Revamping the Aid for Trade Initiative:

Why is it necessary? What can be done?

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The Aid for Trade Initiative needs to be revamped. To restore confidence and improve its efficiency, aid for trade should focus more on projects that are clearly related to trade.

"Resource mobilization was really the focus of our efforts from Hong Kong through to the Second Global Review in 2009. It must remain central."[1] In closing the Third Global Review of Aid for Trade, Pascal Lamy made clear that, since 2009, the metrics of success of aid for trade could no longer remain exclusively its capacity to mobilize financial resources.

Indeed, resource mobilization has been impressive but developing countries are questioning its reality (i.e. its additionality) while donors, facing a fiscal crisis, ask evidence that the money spent had an impact. The future of the Aid for Trade Initiative will depend on its capacity to address these concerns.

Mobilizing resources: a success

By the metric of resource mobilization, the Aid for Trade Initiative has been a success. In the "Aid for Trade at a Glance" report of 2011, the OECD estimated that, despite the crisis, aid-for-trade flows continued to increase. In real terms, commitments were in 2009 about 60% larger than before the launch of the Initiative and disbursements had grown by more than 10% each year.

The picture has changed. Because the fiscal crisis in donors' countries deepened, aid budgets are increasingly under pressure and aid-for-trade flows have declined in 2011. Commitments reached USD 41.1 billion that is, in real terms, 3% less than in 2009. Disbursements, which had been so far resilient, declined for the first time by 3% to USD 33.2 billion.[2]

But how has the money been spent?

The reality of the resource mobilization narrative has been questioned. Part of the reason is that developing countries and donors do not expect the same outcome from aid for trade.

Developing countries expect that aid for trade will boost and diversify their exports but feel it has not (yet) delivered on this promise. Donors, in contrast, see trade (and thus aid for trade) as a means to achieve growth and poverty reduction.[3] As a result, some projects are considered by donors as aid for trade but viewed by developing countries as traditional aid. For example, donors may report urban infrastructure project as aid for trade, but in developing counties, an urban infrastructure project is an urban infrastructure project not an aid-for-trade project.

The lack of progress in the Doha Round negotiations contributed to turn developing countries' disappointment into suspicion on the reality of aid for trade and on its real purpose. With the negotiations stalled, aid-for-trade resources could not be used for the initial purpose of supporting the implementation of a multilateral agreement. Instead, they financed other projects, some of them not clearly related to trade. Even if the trade impact of some projects is unclear, the broad definition of aid for trade allows donors to report them as such. More, because aid for trade is part of regular Official Development Assistance and disbursed through existing channels, donors can easily re-brand many traditional aid projects as aid-for-trade projects. This inflates the apparent resource mobilization but, as early as 2009, developing countries emphasized that they do not recognize the aid-for-trade flows reported by donors.[4]

Suspicion is increasingly voiced. At the "Expert Group Meeting and Workshop on Aid for Trade and Africa's Trading Capacity" organized by the UNECA in 2010, African countries criticized the monitoring of aid-for-trade flows and recommended that recipient countries take the lead in evaluating the impact of aid for trade. Suspicion was also expressed one year later at the Third Global Review prompting the WTO, in its Aid for Trade Work Programme 2012-13,[5] to stress the need to strengthen "confidence in the reporting system." In 2012, a report for the Commonwealth Secretariat summarized the issue: "Without evidence of additionality and a clear distinction between projects that would have occurred anyway under development programs, it is challenging to assess whether the initiative has delivered incremental benefits to developing countries."[6]

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Has aid for trade made a difference?

When the financial and economic crisis became a fiscal crisis, aid budgets came under mounting pressure. Demands to show that aid for trade has an impact were on the rise and "Showing results" was the theme of the Third Global Review of Aid for Trade held in 2011.

But showing results proved elusive. If the Doha Round negotiations had been concluded, criteria for assessing the success of the aid for trade would be obvious: has aid for trade successfully supported the implementation of the multilateral commitments? Has it helped developing countries seize the gains from trade offered by the agreement? Has it helped manage the adjustment costs of trade liberalization? But, in the absence of a Doha agreement, how could results be measured? Should they be measured by the trade impact that developing countries expect, or by the growth and poverty impact that are donors' priorities? In this context, much was said about results at the Third Global Review but little was shown.

The best way to show that aid for trade makes a difference would be to gather evidence from evaluations. But robust impact evaluations are rare. This is in part

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due to methodological problems but more importantly to insufficient incentives to evaluate aid-for-trade projects. Donors often undertake evaluations more for "accountability" reasons than for investigating the impact of a project. Thus, it should not come as a surprise that a meta-evaluation of aid-for-trade projects concluded that "the evaluations' conclusions provide little insight as to whether aid for trade works and why."[7]

Evaluation should not be limited to the impact of aid for trade. It should also assess if aid-for-trade resources are allocated effectively (i.e. do they go where they are needed? Do they finance the right projects?). Unfortunately, such studies are also rare.

Expanding the scope of the Aid for Trade Initiative...

The Aid for Trade Initiative has helped to increase donor financing to the productive sector of the economy at a time when the overall resource envelope was expanding. It has also been successful in increasing donors' and developing countries' awareness of the role trade can play in development.

These achievements are worth preserving, but with bleak prospects to raise additional resources, with a monitoring framework that has reached its limits without managing to build confidence, and lacking robust evaluations, the Aid for Trade Initiative needs to reinvent itself to address rising concerns.

The WTO tries to do so by expanding the scope of the Initiative. Its Aid for Trade Work Programme for 2012-13 covers new issues such as gender empowerment, green growth, and climate change. It also gives a higher profile to topics such as the role of the private sector in development, that have

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always been part of the Initiative but have recently attracted more attention. The role of the private sector in aid for trade was given particular attention at the Third Global Review, and for the Fourth Global Review the monitoring framework has been extended to include a private sector questionnaire.

Expanding the scope of the aid for trade will help maintain the interest of donors in an Initiative that encompasses more of their objectives. As a result, it is likely to foster resource mobilization, which in Pascal Lamy's words "must remain central."

...Or narrowing it down?

However, expanding the scope of the Aid for Trade Initiative will make impact evaluation harder and will give additional reasons for suspicion because the new areas have only remote relations (if any) with trade or with the trade and development nexus, are more likely to be tainted by political considerations and conditions, and are not among developing countries' priorities.

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Therefore, instead of expanding the scope of the Initiative, the WTO should streamline it and make sure that aid for trade is more efficient. A streamlined Aid for Trade Initiative should focus on clearly trade-related projects. This has two implications.

First, providing financial resources to support the implementation of trade agreements and to cope with adjustment costs should remain the core mandate of the revamped Aid for Trade Initiative. In the absence of a Doha Round agreement, aid for trade can be more focused on helping implementing other trade agreements. In doing so it will build trade capacities that will be useful for the implementation of future multilateral agreements.

Second, projects that do not have a clear trade impact should not be reported as aid for trade. Aid for trade should help build trade capacities but trade capacities do not include projects that, however important for development, are not clearly related to trade. This is the case of support to productive capacities, to gender issues, and to some infrastructure projects. It is difficult to argue that urban infrastructure projects are trade-related and should be reported as aid for trade.

The purpose of narrowing the scope of the Initiative is to increase the focus on key elements of the trade and development nexus in order to make aid for trade more effective, build confidence, and secure donors financing. However, this may not be sufficient. The Initiative must also show convincing results. Thus, the streamlining of the Initiative needs to be complemented by independent and robust impact evaluation and research on the allocation of aid for trade. A major obstacle to such analysis was lifted when the OECD made the Creditor Reporting System database accessible allowing researchers to gather data on the flows and details on the various projects.

This article draws heavily on "The future of Aid for Trade: challenges and options" published in the "World Trade Review." The full article is available at http://dx.doi.org/10.1017/S1474745612000730.

Notes

1. Lamy hails "encouraging" third global review of Aid for Trade, http://www.wto.org/english/news_e/sppl_e/sppl201_e.htm.
2. Data extracted from the OECD CRS database on May 12, 2013.
3. OECD-WTO, *"Aid for Trade at a Glance: Showing Results,"* 2011.
4. OECD-WTO, *"Aid for Trade at a Glance: Maintaining Momentum,"* 2009.
5. WT/COMTD/AFT/W/30, http://docsonline.wto.org/imrd/directdoc.asp?DDFDocuments/t/WT/COMTD/AFTW30.doc.
6. Stiglitz and Charlton, *"The Right to Trade,"* 2012.
7. Delpeuch, Jouanjean, Le Vernoy, Messerlin, and Orliac, *"Aid for Trade: A Meta-evaluation,"* 2010, www.oecd.org/dataoecd/14/61/47423967.pdf.

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