports from country i to country j in each year	Total exports of a country in a given year	Exports of country i to country j in year t	Exports of country i to country j in year t
Zero trade flows	No	(not mentioned)	No	No
Aid for trade	Flows received by importer and exporter	Flows received by the exporter	Flows received by importer and exporter	Flows received by importer and exporter
Definition of AfT	Disbursements (constructed CRS 1990-05); trade policy and regulations, trade development and economic infrastructure	Disbursements (2002-2007); trade facilitation, trade policy and regulations, productive capacity and economic infrastructure	Commitments (1995-2005); Trade policy and regulations, productive capacity and economic infrastructure	Commitments (1995-2010) with 3 year lags; Productive capacity, trade development and other aid for trade
Disaggregation of AfT on exports	No, but several aggregations of previous categories are tested.	Yes. Productive Capacity and Infrastructure.	Yes. Institutions, Productive capacity and Infrastructure	Yes. Productive capacity, Infrastructure and Other AfT
ODA	All other aid flows not included in AfT for both countries	No	All other aid flows not included in AfT for both countries	All other aid flows not included in AfT for both countries
Dummies for non receivers of AfT and ODA	No	Yes	Yes	Yes
Fixed effects	Year and bilateral (5-years) fixed effect	Year and exporter	Year	Year, exporter and importer

Table B.3. Definition of variables

Variable	Description	Source
Ln Exports_ijt	Total exports from country i to country j in year t in current million USD (in logs). Oil and mineral exports are excluded. Only positive values are considered.	UN Comtrade
Ln GDP_it	GDP of country i in current million USD in year t (in logs).	WB World Development Indicators
Ln POP_it	Total population of country i in year t (in logs).	WB World Development Indicators
Ln Distance_ij	Distance between both countries (in logs).	CEPII
Landlocked (i and j)	Dummy variable equal to one if at least one of the two countries is landlocked.	CEPII
Common border	Dummy for contiguity	CEPII
Common colonizer	Dummy for common colonizer	CEPII
Colonial relationship	Dummy for former colonial relationship	CEPII
Common language	Dummy for common official language	CEPII
AfT received by i (in year t)	Total amount of Aid for Trade received by country i from all bilateral donors in year t in current million USD (in logs)	OECD CRS dataset
Other ODA received by i (in year t)	Total amount of Official Development Assistance, excluding Aid for Trade received by country i from all bilateral donors in year t in current million USD (in logs)	OECD CRS dataset
	Dummies equal 1 if country i did not received Aid for Trade (ODA) flows in year t	OECD CRS dataset
Government effectiveness in year t	Government effectiveness (quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies). It ranks between -2.5 and 2.5 but it has been normalized between 0 and 1 here.	WB Worldwide Governance Indicators
RTA dummy	Dummy variable equal to 1 for RTA in force.	WTO
Conflict_it	Dummy variable for countries under conflict in year t. Inter-state and civil wars are considered. A war is active as long as 1'000 fatalities are observed within a 12-month period. http://www.correlatesofwar.org/COW2%20Data/WarData_NEW/COW%20Website%20-%20Typology%20of%20war.pdf	Correlates of War 4.0
Oil exporters excluded	Angola, Algeria, Azerbaijan, Bahrain, Congo, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, United Arab Emirates, Yemen, Venezuela. Countries are either major oil exporters or their share of oil exports in total exports is equal or higher than 75%.	Own calculations using trade data.

Table B.4: Summary statistics of main variables by income groups (1995) and countries in each group

Income Group		Total exports	Distance	GDP in current USD	Population	AfT received	Other ODA received
Low income countries	Mean	5.2	6.2	43.9	65.1	160.4	443.6
	Std.	*19.7*	*1.4*	*185.4*	*210.5*	*358.7*	*559.5*
Lower middle income countries	Mean	29.1	7.1	119.1	58.8	153.4	323.5
	Std.	*148.8*	*2.2*	*558.9*	*217.2*	*279.3*	*415.3*
Upper middle income countries	Mean	26.0	7.6	147.5	24.0	44.3	123.1
	Std.	*48.7*	*2.4*	*311.7*	*43.8*	*103.0*	*192.6*
Least developed countries	Mean	0.7	6.2	6.1	15.5	64.4	303.0
	Std.	*1.5*	*1.4*	*9.8*	*24.2*	*100.5*	*387.5*
IDA countries	Mean	18.7	6.2	77.2	47.9	98.5	338.5
	Std.	*138.4*	*1.6*	*520.9*	*201.6*	*204.5*	*412.5*
All developing countries	Mean	20.5	6.9	102.2	51.8	127.3	310.3
	Std.	*100.4*	*2.1*	*410*	*186.3*	*281.4*	*444.4*

Low income countries	Burundi, Benin, Burkina Faso, Bangladesh, Central African Republic, Comoros, Eritrea, Ethiopia, Ghana, Guinea, The Gambia, Guinea-Bissau, Haiti, India, Kenya, Kyrgyz Republic, Cambodia, Madagascar, Mali, Mozambique, Mauritania, Malawi, Niger, Nepal, Pakistan, Papua New Guinea, Rwanda, Sudan, Sierra Leone, Sao Tome and Principe, Togo, Tajikistan, Tanzania, Uganda, Vietnam, Zambia, Zimbabwe.
Lower middle income countries	Albania, Armenia, Bosnia and Herzegovina, Belarus, Bolivia, Bhutan, China, Cote d'Ivoire, Cameroon, Colombia, Cape Verde, Djibouti, Dominican Republic, Ecuador, Arab Rep. Egypt, Georgia, Guatemala, Guyana, Honduras, Indonesia, Jordan, Kiribati, Sri Lanka, Lesotho, Morocco, Moldova, Macedonia, FYR, Mongolia, Nicaragua, Peru, Philippines, Paraguay, Senegal, Solomon Islands, El Salvador, Swaziland, Syrian Arab Republic, Thailand, Turkmenistan, Tonga, Ukraine, Vanuatu, Samoa.
Upper middle income countries	Argentina, Bulgaria, Belize, Brazil, Botswana, Chile, Costa Rica, Cuba, Dominica, Fiji, Grenada, Lebanon St. Lucia, Lithuania, Latvia, Maldives, Mexico, Mauritius, Malaysia, Namibia, Panama, Poland, Suriname, Tunisia, Turkey, Tuvalu, Uruguay, St. Vincent and the Grenadines, South Africa.
Least developed countries	Burundi, Benin, Burkina Faso, Bangladesh, Bhutan, Central African Republic, Comoros, Cape Verde, Djibouti, Eritrea, Ethiopia, Guinea, The Gambia, Guinea-Bissau, Haiti, Cambodia, Kiribati, Lesotho, Madagascar, Maldives, Mali, Mozambique, Mauritania, Malawi, Niger, Nepal, Rwanda, Sudan, Senegal, Solomon Islands, Sierra Leone, Sao Tome and Principe, Togo, Tuvalu, Tanzania, Uganda, Vanuatu, Samoa, Zambia.
IDA countries	Albania, Burundi, Benin, Burkina Faso, Bangladesh, Bhutan, Central African Republic, China, Cote d'Ivoire, Cameroon, Comoros, Djibouti, Arab Rep. Egypt, Eritrea, Ethiopia, Ghana, Guinea, The Gambia, Guinea-Bissau, Guyana, Honduras, Haiti, Kenya, Kyrgyz Republic, Cambodia, Kiribati, Lesotho, Moldova, Madagascar, Maldives, Macedonia, Mali, Mozambique, Mauritania, Malawi, Niger, Nicaragua, Nepal, Papua New Guinea, Rwanda, Sudan, Senegal, Solomon Islands, Sierra Leone, Sao Tome and Principe, Togo, Tajikistan, Tonga, Tuvalu, Tanzania, Uganda, Vanuatu, Samoa, Zambia.

Table B.5. Correlation matrix of variables of interest

	Total exports	Average distance	GDP	Population	AfT received	ODA received
Total exports	1.00					
Average distance	0.20	1.00				
GDP	0.94	0.22	1.00			
Population	0.64	0.18	0.71	1.00		
AfT received	0.23	0.18	0.32	0.60	1.00	
ODA received	0.27	0.15	0.30	0.40	0.48	1.00

Notes:

The correlation matrix is calculated using aggregate or average values for variables for all exporting countries. In that sense, total exports stands for aggregate exports of a developing country in a given year. Average distance is the average distance of all bilateral export flows of a developing country in a given year. GDP and population are the gross domestic product and total population observed in each country for each year. AfT received and ODA received are the total amount of aid for trade flows and other official development assistance flows received by the exporting country in each period considered here

Table B.6. Lagged Impact of AfT on Exports of Developing Countries (1995)

Dependent variable Exports from country i (DEV95) to country j (ALL) in year t	(1) AfT t-1	(2) AfT t-2	(3) AfT t-3	(4) AfT t-4	(5) AfT t-5	(6) ALL LAGS
Controls included: all gravity variables (See table 5)						
Other ODA received by i	-0.008 (0.005)	-0.010** (0.005)	-0.010** (0.005)	-0.010** (0.005)	-0.011** (0.005)	-0.012** (0.005)
Zero Other ODA received by i	0.000 (0.037)	0.001 (0.036)	0.008 (0.036)	-0.000 (0.035)	-0.015 (0.035)	-0.002 (0.037)
Other ODA received by j	0.012** (0.005)	0.013** (0.005)	0.012** (0.005)	0.011** (0.005)	0.010** (0.005)	0.004 (0.005)
Zero Other ODA received by j	-0.030 (0.024)	-0.030 (0.024)	-0.034 (0.024)	-0.031 (0.024)	-0.039 (0.024)	-0.035 (0.024)
AfT received by i in t-1	0.004 (0.003)					-0.004 (0.004)
Zero AfT received by i in t-1	-0.009 (0.020)					-0.016 (0.021)
AfT received by i in t-2		0.017*** (0.003)				0.003 (0.004)
Zero AfT received by i in t-2		0.012 (0.020)				0.010 (0.021)
AfT received by i in t-3			0.029*** (0.003)			0.015*** (0.004)
Zero AfT received by i in t-3			0.019 (0.019)			0.010 (0.021)
AfT received by i in t-4				0.033*** (0.003)		0.013*** (0.004)
Zero AfT received by i in t-4				0.025 (0.019)		0.020 (0.021)
AfT received by i in t-5					0.043*** (0.003)	0.034*** (0.003)
Zero AfT received by i in t-5					0.044** (0.019)	0.046** (0.021)
AfT received by j in t-1	0.008** (0.004)					0.006 (0.004)
Zero AfT received by j in t-1	-0.029 (0.018)					-0.010 (0.019)
AfT received by j in t-2		0.004 (0.004)				-0.003 (0.004)
Zero AfT received by j in t-2		-0.042** (0.017)				-0.017 (0.019)
AfT received by j in t-3			0.008** (0.004)			0.003 (0.004)
Zero AfT received by j in t-3			-0.030* (0.017)			0.001 (0.019)
AfT received by j in t-4				0.007* (0.004)		-0.001 (0.004)
Zero AfT received by j in t-4				-0.049*** (0.017)		-0.029 (0.018)
AfT received by j in t-5					0.012*** (0.004)	0.010** (0.004)
Zero AfT received by j in t-5					-0.033** (0.016)	-0.019 (0.018)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	142,448	142,448	142,448	142,448	142,448	142,448
R-squared	0.734	0.734	0.734	0.734	0.735	0.735

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