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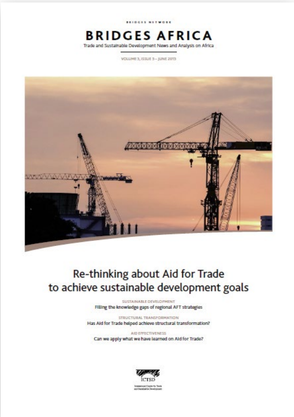
Reflections on Aid for Trade's contribution to sustainable development



Ahead of the Fifth Global Review of Aid for Trade that will take place at the WTO from 30 June to 2 July 2015, a renewed sense of urgency has emerged among Least Developed Countries (LDCs) regarding the benefits of Aid for Trade (AfT) for achieving inclusive and sustainable economic growth. This has become even more poignant in the lead up towards the adoption of the Sustainable Development Goals in September, where discussions on post-2015 development are underscoring AfT as a means through which official development assistance can assist developing countries in improving their productive capacity in trade-related areas.

The AfT initiative was launched at the Hong Kong Ministerial Conference in December 2005 with the objective to mobilise resources to address the trade-related constraints identified by developing and least-developed countries. In keeping with the theme of this year's Review "Reducing Trade Costs for Inclusive, Sustainable Growth," the transaction costs confronted by LDCs in particular are naturally brought into focus.

Challenges such as export and border procedures, transport infrastructure, as well as the growing burden of non-tariff barriers, can present significant obstacles to a country's competitiveness as well as to their successful integration into regional and global value chains. Despite the role of AfT in addressing these issues, doubts persist that it has fallen short in key areas.

This issue leads with an article that explores various means to address existing knowledge gaps in achieving sustainable development objectives through regional Aid for Trade.

This issue also looks at AfT effectiveness based on a series of country-level case studies conducted by ICTSD (the publisher of Bridges Africa). These studies reveal that AfT generally works when the right conditions are present. Some of the findings have a sense of déjà-vu since they are also valid for aid more generally. But the evidence presented here serves to refocus on the critical success factors that matter for AfT effectiveness. The authors suggest that, going forward, the initiative should try to tackle these factors.

The question of whether AfT has had an effect on structural transformation is also examined, and a typology of country-specific factors under which it achieves positive results is defined.

Does political will matter as much, if not more, than funding for the implementation of the WTO Trade Facilitation Agreement? This is one of the questions tackled in this issue too.

We hope you enjoy this special edition and we look forward to meeting you at the WTO Global Review on Aid for Trade next month!

As usual, we welcome your substantive feedback and contributions. Write to us bridgesafrica@ictsd.ch.

SUSTAINABLE DEVELOPMENT

Addressing sustainable development knowledge gaps in regional Aid for Trade strategies

Jodie Keane

This article reviews some of the advantages of regional approaches towards reducing trade costs and achieving sustainable development objectives. In view of some of the tensions outlined, it argues that certain knowledge gaps should be addressed in view of inclusive sustainable development objectives.

Regional approaches have become the preferred mechanisms of disbursing aid for trade (AfT) for some of the major donors. Regional AfT strategies, created by regional economic integration units and supported by AfT disbursement agencies, invariably include the reduction of trade costs as an objective. After all, investing in trade capacity building and trade facilitation helps in reducing the costs of trading for business. After briefly outlining some of the main advantages of leveraging regional AfT strategies to reduce trade costs, this article draws attention to some important knowledge gaps in view of the achievement of inclusive sustainable development objectives.

Advantages

Some of the main advantages of regional approaches to AfT disbursement include those related to economies of scale and scope: the ability to leverage large scale investments in hard infrastructure, and benefit from economies of scope in relation to disbursement mechanisms at the regional level.

Regional forms of disbursement are often considered an effective vehicle for hard infrastructure investments. This is because of the public good element of such investments and resultant positive externalities which can operate as network effects; since the value of investments increases with the numbers using it, there may also be spatial redistributive effects. Because of these positive externalities, regional investments in infrastructure are important for small land-locked and small island economies.

Mechanisms of donor disbursements may entail the creation of a new regional architecture, which may be coterminous with existing regional integration apparatus. Such approaches should serve to reinforce rather than undermine existing regional integration processes. Of course, regional corridor approaches can also help to reduce transaction costs for donors through economies of scale and the pooling of scarce resources.

Although the economic rationale for regional AfT mechanisms to reduce trade costs is often clearly articulated, there are some conceptual difficulties given the very real forces of convergence and divergence which operate in view of economic geography considerations. These issues should not be shied away from, as in fact they assume a particular importance in view of the practical realities of AfT disbursement, including at the regional level.

Knowledge gaps

Although there is a somewhat elaborate system of reviewing and monitoring progress in meeting the AfT goals, including the Global Review progress, so far the level of AfT disbursed to Least Developed Countries (LDCs) and other small states has been somewhat underwhelming. Moreover, there remain challenges in terms of disentangling AfT disbursements from the implementation of trade agreements and new trade-related adjustment costs. There also remain some very real challenges in terms of developing appropriate monitoring and evaluation frameworks at the country level. These challenges are part of a much bigger problem: a lack of monitoring frameworks linked to trade impact assessments more broadly. Social accounting matrices underpinning trade impact assessments are absent in many developing countries and environmental indicators

WTO Fifth Global Aid for Trade Review:

The Fifth Global Review of Aid for Trade will be held at the WTO from 30 June to 2 July 2015. The theme of the Review is "Reducing Trade Costs for Inclusive, Sustainable Growth".

remain weakly defined. Because of these knowledge gaps, it is fair to say that challenges related to country-specific AfT evaluations may become amplified at the regional level.

Social accounting matrices underpinning trade impact assessments are absent in many developing countries and environmental indicators remain weakly defined.

In view of the absence of adequate baseline information, it is not too surprising there are few rigorous approaches towards assessing regional Aid for Trade (AfT) disbursements. Much less is known regarding the effectiveness of these disbursement mechanisms compared to other more direct forms, particularly in view of the achievement of sustainable inclusive growth objectives. The ability to monitor AfT disbursements in terms of their effectiveness can become complicated as regional rather than bilateral approaches become favoured by donors: country-level AfT evaluations are already rather tricky in view of different donor classifications. The adoption of regional approaches by donors may further weaken accountability linkages. That is, unless, carefully designed, anchored and managed by recipient regional institutions.

Dealing with donors

It is often the case that development partners utilise different methodologies and standards with respect to the implementation of specific measures. For example, as related to trade facilitation resources (a component of AfT), while the text of the WTO Trade Facilitation Agreement links implementation to the provision of adequate support for measures scheduled under Category C (implementation contingent on the delivery of technical assistance and support), the onus remains on developing countries, including Small States to request and negotiate the required support. This obviously takes time, costs, and may be a rather cumbersome procedure given the lack of standardisation of donor procedures (Fevrier, 2015 forthcoming). This may mean that a regional approach could become a necessary requirement in order to effectively access funds, particularly for capacity constrained small-states. This is obviously easier where such institutions and governance capabilities exist.

Governance capabilities

In a recent review of the challenges of Least Developed Countries (LDCs) such as Cambodia and Nepal in accessing Global Value Chains (GVCs), which have also utilised AfT to do so, it was argued that it is financially impossible for Nepal, a resource-poor country, to address all production-related infrastructure challenges simultaneously (Keane and Basnett, 2015).

In the case of Cambodia, a step change in its approach towards managing trade, and donors, has become apparent as simply responding to private sector demands in a facilitative way has begun to reach its limits.

The existence of effective dialogue mechanisms between private sector actors at the country-level is often taken as given by donors, but for many LDCs remains in more experimental and design phases.

Existing constraints to Nepal's industrial growth and ability to participate in regional value chains are not new. They remain unaddressed due to a failure to coordinate policy formulation and implementation. As a result, policies are partially implemented and public goods underprovided (Basnett et al. 2014). The need to develop government capabilities prior to the design of interventions is obviously clear in this instance.

Considering trade costs and capabilities

The process of trade-induced economic development is not necessarily inclusive and needs to be managed carefully. Over time, regions with better international market access may diverge away from others with less. With specific regards to analysis of South African economies, Moore (2015) finds that growth spillovers due to improvements in International Market Access (IMA) are not entirely inclusive: some regions are invariably better placed to take advantage of growth spillovers than others. Improvements in IMA may result from reductions in trade costs themselves, as well as through an increase in the responsiveness of trade to cost reductions.

Although some countries benefit from increases in growth in neighbouring countries, countries further away benefit less; this is simply because the increase in demand is lower, as trade costs are higher. Hence some regions may begin to converge, whilst those regions located further away will begin to diverge, given spatial spillover effects.

With specific regard to small island states (SIDS), Moore (2015) notes that since both output and population are clustered around airports this supports the importance of market access for an area's development. With specific regards to Grenada, Samoa and Fiji, he notes that whilst remote provinces are now growing rapidly, this largely reflects a catch-up process: both output and population density are far higher in capital provinces and those containing an airport.

It is recognised that the global trend toward supply chain rationalisation poses big challenges to smaller countries, and firms, which face substantial scale and purchasing power limitations

Conclusion

It is recognised that the global trend toward supply chain rationalisation poses big challenges to smaller countries, and firms, which face substantial scale and purchasing power limitations (Gereffi and Luo, 2014). Given the remoteness of many SIDS to the main global hubs of economic activity (US, EU, and Asia) an emphasis on trade costs alone is likely to be inadequate to induce global value chain (GVC) participation which advances sustainable inclusive growth objectives.

This therefore raises the question as to which trade costs - related to international, regional or domestic market access - matter most in view of inclusive, sustainable development objectives. Obviously in order to address these questions, knowledge and information gaps need to be addressed at the country and then subsequently regional level. Doing so may in turn bolster governance capabilities and the ability to really tackle inclusive sustainable development objectives.

The views expressed in this article are those of the author and do not necessarily represent those of the Commonwealth Secretariat.

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TRADE FACILITATION

Implementing the TFA: Political will is all it takes

Vinaye Ancharaz

While financing is a key element for the implementation of the WTO Trade Facilitation Agreement, the need for political will is even more crucial.

The Trade Facilitation Agreement (TFA) stands ready for implementation once it is ratified by two-thirds of WTO membership. A number of countries have already notified to the WTO their commitments by category. Category C commitments, specifically, are those that members self-designate to implement after a transition period and conditional on technical assistance.

The question of financing implementation was a major hurdle in the TFA negotiations, with some countries insisting that financing and technical assistance should be discussed prior to commitments being made. However, this article argues that financing is not the only element of implementation cost – and it may not be the most important factor either. Implementing the Agreement calls for political will before anything else.

The political economy of trade facilitation

The WTO TFA is limited by design to address 'soft' issues related to procedures and policies. This view of trade facilitation (TF) contrasts with the broader definition adopted by organisations like the World Bank, according to which TF is meant to tackle a wider set of constraints to trade and trade competitiveness, including 'hard' infrastructure.

Why then are developing countries so focused on 'hard' TF measures? Lack of information about the relative benefits of 'soft' TF reforms could be one reason. For example, it has been estimated that a dollar of Aid for Trade (AfT) spent on 'trade policy and regulation' has a higher trade-creation effect than similar investments in other areas of trade support, such as 'economic infrastructure' and 'trade development' (Helble, Mann and Wilson, 2009).

Another reason is the political-economy of 'soft' versus 'hard' TF. Policy and regulatory reforms are not only generally invisible to voters compared to physical infrastructure projects; they are also difficult to implement – for a number of reasons related to the political economy of reform. First, in the face of uncertainty about the distribution of costs and benefits, citizens may vote down a reform measure that otherwise promises gains in the aggregate. More importantly, the 'logic of collective action' suggests that those who gain from the status quo are better armed to oppose reform than those who purport to gain from reform are prepared to support it. The former are more effectively organised, have deeper pockets and a strong ally – the current regime, which may be inclined on paying back for electoral donations and other favors from the group with political gifts.

This story, mutatis mutandis, applies generally to any TF reform that would result in simplified procedures or greater transparency. Implementation of a single window, for example, can remove discretionary power from the hands of certain senior government officials, who may lobby for the measure not to be implemented, and be prepared to 'bribe' politicians, if needed. Similarly, expedited or transparent customs clearance may erode the rent base of customs officials, or result in job losses, triggering (aggressive) action against such measures.

Ahead of our discussion of the policy and implementation challenges of TF, this analysis suggests that the political will to embark on otherwise-'soft' TF reforms will be a critical determinant of success in implementing the WTO-TFA.

Trade Facilitation Agreement:

In December 2013, WTO members concluded negotiations on a Trade Facilitation Agreement at the Bali Ministerial Conference, as part of a wider "Bali Package".

Policy and implementation challenges

Policy-related challenges

The TFA will require new legislation, or the revision of existing laws in accordance with the national legislative process of each country (Moïsé, 2013). The most ambitious changes will likely relate to measures that currently do not exist in a country's legislative framework. This applies to all of the TFA's 12 main provisions and, in particular, to Articles I, III, IV, V, VI, VII, VIII and X.

Implementing these regulatory policy changes calls, first and foremost, for political commitment and prioritising of TF reforms. A distorted view of the TFA may lead governments to delay implementation and, even then, to implement the Agreement half-heartedly. Past this barrier, executing legislative changes requires specialised staff in government departments and the Parliament, and, by virtue of the cross-cutting nature of national laws, inter-agency cooperation to ensure consistency and coherence with domestic policies and regulations. Each of these requirements raises challenges of its own in developing countries.

Institutional challenges

Effective implementation of the TFA requires setting up new units with specialised functions (e.g. enquiry points, single windows, border agency cooperation) or new processes (e.g. advance rulings, pre-arrival processing, risk management). These measures are difficult to implement not only because they are costly but, fundamentally, because they do not fit into the existing institutional landscape of most LDCs. One may argue that, if a country could not set up the critical institutions needed to deliver relatively short-term gains such as enhanced competitiveness and growth, will it be willing to invest scarce resources into building institutions and processes that it is skeptical about? This perspective also suggests why the TF measures requiring new institutions or processes or legislation have little chance of being implemented without adequate aid and technical assistance.

Implementation challenges

Technical assistance and capacity building

Section II of the TFA links implementation of the Agreement to the capacity of a country to do so. The Agreement, further, calls for support to be provided to developing countries and LDCs to help them build the needed capacity. Following up on this provision, the WTO launched in July 2014 a TFA Facility (TFAF) designed to complement efforts by other agencies and donors in providing TF-related technical assistance and capacity-building support to countries in need. The Facility will help countries find donor support but will only provide such support itself when attempts to secure funding from other sources have proved unsuccessful. In such cases, the grants will be limited to soft infrastructure and to a maximum amount of US$200,000. Critics have noted however that "...when other sources fail to materialize, limited investments in soft infrastructure, largely in the form of international consultancies, would hardly lead to a gainful implementation of the Agreement" (Capaldo, 2014).

Infrastructure

Infrastructure, it is argued, is desirable but not critical to the implementation of the TFA. Thus, more powerful computers and scanners, better telephone lines and faster Internet connection make customs operations and control more effective and efficient. The fact that such infrastructure also supports trade facilitation is incidental, but welcome (Moisé, 2013). Consequently, the costs of providing hard infrastructure cannot be counted as direct costs of TF.

Evidence on TF-related challenges

Evidence on TF-related challenges can be drawn from two sources: national implementation plans for TF measures developed by UNCTAD and self-assessments of TF needs prepared by the WTO. A potentially third source – TF programs in regional trade arrangements (RTAs) – is not covered in this article.

Both assessments suggest that a wide range of measures are already being implemented, whether fully or partially. In the UNCTAD assessments, for example, the best performer implemented 29 of the 39 measures that were assessed. On the other hand, non-compliance rates were rather low, with the worst performer failing to implement a mere 10 of the measures. The fact remains that most of the poorest performers are LDCs.

Of the ten most frequent measures that member-countries reported as not compliant with, 5 are common to both the UNCTAD and the WTO assessments: Internet publication, single window, publication of average release times, enquiry points, and advance rulings. Other notable measures include disciplines on fees and charges, authorised operators, border agency cooperation, risk management and expedited shipments.

UNCTAD (2014) identifies six broad reasons for partial- or non-implementation of TF measures (see Table 1). The lack of an existing legal framework is identified as the main reason for less-than-full implementation of 29 measures – or 75 percent of the measures assessed. Lack of resources – where "resources" are defined to include technological and institutional capacity in addition to financial and human resources – is a key constraint in the case of 24 measures, followed closely by the lack of organisational framework (18 measures).

Table 1 – Main reasons for non-implementation of TF measures

Reason	Number of measures identifying this reason
Existing legal framework	29
Lack of resources	24
Lack of organizational framework	18
Lack of understanding/knowledge of measure	12
Lack of inter-agency cooperation	10
ICT/infrastructure issues	9
Other	5

Source: Author's calculations based on UNCTAD (2014)

The rather broad definition of "resources" precludes an appreciation of the distinct role of funding as a constraint. However, in separate analysis based on 10 countries that provided meaningful data, UNCTAD (2014) provides some insight into the cost of implementing a TF reform package, including the cost of specific measures. It turns out that the estimated cost of achieving full implementation is not so high after all, averaging US$7.6 million. But this number masks wide variation across countries. The average for the 5 lowest-cost countries is US$2 million, whereas the average for the upper-half is US$13.1 million. The top two most costly measures are single window and test procedures, with average costs of US$3.1 million and US$2.4 million, respectively.

In the WTO assessments, few countries – mainly LDCs – single out financial resources as a major constraint to TF implementation. On the other hand, a number of them suggest that infrastructure was a barrier to implementing TF measures such as single window and measures that required, or pertained to, enhanced customs performance and control.

Conclusion

Implementation of the TFA is already happening, and it started independently of a binding agreement. This article argues that the major difficulties that developing countries, and especially LDCs, face in implementing TF measures arise not on the ground, but well before implementation. They relate to a lack of political will to implement reforms in addition to – or in view of – the countries' lack of legislative and institutional capacities.

The financial constraint itself may not be as challenging as commonly thought. This, in addition to the fact that the funding available for TF is limited, suggests that member-countries should plough their own resources into the process as a self-interested act. If TF measures are properly sequenced, they could be self-financing.

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SOUTH SOUTH TRADE

Chinese Aid for Trade: What makes it so special?

Masato Hayashikawa

China has become a major player in providing Aid for Trade (AfT). However, Beijing's trade-related South-South cooperation is a mix of strengths and weaknesses. What makes China's approach distinctive, and what are the avenues for collaboration with the OECD?

Trade and investment are two central means by which China engages economically with developing countries. The country has become a significant provider of foreign assistance through South-South cooperation in Asia, Latin America, and especially in Africa. In many Least Developed Countries (LDCs), China is now the major source of aid, trade and investment. However, the various instruments stated to be part of the Chinese foreign assistance programme do not all qualify for reporting as Official Development Assistance (ODA) as defined by the Organisation for Economic Co-operation and Development (OECD).

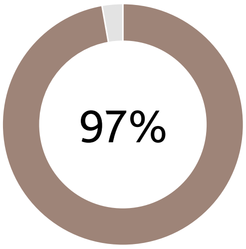
Engaging with China in a manner that contributes to international efforts to improve development effectiveness and achieve the Millennium Development Goals (MDGs) has been a preoccupation for the members of the OECD Development Assistance Committee (DAC). China's acceptance of the principles, commitments, and actions enshrined in the Busan Partnership for Effective Development Co-operation as the reference for South-South cooperation, albeit on a voluntary basis, is therefore a welcomed move. This global partnership launched in December 2011 provides the basis for promoting stronger engagement between China and DAC members in delivering both increased and improved development co-operation, including Aid for Trade (AfT). In fact, the new white paper on China's foreign aid issued in 2014 shows that a significant proportion of Chinese aid activities involves building, directly or indirectly, recipient countries' trade capacities.

The path of Chinese aid for trade

China estimates its foreign aid over 2010-2012 at around US$14.4 billion according to the 2014 white paper. Around half of that aid was directed towards economic development sectors. In general, China's development strategy is more integrated with trade and investment. In fact, in comparison with the practices in DAC members which are subject to certain aid disciplines, the distinction between aid, trade, and investment is often blurred. China's aid is often delivered as part of a larger package of investments and trade deals, blended with much larger non-concessional loans and export credits. Nonetheless, a significant proportion of China's aid activities – especially in transport, power, and telecommunications – appears to fall within the scope of AfT.

Trade-related assistance has long been an integral part of China's aid programme, and has increased significantly since the 2005 Hong Kong WTO Ministerial Conference – see "China and Aid for Trade" (MOFCOM, 2013). While no official figures of Chinese AfT exist, the OECD estimates that China, on average, disbursed US$743 million as AfT between 2006 and 2011. At the Fourth WTO Global Review of Aid for Trade in 2013, China stressed its commitment toward increasing investments overseas over the next five years which would create opportunities for other developing countries and LDCs in terms of poverty reduction and employment.

According to a survey conducted by the OECD and the WTO, China's trade-related assistance comprises three elements: 1) Duty-free and quota-free market access to products from LDCs; 2) largescale infrastructure projects (e.g. roads, ports, and factories) to address supply-side constraints; and 3) capacity development training programmes and sharing of Chinese knowledge and experience in economic and trade development.



China announced recently 97 percent duty free quota free market access for LDCs. (United Nations)

Concessional loans are mainly used to finance projects that may qualify as AfT– although the primary purpose of these loans is to provide capital to Chinese exports. Concessional loans are the growing source of Chinese aid. According to the 2014 white paper, China provided almost US$ 7.3 billion in concessional loans just between 2010 and 2012, accounting for 56 percent of total foreign aid.

Complete projects (i.e. completed mainly by Chinese engineers and labour and delivered as finished products to the recipient country) are another major form of China's aid, financed with either grants or interest-free loans. By the end of 2009, China had completed more than 2'000 complete projects in various sectors, such as transport, power supply, telecommunications, agriculture and industry. Between 2010 and 2012, China completed an additional 580 of such projects in 80 countries. Though China does not appear to have a specific regional approach to its South-South cooperation, more than half of its foreign aid was directed to Africa, underscoring Beijing's interest in deepening economic and trade ties with the continent. China's direct investment in Africa is fast growing, from US$1.44 billion in 2009 to US$2.52 billion in 2012 (PRC, 2013). At the Fifth Forum on China-Africa Cooperation (FOCAC) Ministerial Conference in Beijing in 2012, China offered US$ 20 billion in preferential loans to African countries mainly for infrastructure construction, doubling the amount it offered at the FOCAC in 2009. This pledge was boosted by another US$10 billion this year. In 2012, China also established the transnational and trans-regional infrastructure construction cooperation partnership with African countries that will help to bring more investment from Chinese companies to the continent.

Harmonising Chinese Aid for Trade

AfT is about enabling developing countries to use trade more effectively to promote growth and poverty reduction. It has become an integral part of the broader aid effectiveness agenda. Strong country ownership, coordination, alignment, and harmonisation are particularly important for AfT effectiveness.

In practice this means that developing countries, on the one hand, need to integrate trade objectives into their development strategies and take the lead in their implementation. External partners, on the other hand, are expected to align their assistance with these strategies and priorities and use local systems to the largest extent possible. Furthermore, all AfT activities should be delivered in a harmonised and transparent manner. In particular, harmonisation is a key component of the aid effectiveness agenda, because it ensures that external partners coordinate their efforts to avoid duplication of support, which normally tends to result in lower marginal productivity of aid resources. Finally, managing and being accountable for results should ensure effective delivery of AfT.

Co-financing is often used as a way to promote harmonisation of multiple external interventions to overcome a common development obstacle. The regional and sub-regional transport corridor projects (e.g. the Greater Mekong Sub-region corridor projects in Southeast Asia) are good examples, which typically involve multiple players specialising in different aspects but working together toward a larger whole. A number of countries, including China, also channel AfT contributions through multilateral programmes (the Enhanced Integrated Framework) or multidonor trust funds (WTO Global Trust Fund) as part of their efforts toward greater harmonisation.

China has mostly provided foreign assistance through bilateral channels and has tended to stay away from mechanisms or instruments set up in many recipient countries to coordinate and harmonise aid activities. Nevertheless, recent years have witnessed an increasing readiness by China to engage with others on issues related to foreign aid and global development challenges. China underlines in the new white paper that it stands ready to "work with the international community to share opportunities, meet challenges, strive to realise the world's dream of lasting peace and common prosperity, and make greater contribution to the development of mankind."

China has become more active in recent years in the international dialogue on aid effectiveness and a Chinese delegation attended the Third High Level Forum on Aid

Effectiveness held in Accra, Ghana in 2008. China's perspectives were taken up in the Accra Agenda for Action, which recognised South-South cooperation as a valuable complement to North-South cooperation. In 2011, China participated in the Fourth High Level Forum on Aid Effectiveness held in Busan and adopted the outcome document. With an enhanced ability to participate in globally shared efforts, China increasingly works with other development partners, particularly with multilateral organizations. The new white paper highlights China's exchanges with Australia, Switzerland, the United Kingdom and the OECD.

For example, China co-financed jointly with Thailand and the Asian Development Bank the construction of the Laotian section of the Kunming-Bangkok Expressway under the framework of the Greater Mekong Sub-region programme. China is also an active contributor to the Aid for Trade initiative, establishing in 2011 the China Programme at the WTO for supporting the LDCs in their accession to the multilateral trade organisation. China has so far contributed US$ 1.2 million to the programme. More recently, China has set up a US$ 2-billion investment fund, called the Africa Growing Together Fund, inside the African Development Bank to co-finance infrastructure and industrial development projects in Africa.

Nevertheless, some commentators conclude that the primary rationale for Chinese aid is the advancement of strategic economic interests. For example, in Cambodia (a major political ally), China's assistance is mostly directed to economic infrastructure projects, i.e. transportation, power, and telecommunications. A study by Sok Siphana and Associates (2011) reports that, although it does not participate in coordination meetings, China does adhere to the basic tenets of the Paris Declaration, namely ownership, accountability, harmonisation, and alignment. Moreover, the country applies few conditions for aid compared with DAC members operating in Cambodia but all of China's funded projects have been implemented through a parallel implementation unit that is not integrated into the national system.

Finding common ground

A report by the China-DAC Study Group on development partnerships concludes that comparative advantages and complementarities of development partners should constitute a coherent overall effort and requires ongoing dialogue, rather than detailed coordination, at the international level. Indeed, the DAC's current relationship with China is rooted in the realisation that 'common interests' rather than 'common values' are what they share in promoting global development. China and many DAC members also signed the G20 Development Principles agreed at the Seoul Summit in November 2010, which commit all actors to coordinate their different but complementary development efforts.

Indeed, China acknowledged in the 2011 white paper that the quality of its foreign aid programme needs to improve and the government considers factors such as country ownership with mutual respect, timebound delivery with tangible results, and recipients' satisfaction as fundamental for effective aid. Therefore, ownership, capacity development, and mutual learning are among those shared concepts that provide a basis for complementary efforts by China, DAC members, and other development partners.

Conclusion

One characteristic of the AfT initiative is its emphasis on South-South trade-related cooperation. The Busan outcome document, which also recognises the importance of AfT as an engine of sustainable development, now provides the common framework to strengthen the alliance between the providers of South-South cooperation and the DAC in delivering increased and improved AfT. This global partnership can be used as a platform for active knowledge-sharing, including lessons from the success of South-South trade-related cooperation.

The views expressed herein are those of the author and do not reflect the views of the OECD or its member countries.

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STRUCTURAL TRANSFORMATION

Has Aid for Trade helped African economies achieve structural transformation?

Xavier Cirera and L. Alan Winters

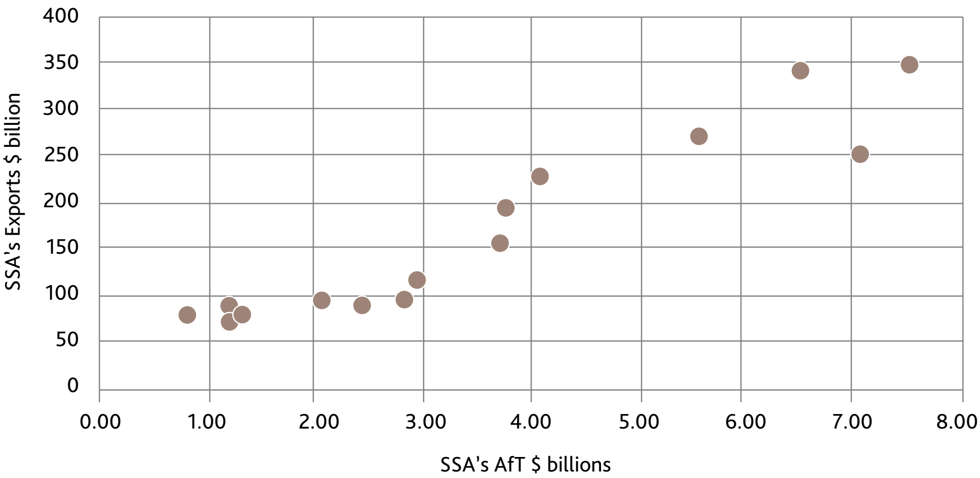
Have Aid for Trade programmes helped African economies achieve structural change? This article finds that some change has occurred in patterns of exports though it cannot be credibly attributed to Aid for Trade, nor are there signs that AfT has helped switch employment from agriculture to industry.

The volume of Aid for Trade has increased more than tenfold in the past twenty years with the objective of accelerating economic development in developing countries. Structural change is a necessary part, if not the core mechanism, of development. Hence we ask: 'Has Aid for Trade (AfT) helped African economies achieve structural transformation?' Our conclusion is 'unfortunately, not as far as we can see.

Structural change entails the reallocation of employment from low productivity "traditional" sectors, such as agriculture, to high productivity "modern" sectors, such as manufacturing and tradable services. Such reallocation increases average labour productivity and hence average incomes. International trade plays a key role in structural change as it allows countries to transform their production structures towards products based on their comparative advantage, without having to effect an equal change in consumption (as would be necessary if there were no trade). Many Sub-Saharan African (SSA) countries' exports are concentrated in minerals; mining is a high productivity activity but it typically employs very few people. Since mineral exports tend to discourage other exports because they appreciate the exchange rate, a focus on mining tends to reduce average economy-wide productivity and discourage positive structural change.

Aid for Trade (AfT) is development assistance aimed explicitly at improving conditions for international trade – for example, by improving infrastructure and trade policy or by helping producers to meet exporting standards. If it were effective, we might hope that it would foster income-increasing structural change. Because we have such weak data on labour productivity and the sectoral composition of employment, we adopted a two-part research strategy: first, we asked if AfT affected SSA's costs of doing international trade and its volume of trade, and second, we ask whether AfT is associated with structural change in employment. For sure, African exports have risen strongly since AfT was introduced – see figure 1. But correlation is not causation: we try to get behind these data and ask whether the AfT actually caused the export boom.

Figure 1: Correlation but not Causation



US$7.5 billion

Disbursements of AfT to SSA countries have grown from US$0.78 billion in 1995 to US$7.5 billion in 2010. (OECD-DAC database)

The evolution of Sub-Saharan Africa's trade 1995-2010

Trade patterns have changed, often for the better

According to the OECD-DAC database, disbursements of AfT to SSA countries have grown from US$0.78 billion in 1995 to US$7.5 billion in 2010. The flows increased strongly for nearly all African countries, the main recipient being Ethiopia, which absorbed around 9 percent of flows to the region. Decomposing AfT by sector, around 60 percent was concentrated on transport and storage, (35 percent, with 27 percent to road transport only) and agriculture (24 percent), followed by energy (13 percent) and the financial sector (6 percent).

All we have to go on is the observation that while AfT increased, trade patterns diversified; this does not prove causation.

As a first descriptive exercise, we looked at the structure of SSA countries' exports in 1995-2000 and in 2005-2010, disaggregating into three broad sectors: agriculture, extractive industries and manufacturing/industry. In 15 out of the 44 countries, the largest sector changed between these two periods, with 9 of these cases changing from agriculture to industry, albeit often by not very much. The largest changes, however, were evident in the three countries that had major resource discoveries over this period, which pushed exports from the extraction industries into first place.

In a second exercise, we considered exports disaggregated by the approximately five thousand products distinguished in the Harmonised System Classification. We asked whether changes in trade patterns at this level tended to reinforce comparative advantage or work against it. Measuring comparative advantage with Balassa's Revealed Comparative Advantage (RCA - the ratio of the share of a product in a country's exports to the share of that product in world exports, so that a value exceeding one indicates comparative advantage), one very clear result emerged. In every country except one, the products for which the country had a revealed comparative advantage in 1995-2000 showed declines in RCA by 2005-2010 more often than increases. This might suggest that, on average, SSA countries were shifting their exports away from traditional products, exactly the sort of export diversification that AfT hoped to achieve.

Unfortunately, we cannot confidently attribute these shifts to AfT. We have no idea which sectors AfT affected (and neither in many cases did policy makers, as AfT was used to make changes in conditions that pertained to all products). Hence, all we have to go on is the observation that while AfT increased, trade patterns diversified; this does not prove causation.

Impact of AFT on trade flows and trade costs

AfT flows do not appear to explain changes in trade costs and in trade flows

AfT boosts international trade by reducing trade costs. With a suitable set of assumptions one can infer trade costs directly from actual trade: you start by working out what the level of trade between each pair of countries would be if there were no trade costs; you then ask what costs would need to be imposed on trade in order to reduce the volume from the predicted levels to the levels actually observed. We did this and found no sign that the changes in trade costs over 1995-2010 implied by this method are related to AfT. In a more direct approach we also used data on (a) how long it takes to export and import goods from each SSA country, and (b) the cost of exporting a 20' container from each country. Measured AfT flows have virtually no explanatory power for the evolution of either of these measures of trade costs. The only exception is a hint that AfT devoted to policy development might help reduce the time needed to clear customs (measure a).

We also looked for the effects of AfT directly in international trade data. We asked whether the evolution of SSA countries' exports and imports were related to their receipts of AfT. Again, AfT appeared to play no significant role in shaping either SSA countries' aggregate or bilateral trade levels over 1995-2010.

...and have no discernible impact on the structure of the labour force
Our final exercise was to ask whether countries' allocations of labour between agriculture and non-agriculture could be related to AfT. We calculated the labour force splits as averages over successive three-year periods between 1995 and 2010, although as we explain in Cirera and Winters (2014), deriving data as simple as those required rather heroic assumptions. Perhaps unsurprisingly, given the above, we also find no relationship running from AfT flows to the allocation of SSA countries' labour forces.

Structural change is not an explicit objective of AfT.

Conclusion
It would be easy to conclude from the above that AfT had no effect on structural change or even on international trade, and hence, has all been a waste. While our analysis clearly challenges simple-minded assertions that, 'of course, investing in reducing trade costs must be beneficial', concluding that AfT had no benefit is premature.

First, the challenges of constructing the data necessary to make these tests are formidable, not least in quantifying AfT itself. It is the donors who attach the moniker 'Aid for Trade' to a flow, rather than the recipients who could do so in the light of what AfT is actually spent on.

Second, there is great heterogeneity across countries in terms of trade, comparative advantage and structural change. Our search for general effects is therefore competing with a plethora of country-specific factors and circumstances; our inability to find such results may just reflect the low power of our tests rather than the absence of effect. It is possible, for example, that while some AfT has diversified international trade, commodity price increases have offset the potentially positive impact of this on overall economic structure

Third, structural change is not an explicit objective of AfT. Indeed, given policy-makers' and donors' imperatives not to be seen as making mistakes, AfT may be devoted to helping existing exporters – i.e. reinforcing existing patterns of trade and production – rather than stimulating new ones. Such an outcome is reinforced by the political power of incumbent exporters who will lobby for AfT to be spent on things that benefit them.

We have two recommendations from this research: first, we need better data and more analysis if we are to get more definitive answers on the effectiveness of AfT and particularly better impact evaluations where specific and focused interventions are supported; second, if we feel that AfT should be oriented towards structural change, programmes should be chosen and managed with that objective in mind. However, while those governments that are intent on development should make more space for structural change, AfT is not necessarily an ideal tool for doing so. Working to reduce the frictions on countries' current baskets of exports and imports can be useful as well.

This article is based on a longer paper Cirera X and L A Winters (2014) Aid for Trade and Structural Transformation in Sub-Saharan Africa, Commonwealth Trade Policy Discussion Papers, No 2015/01, London, Commonwealth Secretariat.

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AID EFFECTIVENESS

Assessing the effectiveness of Aid for Trade: Lessons from the ground

Vinaye Ancharaz, Paolo Ghisu and Christophe Bellmann

Case studies conducted on the ground in eight developing countries suggest that Aid for Trade is effective when the right conditions prevail. However, these conditions are often absent. The Aid for Trade initiative should refocus on building the institutional mechanisms that are critical to the effective delivery of aid.

A number of developments have made evaluation more urgent than ever before. First, donors are facing a tight budget situation at home, forcing them to reassess their external aid policy. OECD (Organisation for Economic Cooperation and Development) data shows that, while Aid-for-Trade (AfT) flows at constant 2012 prices have increased over the years, the gap between commitment and disbursement has grown wider after the financial crisis in 2008. Second, the landscape for aid has changed dramatically with the rise of emerging economies, whose AfT activities, while significant, remain largely outside of the OECD Development Assistance Committee (DAC) framework. Finally, the demand for greater transparency and accountability in developing countries has increased with the return of democracy in many countries and aided by rapid and efficient information exchange.

Perhaps more than ever before, there is a need to demonstrate to donors that AfT is value for money and that their disbursements help poor countries harness the benefits of trade as an engine of development.

This article examines the conditions that make AfT effective by looking at country-specific factors based on the direct experience with AfT of eight developing countries, including four least developed countries (Bangladesh, Cambodia, Malawi, Nepal), three lower-middle income countries (Ghana, Guatemala, the Philippines) and one upper-middle income country (Peru). Assessments of the AfT initiative have been undertaken in these countries since mid-2010, using a methodology that the ICTSD has developed jointly with the South Asia Watch on Trade, Economics and Environment (SAWTEE), an NGO based in Nepal.

Looking at the unique circumstances of countries

A variety of methods have been proposed to evaluate AfT, and these have generated evidence of various kinds. The value of the ICTSD-SAWTEE methodology lies in its simplicity and intellectual appeal. It is largely based on the Paris principles of aid effectiveness, including:

- local ownership of AfT projects – the degree of trade mainstreaming and the extent of stakeholder engagement in the design and implementation of projects;
- absorptive capacity – the institutions and human capability needed to effectively manage AfT flows and AfT projects; and
- donor responses to recipient's needs – alignment of donors' objectives with the recipient's priorities and the extent to which donors use in-country systems for aid delivery.

However, the methodology goes beyond the Paris Declaration and includes other quantitative and qualitative benchmarks. Specifically, it argues that the additionality and predictability of AfT funds are critical to aid effectiveness and assesses these by tracking AfT flows. Moreover, the methodology considers the extent to which AfT is green, looking

The article is based on a longer paper and eight country studies available on ICTSD's website: www.ictsd.org

at possible inter-linkages between AfT projects and environmental and climate change financing. Finally, it proposes a framework to assess the impact of AfT projects at the macro level and in a particular sector.

What do country studies tell us about AfT effectiveness?
On the whole, it seems that the AfT initiative has fallen short of its objectives in the countries studied. Focusing on the indicators that could be marked on a Likert-type scale – that is, the 8 indicators from additionality to donor coordination proposed by our methodology –, we can rank the constraints to aid effectiveness in decreasing order of importance as follows:

- Lack of absorptive capacity;
- Limited use of country systems (or inefficient/unreliable systems);
- Low degree of trade mainstreaming;
- Lack of stakeholders' coordination/involvement;
- No additionality of AfT funding;
- Low predictability of AfT disbursements;
- Donors' objectives misaligned with host-country priorities;
- Lack of donor coordination.

Overall, our findings are not radically different from what has emerged from the more general aid effectiveness debate. In that respect, AfT is no exception and might actually have done slightly better than other areas of ODA. In short, AfT is likely to be effective when the host country has the appropriate institutions and human resources to utilize aid; when the aid program enjoys broad local ownership, including political ownership, and when donor objectives are aligned with local priorities. To these, we shall add that specifically for AfT flows it is crucial that these are additional, and not just a diversion from existing ODA resources. Indeed, our analysis points to a strong correlation both between additionality and predictability of AfT funds, and between additionality and the overall effectiveness of AfT.

An interesting observation from the above ranking is that the top four constraints are specific to the AfT recipient, and not specific to the AfT initiative itself. In other words, there is nothing inherently wrong with the way AfT is being conducted, and so elaborate studies aimed at assessing AfT effectiveness may be looking at the wrong problem. A corollary is that the biggest returns to effectiveness are to be derived from tackling local constraints.

A surprising finding from the case studies is that there is an abject lack of awareness about AfT and AfT projects, even in implementing agencies. This may be partly due to definitional problems as well as poor information flow and lack of coordination among line ministries and implementing agencies.

Insights from the experiences of Malawi and Ghana can help complement the above summary of findings. In Malawi, a fragmented approach to aid is largely to blame for the country's failure to tackle its export constraints in a comprehensive manner. Indeed, a lack of local ownership, weak absorptive capacity, and poor alignment and coordination have meant that while overall exports were growing, the relationship with AfT remained weak. In particular, a fundamental disconnect between AfT and the private sector in most areas of economic activity was manifested not only in Malawi, but also in Ghana, Bangladesh and Guatemala.

Ghana has done slightly better than Malawi in many respects. For instance, the Northern Rural Growth Program, with projects financed by a mix of donors, has generated some modest gains. The programme – aimed at addressing some of Ghana's key national development priorities with a focus on improving income through production in the country's poorest regions – has benefited from a highly participatory, consultative and demand-driven process, involving the private sector, civil society, and local and regional authorities. However, due to lack of absorptive capacity, the programme has not been effective in achieving the majority of its short-term targets and is not likely to meet its medium- and long-term objectives. What is more, the AfT programme itself lacks a substantive focus on tackling existing capacity constraints in Ghana. Unless this shortcoming is addressed, the programme will continue to show poor results.

The way forward

The evidence gathered from the eight countries has several implications for the Aid for Trade initiative. First, AfT projects must address local capacity constraints and institutional weaknesses in their very design, and, more generally, the initiative should tackle problems related to additionality and misalignment. As the donor community calls for AfT to deliver results, it must share responsibility with partner countries to see if AfT brings value for money.

In this respect, the growing focus on AfT project evaluation may be counterproductive, as it can divert dwindling resources from more pressing needs. In most of the countries considered in the study, and especially in the LDCs, the conditions that make AfT effective are often absent. Significantly, most of these conditions are host country-specific and are independent of the way the AfT business is conducted. It might therefore be more efficient for the donor community to devote greater effort to tackling the key determinants of success of AfT – notably, local capacity constraints and supply-side constraints – rather than investing more resources in AfT evaluations.

As donors come under a tightening budget constraint, there is a growing need to strengthen recipient countries' ability to effectively manage AfT resources. Enhancing partners' capacity to benefit from AfT requires the establishment of effective institutional arrangements and mechanisms at the domestic level for stakeholder participation and interagency coordination, supported by appropriate legal frameworks. Yet, most countries have not elaborated a national definition of AfT nor have they established clear AfT strategies, incorporating results-based management practices, to allocate resources and assess impacts. Supporting them in this endeavor might have more impact than simply trying to improve the design and delivery of individual AfT projects.

Another problem emerging from the country studies is the limited coordination among relevant ministries and government agencies in the design and implementation of AfT programs. The private sector is generally poorly involved in the AfT process and country donor agencies do not always coordinate their activities among themselves and with national stakeholders. All these factors tend to affect local ownership, aid effectiveness and, ultimately, development outcomes regardless of the quality of the AfT projects.

Overcoming the constraints that have limited AfT effectiveness is not an impossible task. Indeed, the eight countries have tried to address some of them with different degrees of success. There is a growing wealth of experience and creative solutions among recipient countries, particularly those who have been successful at making the most out of limited aid resources. As we move forward, identifying the best practices in managing AfT based on experiences so far, and sharing them among recipient countries might be one of the most efficient ways to improve the use of AfT resources and ultimately increase development impacts. Such South-South exchange of experiences should become part of a continuous learning process involving not only recipient countries but also traditional and emerging donors.

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AID FOR TRADE

Evaluating Aid for Trade on the ground: Lessons from Bangladesh

Fahmida Khatun

How can Aid for Trade be made more effective in helping Bangladesh overcome its trade constraints?

As a least developed country (LDC), even though Bangladesh receives special and differential treatment and preferential access to the markets of developed and developing countries, these preferences have only provided partial benefits because of several supply-side constraints. The country is yet to make meaningful headway towards export diversification given the concentration of its exports within the boundary of apparel products. The country has received support for capacity building in the area of trade through various special programmes such as the Enhanced Integrated Framework (EIF) and the Aid for Trade (AfT) initiative led by the WTO.

A study was undertaken by ICTSD to examine the effectiveness of AfT in Bangladesh. It makes its assessment on the basis of a common and independent methodology developed by the ICTSD and SAWTEE.

Key findings from the AfT study

Trajectory of AfT: The analysis based on the Organisation for Economic Co-operation and Development (OECD) database indicates that the disbursement of AfT has not increased during the period 2006–11 compared to 2002–05, except for only AfT for trade policy and regulation. Disbursement improved substantially since 2006 (e.g. from US$ 276.8 million in 2006 to US$ 471 million in 2011 and to US$ 925.3 million in 2012); however, the gap between commitment and disbursement has widened in recent years. Even though the share of AfT in the form of grants has increased slightly, most trade-related assistance is still provided as loans.

There has been a minor change in the structure of disbursements over time. The share of economic infrastructure in total AfT rose from 57 percent during 2002-05 to 64 percent during 2006–11. While the share of building productive capacity declined from 43 percent to 33 percent over the same period, trade policies and regulations went from nearly zero to three percent of AfT in the base period.

Despite increase in the total volume of AfT since 2002, the yearly average growth rate during 2006–11 is negative, as opposed to high positive growth at the global level. At the current trend of AfT flows, it will be difficult for the country's AfT to have a significant impact on achieving national development goals.

Ownership of trade-related projects is yet to be fully established: AfT projects are closely linked to the objectives of national development policies, but Bangladesh's effort to mainstream AfT into these policies remains limited.

Alignment of overall ODA has improved: A positive feature of Official Development Assistance (ODA) flows to Bangladesh in the recent past is that they have been aligned with national priorities. There is also more untied aid. However, stakeholders consider that donors continue to impose too many conditions and restrictions and view trade-related projects as mostly supply driven.

Donor coordination is moving slowly: Donor coordination has improved through a joint cooperation strategy between the government and donors, which aims to improve the aid relationship in terms of discussing and planning projects together. The donor-government platforms Local Consultative group (LCG) and Joint Cooperation Strategy (JCS) help foster transparency and prevent the duplication of projects. However, mutual accountability by way of involving all stakeholders in the country has yet to be established.

Accessing resources from the South looks grim: Bangladesh has not been able to receive any significant amounts of aid from India and China. ODA disbursement from these two emerging economies has only been around one to four percent of total ODA to Bangladesh since its independence in 1972 (GoB 2012). Much of the ODA support from China and India comes in the form of supply credits and is used to finance infrastructure projects.

Absorptive capacity is low: A large amount of aid remains in the pipeline and is not disbursed, since formalities and preparations for the initiation of projects cannot be completed in time. The lack of an efficient administrative mechanism, low human capacity, political instability, and stringent donor requirements are the main reasons for this.

AfT projects were not procedurally linked to climate change adaptation and mitigation measures: Given the vulnerability of Bangladesh to climate change, the government has undertaken several projects to adapt to its impact. However, AfT projects have not been linked to adaptation and mitigation measures to address the adverse effects of climate change.

Impact at the macro and micro levels: Existing data did not reveal any clear relationship between AfT and export growth in Bangladesh at the macro level. High export growth in Bangladesh is primarily attributable to various favourable government policies since the 1980s in addition to a vibrant private sector. At the micro level, however, the ready-made garments (RMG) sector is found to have benefited from AfT. This is because AfT in the RMG sector has addressed some of the critical areas of the industry such as capacity building for workers and the fulfilment of compliance requirements, which in turn has helped improve the sector's competitiveness.

Policy recommendations

There should be clear guidelines and a set of criteria from the Ministry of Commerce and the Economic Relations Division of the Ministry of Finance for calculating and analysing the actual AfT flows to the country. The formation of an AfT cell within the Ministry of Finance would be useful in this regard.

Trade should be mainstreamed in all relevant ministries. The strengthening of inter-ministerial and inter-agency coordination for the implementation and monitoring of AfT projects is essential. Awareness on AfT should also be raised among ministries, the private sector and the various other stakeholders involved so that they can monitor the AfT projects for ensuring their accountability and transparency.

AfT flows should be increased in the area of economic infrastructure for a more substantial impact on economic growth and poverty eradication. AfT disbursement has to increase steadily and significantly to have an impact on export promotion in the long run.

To establish shared ownership of projects, all relevant stakeholders including the private sector, experts and members of non-governmental organisations should be involved from the beginning of the project all the way to the implementation phase.

The absorptive capacity of ministries and departments should be improved by enhancing the skills of relevant officials. The private sector should also have the capacity to carry out analyses on trade policies as well as to design and implement projects.

This article is based on Khatun, F., Hossain, S. and Dewan, N. (2013) Evaluating Aid for Trade on the Ground: Lessons from Bangladesh, Issue Paper No. 30. International Centre for Trade and Sustainable Development (ICTSD).

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AID FOR TRADE

The impact of the Aid for Trade initiative in Ghana

Sarah - Jane Danchie

How effective has the Aid for Trade Initiative been in Ghana and what are the limiting factors in its implementation?

Ghana was among the top ten recipients of both Aid for Trade (AfT) commitments to Africa in the last decade (US$616 million since AfT started). At the regional level, Ghana received 20 percent, the most, of total commitments to the Economic Community of West African States (ECOWAS).

Between 2002 and 2010, Ghana's top five donors of AfT included the US (38.2 percent), Canada (26.2 percent), Germany (23.2 percent), Japan (22.1 percent), Denmark (19.4 percent), the UK (14.6 percent), France (8.1 percent), Netherlands (6.9 percent) Switzerland (6.0 percent) and Spain (3.6 percent).

Since the AfT initiative started, although commitments of aid to economic infrastructure have constituted the majority (55 percent), actual disbursement is often particularly weak. Some stakeholders observe that this has primarily to do with the difficulties that the Government of Ghana (GoG) faces in fulfilling its counterpart obligations.

A study was undertaken by ICTSD to examine the effectiveness of AfT in Ghana. It makes its assessment on the basis of a common and independent methodology developed by the ICTSD and South Asia Watch on Trade, Economics and Environment (SAWTEE).

Key findings from the AfT study

Trajectory of AfT: Both the Organisation for Economic Co-operation and Development (OECD) and national-level data show that overall AfT funds in Ghana do not constitute new financing. Even though AfT has increased in recent years, Official Development Assistance (ODA) in other sectors has decreased. The data thus seem to suggest that AfT has crowded out aid to other sectors, such as health and education.

The results indicate that AfT, especially AfT for infrastructure, is becoming less predictable than aid to other sectors, i.e. donor AfT pledges, especially funding for economic infrastructure, are often not realised.

OECD data reveal that AfT funds are more often in the form of grants and are becoming less debt creating, while the national data and stakeholder perceptions indicate the opposite. More alarmingly, the national data demonstrate that there was a reversal in the declining trend of Ghana's public debt ratio when the AfT initiative started, and this was caused mainly by AfT loans.

There is ownership in theory but not in practice: Even though trade is theoretically mainstreamed in the national development agenda and sectoral policies, the technical implementation of these policies has been weak. The high-level coordination and collaboration described in the various trade-related policies or strategies are limited on the ground. Uniquely, the trade sector has enjoyed significant policy consistency and institutional and human capacity development; however, these gains have had limited sustainability. Where there has been more planning and a stronger private sector element, sustainability has been greater.

Room for improvement in the alignment of financial support with the country's main trade development strategy: It appears that donor programmes are well aligned with Ghana's development strategies and trade priorities; however, greater efforts for alignment under the trade agenda should be consolidated with efforts to align financial support with the country private sector development strategy (PSDS). While there is an increasing trend in budget support, the majority of ODA is still provided through non-budget support and project aid. Despite the results of another independent assessment that concluded that donors provide untied aid, stakeholders largely feel that aid is still tied in favour of development partners (DPs).

Intra-donor coordination is weak: Although donors are increasingly using a variety of effective coordination mechanisms, the assessment also highlighted that in fact greater intra-donor coordination is needed between donor offices based in Ghana and those in headquarters.

South-South cooperation: Non-traditional AfT funds (for example from China, Brazil etc) appear to be increasingly important.

Limitations in absorptive capacities: Despite limited national data indicating a high absorptive capacity of AfT projects/programmes, there is much more evidence to suggest that the utilization rate of AfT funding is low i.e. much of the funding is not used.

Environmental sustainability in AfT is ineffective and not proactively sought: The incorporation of environmental issues in AfT projects is widespread; however, it appears to be ineffective, as it is done only as a routine requirement by donors and on a broad basis, i.e. not specific to AfT projects. Increased knowledge and sensitization on specific financing opportunities for AfT projects are needed. Furthermore, the enforcement and implementation of environmental issues ought to be strengthened.

Policy recommendations

Government: The Ministry of Trade and Industry (MOTI) and the Ministry of Finance and Economic Planning (MOFEP) need to play a much stronger role in the overall national coordination of the AfT process. This would ensure greater synergy among the identification of trade development needs, the mobilizing of resources as well as the monitoring and evaluation of the impact of resources. GoG should engage the diverse stakeholders in the early stages of the design of projects before negotiating with donors on AfT. The government should work with DPs to identify and remove the bottlenecks, and to understand the reasons why donors do not use national procurement and public financial management systems. Moreover, GoG should proactively source and leverage financial opportunities to address much of the human and institutional capacity constraints, all the while ensuring environmental sustainability of projects.

Donors: To improve donor coordination in the trade sector and alignment with Ghana's trade development strategy, DPs should move towards providing support through the Pooled Funding arrangement established by GoG as the proposed Sector Wide Approach (SWAP). Greater coordination between donor offices based in Ghana and DP headquarters is needed as well as, where possible, greater decentralization of power to allow for a smoother implementation of projects. Donors should seek to use national resources and expertise in the first instance rather than as a last resort. Where there is a lack of national capacity, donors should proactively seek to build it and to transfer knowledge and capacity in the medium- to long-term, in both public and non-state sectors (private and civil society).

Private sector and Civil Society: The private sector should initiate a closer working relationship with GoG to develop public-private partnership proposals for the implementation of AfT projects and seek to build capacity to take over projects once donor funding has finished. The constructive engagement of both the private sector and civil society is critical to undertake more research geared towards informed and effective inputs into all stages of the AfT process. Private sector and civil society should also play a more active role in the monitoring and evaluation of projects to ensure that resources are used appropriately to achieve the objectives, and that both GoG and DPs honor their roles and responsibilities.

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AGOA

US Senate votes AGOA re-authorisation for next 10 years; South Africa subject to review

The US Senate passed legislation on 14 May to extend duty-free access to the US for Sub-Saharan African countries through the African Growth and Opportunity Act (AGOA) for another decade.

The US Senate passed legislation on 14 May to extend duty-free access to the US for Sub-Saharan African countries through the African Growth and Opportunity Act (AGOA) for another decade.

"I am very glad that we have found a way to get them to this point," said US Senate Finance Committee Chairman Orrin Hatch following the vote.

AGOA expands upon the US Generalized System of Preferences (GSP), a set of formal exceptions from the WTO's most-favoured nation (MFN) principle, which allows developed countries to offer developing countries preferential treatment on specific goods. The current version of AGOA is due to expire on 30 September, unless re-authorised beforehand. The bill, passed by a margin of 97 votes to 1, includes the renewal of several trade preference programmes: the GSP, expired since July 2013, will now be renewed through 31 December 2017; AGOA, including the third-country fabric (TCF) provision and preferential duty treatment programme for Haiti, will be extended until 30 September 2025. (See Bridges Africa, 27 April 2015)

The legislation will still require approval by the House of Representatives and President Barack Obama before it can become law.

New features

The general rule of origin under the new AGOA retains a value-added requirement of 35 percent. This provision entails that products may integrate materials sourced from outside countries – in other words, non-AGOA-beneficiaries – provided that the "direct costs of processing" undertaken in one or more designated AGOA-beneficiary countries equal at least 35 percent of the product's appraised value.

While those lawmakers who crafted the legislation argue that such a provision is likely to increase the utilisation rate of the scheme and promote greater regional integration, some experts contend, however, that such a requirement is still likely to be difficult for small developing countries to meet.

The new version also includes language on the promotion of the role of women in social and economic development in sub-Saharan Africa as part of the eligibility criteria of the scheme.

The bill gives the US President the authority to designate "certain cotton articles" as eligible articles for least developed countries under the GSP programme. A Senate Finance Committee report associated with the legislation links this undertaking to the WTO implementation commitments on duty-free quota-free treatment for certain cotton products originating from LDCs.

Under the new text, beneficiary countries will be expected to develop biennial AGOA utilisation strategies in order to "more effectively and strategically utilise benefits available under AGOA," the bill says, which additionally cites the possibility for Regional Economic Communities to be involved in this exercise.

Such strategies would mainly review opportunities and challenges around exports under AGOA, obstacles to regional integration, and establish a plan to increase the utilisation of benefits under the Act.

Focus on "good faith progress"

"I share many of my colleagues' belief that benefits under AGOA should go to countries making good faith progress towards meeting the programme's eligibility criteria," said Hatch last week, before explicitly raising concerns over recent policy changes in South Africa which, he argued, contradict specific AGOA's provisions.

Hatch added that the creation of a mechanism under the AGOA programme that would allow for benefits to be "scaled back" in case a country is found to not be making "good faith progress" on certain issues was "important."

The AGOA provides now greater flexibility to the White House to withdraw, suspend, or limit benefits under the scheme if it determines that such action would be more effective than termination.

For example, the bill requires the President to notify and explain to Congress his intention to terminate a country's designation as a beneficiary at least 60 days before the decision takes effect.

The bill provides for a petition process allowing interested parties to file petitions at any time with the Office of the US Trade Representative regarding compliance of a beneficiary country. Regarding public hearings, the inclusion of public comments will be required during reviews of a country's AGOA eligibility.

The new AGOA will also allow the US President to conduct out-of-cycle reviews of any beneficiary country to determine whether it is making continued progress towards meeting the scheme's eligibility criteria.

Since AGOA was put in place, 13 countries have lost their eligibility, although seven eventually had it restored, according to a report by the US Government Accountability Office (GAO), an independent agency providing audit and evaluation to Congress.

Six countries – Central African Republic, Democratic Republic of Congo, Eritrea, The Gambia, South Sudan, and Swaziland – lost their eligibility primarily due to political reasons and have not regained it to date. (See Bridges Africa, 27 April 2015)

South Africa subject to "out of the cycle" review

Although South Africa remains eligible for AGOA under the new legislation, the bill specifies that some concerns have been raised about the country's compliance with certain provisions of the Act. An "out-of-cycle" review of South Africa will therefore be undertaken 30 days after AGOA's enactment.

In the context of such review, if the President determines that South Africa does not meet certain requirements, the country's eligibility could be either withdrawn, suspended or limited.

Earlier talks over AGOA's renewal had move slowly due to a dispute between Pretoria and Washington on poultry trade, following South Africa's decision to impose anti-dumping duties on certain imported US poultry products. (See Bridges Africa, 27 January 2015)

ICTSD reporting

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AU finalises last steps of Tripartite FTA

The African Union Ministers of Trade (AMOT) meeting held from 8 – 15 May 2015 in Addis Ababa, Ethiopia marks the last step before the launch of the Tripartite Free Trade Area (TFTA) set for 10 June 2015 during the third Tripartite Summit in Sharm-el-Sheikh, Egypt. Negotiations for the establishment of a Continental Free Trade Area (CFTA) will then commence shortly after.

This dedicated session of Senior Trade Officials was mainly aimed at finalising the preparatory draft documents ahead of the CFTA negotiations. Additionally, a number of technical studies carried out by various regional and international organisations were also presented.

Participants agreed that plans towards the establishment of a CFTA were being developed to better adapt the changing global trade landscape.

The CFTA is "the flagship project of the African Union's Agenda 2063" declared Fatima Haram Acyl, AU Commissioner for Trade and Industry.

Negotiators review development finance text

Delegates tasked with hammering out an outcome document for a UN conference on development finance reviewed a revised draft during an informal session held earlier in May in New York, completing a paragraph by paragraph review of the proposed text.

The revised outcome draft as released on 7 May is organised into three sections: an introductory narrative, an action agenda, and a now separate section on data, monitoring, and follow-up.

Additional informal sessions have been scheduled for the end of May and early June, with a view to advancing work on the draft outcome before a formal negotiation session in mid-June. A trade section is included in the seven areas targeted under the action agenda. Other references to trade-related policy are also scattered throughout some of the other areas. This trade section was relatively well-received at the FfD3 session last month, sources say, although some textual suggestions were made and discussion prompted on certain key topics.

WHO tackles Ebola virus issues

The World Health Organization's (WHO) annual assembly kicked off on Monday, with the two-week meeting set to tackle issues ranging from improving the global health body's response to emergencies in the wake of the Ebola crisis to the potential renewal of the organisation's strategy on intellectual property (IP) and public health.

This year's Assembly comes as the spread of the Ebola virus disease appears to be slowing down significantly. The WHO formally declared an end to the outbreak in Liberia just earlier in May, though cases are still being reported in Guinea and Sierra Leone – the three West African countries hardest-hit.

The difficulties seen in responding to such a widespread outbreak have put the WHO in the spotlight, calling for various improvements to the way the global health body responds to crises.

Africa stands against illegal wildlife trade

African Heads of State, experts and policymakers, gathering for the International Conference on Illegal Trade in Wild Fauna and Flora in Africa, stressed the urgent need to coordinate efforts in the fight against illegal trafficking of natural species in Africa.

The event held from 27-30 April in Brazzaville, Congo resulted in an Africa-wide draft strategy and related action plan to reduce, and possibly eliminate the illegal trade in wild animal and plant species.

In the Conference Final Statement, the African governments reaffirmed the need for a unified strategy to help Africa in the fight against illegal trading of species and products from the wild fauna and flora. The Draft Strategy developed during the Conference, which outlines the key elements of such a unified strategy for the 2015-2024 period, is a real first across the African continent.

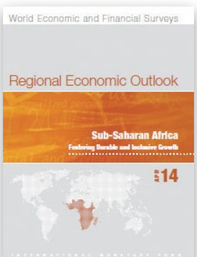
Publications and resources

Aquaculture: Opportunities and Challenges – E15 Initiative – May 2015
This paper focuses on aquaculture as one avenue to mitigate the threats to the world's fisheries. Still, as a rapidly growing industry, there are unfortunately too many examples where the environmental carrying capacity is exceeded, making the industry economically and environmentally unsustainable. This paper examines the lack of or too lax regulations and poor or non-existent management as the root causes.
http://bit.ly/1G2P4rN

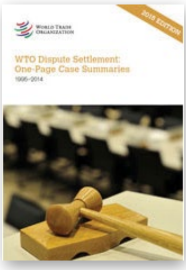
Services SMEs in International Trade: Opportunities and Constraints – E15 Initiative – May 2015
This paper explores the vast opportunities for services SMEs to engage in international trade. In a digital economy the additional cost of adding a new customer can be tiny and even start-up services firms can enter international markets. Still, it highlights that although the opportunities are many, the challenges and obstacles are also numerous. These include burdensome regulations and red-tape, as well as significant human and financial resources.
http://bit.ly/1AcuZhK

Industrial Policies in a Changing World: What Prospects for Low Income Countries? – E15 Initiative – May 2015
This paper focuses on some industrial policies and strategies adopted by Low Income Countries (LICs) and the conditions under which their objectives were achieved (or not). They include Bangladesh's successes in building up a pharmaceutical industry focusing on affordable generic drugs, and a readymade garments industry that has a large share of the world market, in addition to Ethiopia's success as an exporter of cut flowers. Looking forward, as the nature of industrialization and trade policies change, it looks at what policies LICs may adopt to catch up with the developed world.
http://bit.ly/1EIEJQz

Guinea: Company Perspectives – An ITC series on non-tariff measures – ITC – May 2015
This publication examines how Guinea is affected by non-tariff measures following an ITC survey of more than 300 companies which reveals that 95% of them face such obstacles when exporting or importing goods. The survey shows that a large part of trade barriers can be addressed through the simplification and increased transparency of national administrative procedures.
http://bit.ly/1MpgUz8

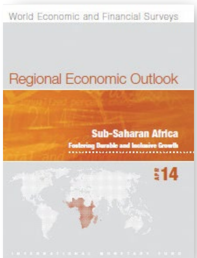


Regional Economic Outlook: Sub-Saharan Africa "Navigating Headwinds" – IMF – April 2015
This publication takes a closer look at the economy of sub-Saharan Africa, noting that although it is set to register another year of solid growth, the expansion will be at the lower end of the range registered in recent years. Sustaining strong, diversified, and durable growth remains the key policy priority with emphasis on integration into global value chains, the infrastructure gap and diversification.
http://bit.ly/1AMlE0y

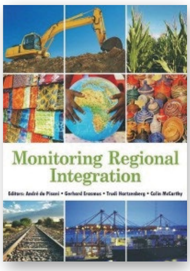


WTO Dispute Settlement: One-Page Case Summaries – WTO – April 2015
This new publication from the WTO provides a summary of the key findings of every dispute panel report up to the end of 2014 and, where applicable, the subsequent Appellate Body report. Each summary includes the core facts, key findings and other matters of significance. The disputes are presented in chronological order.
http://bit.ly/1GLH0ds

Green Growth in Fisheries and Aquaculture – OECD – April 2015
This report by the Organisation for Economic Co-operation and Development (OECD) concludes that many parts of the fisheries and aquaculture sectors do not reach their full potential. However, the report also presents policies that could ensure future sustained growth, in the context of the organisation's Green Growth Strategy. A science-based approach to stock management, combined with a reactive policy development cycle, will be needed to ensure fisheries deliver maximum possible benefits. The report adds that improved regulation to deal with environmental externalities and space competition will be important in the aquaculture sector.
http://bit.ly/1A8s4Ba



Regional Economic Outlook – International Monetary Fund – April 2015
Sub-Saharan Africa anticipates a pickup in economic growth in 2014 but the region continues to face risks from both external and internal factors, among them slower growth in emerging markets which could impact both export demand and commodity prices. This report analyses the possible impact of global forces on continued growth in sub-Saharan Africa and the policy actions that are needed to address these challenges.
http://bit.ly/PBYX7Y



Monitoring Regional Integration in Southern Africa Yearbook 2013/2014– Trade Law Centre (TRALAC) – April 2015
This annual publication serves as a platform to discuss and present findings on the subject of regional integration and the topics it comprises. Regional and especially economic integration holds potential and strong benefits for Africa. But this is true only if Africa could succeed in identifying a successful formula to counter challenges confronting the project of regional integration.
http://bit.ly/1EiYF8d

Africa's Pulse, April 2015– The World Bank – April 2015
This publication contains an analysis of the near-term macro-economic outlook for the region. It also includes a section focusing on a topic that represents a particular development challenges for the continent. It is produced by the Office of the Chief Economist for the Africa Region. This issue is an analysis of issues shaping Africa's economic future. Growth remains stable in Sub-Saharan Africa. Some countries are seeing a slowdown, but the region's economic prospects remain broadly favorable.
http://bit.ly/1EYYtQg

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