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Development Progress

Exploring the impact,
effectiveness and future
of Aid for Trade

Aid for Trade (AfT) has emerged as an important vehicle for assisting developing countries to improve their trade capacity and benefit from the expansion of global markets. These improvements are helping economic growth and job creation, and in doing so they are also helping developing countries to reduce their reliance on aid, enabling them to use trade to generate higher standards of living, and help address global challenges such as food security.

The empirical literature tends to confirm that AfT can be effective in increasing exports and stimulating investment. The impact of AfT varies depending on the type of AfT intervention, the income level and geographical region of recipient countries and the sector to which AfT flows are directed. AfT for trade facilitation and development of trade-related infrastructure has significant positive impacts on recipient countries' exports. AfT investment in improving trade policy and reform has helped lower the costs of trading.

Given the developmental potential of AfT, a research project led by the ODI in cooperation with ECDPM and DIE has been studying AfT's effectiveness. The two-year project, a component of *Development Progress*, has sought to analyse the factors influencing AfT results – *what works, why and in what circumstances?*

This note summarises the current research and its findings and suggests how the AfT initiative can improve development outcomes.

Research themes

- **What works and in what circumstances?**

A review of trends, experiences and impacts of AfT from 2006 to 2012 highlighted that AfT tends to work best when: it is targeted at reducing the cost of trading; it takes into consideration the recipient's income level or development status when identifying priorities and designing national and/or regional programmes; there is effective coordination between donors and recipients as well as coordination among donors; the selection of instruments and modalities for delivering AfT addresses trade-related constraints at the transnational and regional levels.

- **What is the quantitative evidence for the impact of AfT on trade performance?**

Econometric analysis suggests that AfT facilitation has a significant impact on export flows, and that the strength of this effect is driven by the quality of institutions in recipient countries. This has important policy implications. Countries with a better institutional context (such as an effective public-private dialogue) are likely to be better placed to benefit from AfT, but the adequacy of the institutions will be country-specific.

- **How can AfT support the integration of developing countries into global value chains?**

The research examined the role of AfT in assisting the integration of agricultural producers in sub-Saharan Africa into high-value agricultural global value chains (GVCs). It focused on growers of cut flowers in Kenya, where interventions to facilitate trade and integrate producers within GVCs have been ongoing since before 2005, when AfT was agreed among WTO members. In a globalising world where GVCs are increasingly important, the ability to shift goods in and out is essential to a country's competitiveness. Equally important is the domestic capacity to meet regional and international trade standards.

- **What are the opportunities and challenges for improving the effectiveness of AfT through a regional approach?**

A deeper level of regional integration is sometimes a stepping stone towards integrating into the global economy. Although a lack of data makes it difficult to know exactly how much AfT flows to the regional level, corridor approaches help reduce transport times and costs, thus addressing a major constraint to regional and international trade. Regional AfT comes up against the same institutional challenges that are faced by regional integration more broadly. Some of these challenges could be addressed through a more focused corridors approach, thereby increasing the effectiveness of regional AfT.

- **What is the impact of infrastructure on agricultural productivity?**

Road quality is very important for trade, with evidence suggesting that rural feeder roads are particularly important for poor rural households. While improvements in road infrastructure are regarded as a necessary condition, they are still not sufficient to improve trade outcomes. AfT-supported rural infrastructure projects should combine investments in hard infrastructure with investments in soft infrastructure (e.g. institutions for competition, extension services and inspection of standards) to improve the competitiveness of agricultural value chains.

- **How did emerging economies promote trade and what lessons could less developed countries learn from their experiences?**

The research examined what lessons could be learnt from the experiences of China, India and Brazil in successfully supporting their trade performance. In addition to investment in infrastructure (where lessons focussed on the need for a favourable institutional environment for infrastructure, such as the presence of Development Banks or support for public-private partnerships), the research found a number of elements for successful trade facilitation reforms. These included: taking account of political economy challenges for trade facilitation; supporting the harmonisation of documentary requirements across countries; prioritising paperless trade, with a focus on electronic data interchange (EDI) and national and regional 'single window' facilities; minimising physical inspections, in particular through adoption of risk management

techniques; and considering industry- and sector-specific trade facilitation initiatives, such as for agricultural products or low-value exports.

- **How can we improve the effectiveness of AfT interventions?**

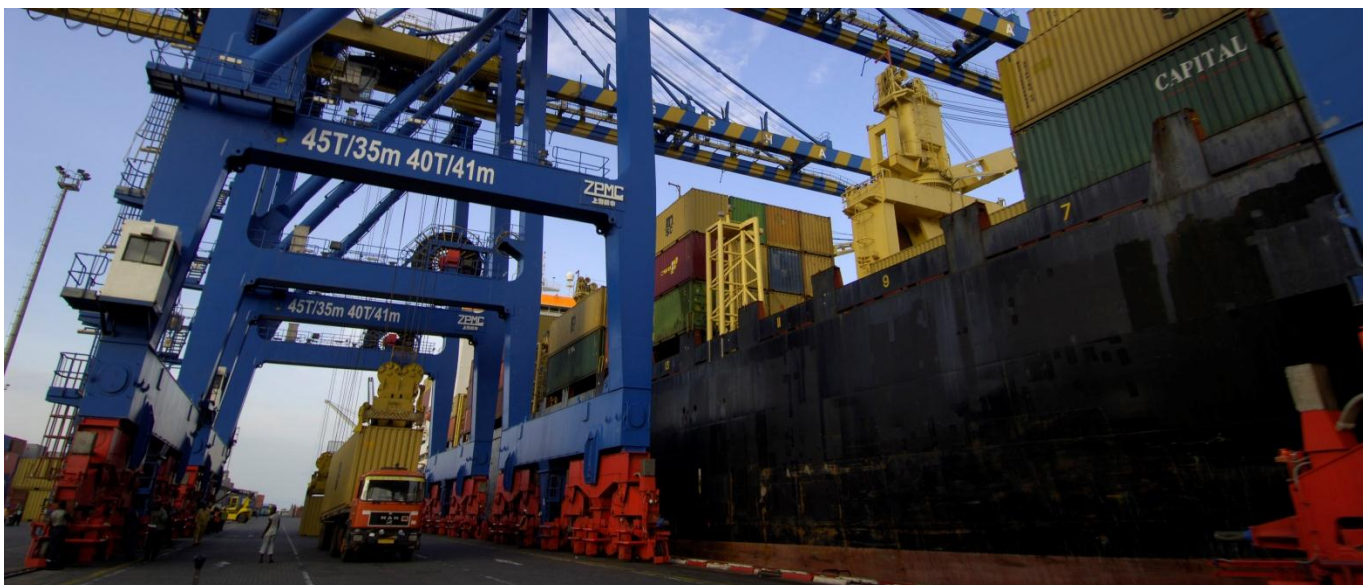
The research identified four phases in the AfT programme cycle and some key barriers to success for each: (i) determining AfT priorities, including the identification of binding trade-related constraints to growth; (ii) structuring AfT delivery, with particular examination of the different delivery instruments; (iii) the design and implementation of projects and programmes, focusing on delivery of national and regional AfT programmes; and (iv) monitoring and evaluation, including the different methodologies and how it informs ongoing and future programmes at the global, regional, national and project levels.

Looking ahead: Improving the effectiveness and development outcomes of Aid for Trade

The AfT initiative has generated interest in how trade policy can contribute to development outcomes and how such policies can be supported. Policy-makers and researchers will need to consider a number of issues if the initiative is to continue to be relevant. AfT needs to adapt to the new trade and investment realities of emerging value chains and to an increasingly diversified financing environment, in which AfT through ODA is declining in importance.

There are a range of possible future directions for the AfT initiative. One possibility is that AfT will return to a very specific role, focusing mainly on AfT facilitation but taking into account developments in GVC analysis. Another possibility is that AfT will follow a bottom-up approach to trade. In this view, trade plays a part in the solutions to a wide range of trade-related development challenges, such as food security, employment and climate change. AfT is more connected, involves learning from emerging economies, offers packages of support ('investment for trade') to connect poor countries to value chains, and is managed and facilitated by actors who are well-connected to domestic state and business sectors. This renewed type of AfT can help effectiveness of AfT in times of resource constraint, leverage in other financial flows of great value and create more comprehensive connections between countries, actors and flows.

The research was led by Dirk Willem te Velde and Yurendra Basnett. The research team included Jakob Engel, Marie-Agnes Jouanjean, Jodie Keane, Jane Kennan, Christian Kingombe and Isabella Massa from ODI; Bruce Byiers and Dan Lui from ECDPM; and Clara Brandi from DIE. **More information can be found at www.odi.org.uk/aid-for-trade.**





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Images: Fishermen weigh fish, freshly caught in the Port of Iztapa, Guatemala. Photo: Maria Fleischmann / World Bank

The port at Tema, Ghana, 2006. Photo: Jonathan Ernst / World Bank

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