CHAPTER 6
THE WAY **FORWARD**: MEASURING THE IMPACT AND ADVANCING THE DIALOGUE

SUMMARY

The relationship between trade, growth and poverty reduction is complex. But it is clear that openness and integration can contribute to economic development and poverty reduction. The Aid-for-Trade Initiative has succeeded in raising awareness about these important links, but also about the binding trade-related constraints developing countries face that prevent them from benefiting from trade expansion. The initiative has also succeeded in mobilising resources to build trade capacities related to policies, institutions and infrastructure.

In order to maintain the momentum of the initiative, particularly in light of the current economic crisis, four practical steps can be envisaged:

- First, there is still a compelling need to demonstrate – and broadcast the fact – that there are large potential gains to be made from broad-based multilateral trade liberalisation and the integration of developing countries into the global economy. It needs to be shown that aid for trade is worth doing.
- Second, stakeholders need to recognise that aid for trade is part of a larger picture encompassing international co-operation, improved policy coherence and a whole-of-government approach to economic development and poverty reduction. It needs to be shown that aid for trade contributes to these wider goals of partner countries.
- Third, there needs to be case-by-case, country-by-country identification of the nature and extent of the impediments that are presently preventing the benefits of trade from being fully realised. Aid for trade needs to have identifiable targets.
- Fourth, there needs to be, again case-by-case and country-by-country, a clear identification of how aid for trade will address the impediments identified, how it will work with, and add value to, initiatives being taken by private firms, and how it will fit into the evolving framework of regional and multilateral co-operation. It needs to be shown that aid for trade can hit the target.

In short, the Aid-for-Trade Initiative needs to be strengthened at the country and regional levels. The aid-for-trade fact sheets offer excellent opportunities for advancing the dialogue at these levels and provides incentives to strengthen local ownership and management for results.

INTRODUCTION

Building on the aid-for-trade achievements – as evidenced in the preceding chapters – requires showing that the initiative ultimately contributes to trade creation and poverty reduction. In the face of the worst economic crisis in generations, stakeholders are now, more than ever, interested in finding out whether the Aid-for-Trade Initiative is leading to the desired results. In particular, do country-owned trade strategies and donor-funded trade-related programmes build the capacity to trade, improve trade performance and reduce poverty? How do we know we are on the right track? How can we tell success from failure? These are the kinds of questions that are being raised by stakeholders in developed and developing countries alike. Answers to these questions are best provided at the country and regional level. In fact, advancing the dialogue at these levels, as recommended by the WTO Task Force, is the way forward for the initiative.

This final chapter addresses some of the remaining challenges and provides some pointers to the way forward. It is structured as follows: the next section summarises some recent assessments of the impact of trade-related assistance on trade performance. This is followed by some recent work on the linkages between trade performance and poverty reduction. Subsequently, some of the issues involved in evaluating aid for trade are addressed. The following section highlights that country ownership is a key requirement for the success of the Aid-for-Trade Initiative. Finally, the last section argues that advancing the dialogue about these issues is the way forward.

MEASURING IMPACTS

The WTO Task Force stated that: *"effective aid for trade will enhance growth prospects and reduce poverty in developing countries,… and distribute global benefits more equitably across and within developing countries."* However, measuring the impact of aid-for-trade is never going to be easy given the difficulty in establishing the counterfactual (*i.e.* testing the opposite hypothesis). For this reason, macroeconomic analysis of the correlation between aid-for-trade and trade performance presents a useful way of establishing what works, what does not and where improvements are needed. These analyses are particularly appropriate during the current economic downturn, which, no doubt, will see increasing competition for aid funding from many quarters. Unfortunately, only a limited number of aid-for-trade related assessments have been undertaken so far. More are called for.

A Cali and te Velde study (2008) suggests that aid to build productive capacity seems to have played a role in fostering exports. The positive effects of aid are relatively more important in supporting exports in mining and manufacturing compared to the effects on tourism and agriculture. The authors note that the lack of domestic resources for capital-intensive sectors (such as mining and manufacturing) act as a binding constraint in developing countries. This is in line with the more general view that capital-intensive sectors in developing countries are often at a disadvantage due to the relatively small domestic markets and a lack of access to credit.

The study also indicates that a 10% increase in aid to trade policy and regulations is associated with a 1.5% reduction in trading costs. These findings are confirmed by specific studies, for instance, concerning technical support for implementing SPS measures. Although economic analysis of the returns on investments in building SPS capacity is relatively limited, available research suggests that significant benefits accrue from strengthening SPS capacity, both in terms of opening up new markets and maintaining market access. For example, in Latin America, investments in improvements to animal health of some USD 157 million per year over 15 years generated a net present value of USD 1.9 billion. In Asia, eradication programmes for foot and mouth disease have been assessed as providing benefits in terms of improved trade and market access that are worth several times the investment. In Belize, analysis of the direct costs and benefits of investments in a national Medfly programme, aimed at opening up access to new export markets for fresh fruit and vegetables, indicates a return of USD 100 for every dollar spent. Programmes to build SPS capacity are especially important for countries where agriculture remains an essential economic activity and a major source of foreign exchange earnings, *i.e.* the vast majority of developing countries.

Likewise, programmes to modernise border processes and strengthen trade facilitation capacity seem to generate significant benefits in terms of export competitiveness and FDI attractiveness. The reduction of time spent at the border and trade-flow processing costs has effects similar to tariff reductions: it was calculated that halving clearance time in Ethiopia would be equivalent to increasing average firm productivity by almost a fifth. Faster clearance and better transport and logistics systems yield cost reductions by allowing firms to considerably reduce inventories, which are on average 200% to 500% higher in many developing countries than in the United States.

The effect is also significant on revenue collection. An OECD (2009) study found that customs reform – often supported by technical assistance programmes, financial assistance or public-private partnerships – may bring important increases in customs revenue over a relatively short period of time: for example, 150% in Angola half-way through the five-year reform programme, 58% in Mozambique during the first two years of the programme. In other words, these programmes have significant and positive benefits on trade volumes and revenues.

A World Bank (2008) study on the effectiveness of 88 trade development programmes in 48 countries found that exports have increased significantly on many occasions, although questions remain on causality and the choice of the best benchmark to judge a programme's effectiveness. However, the study noted that there is at least *a priori* support for the conclusion that the programmes have, on average, coincided with, or predated, stronger export performance in the targeted commodities. Furthermore, the study found that the initial size of an export sector may matter for the effectiveness of technical assistance. The performance of programmes delivered to industries with initially high exports is much stronger. The study suggested it may be easier to identify the constraints facing growth of existing exports and then alleviate these constraints through technical assistance projects, than to tackle the constraints facing new types of exports. In some cases, it may be more appropriate for technical assistance to help exporters who have previously shown a capacity to penetrate overseas markets, but are now facing particular constraints in, say, management, marketing, product design or market information, than to support a new venture.

Although not directly related to the Aid-for-Trade Initiative, a World Bank (2007) paper shows that transport and communications infrastructure, as well as institutional quality, are significant drivers both of export volumes and of the likelihood that exports occur at all. The authors find that infrastructure and institutional quality are far more important than variations in tariffs in explaining variations in North-South trade. Indeed, non-tariff trade barriers such as transportation costs have often been more important than tariffs in inhibiting trade. This has been the case historically. Overall, between 1820 and 2000, according to World Economic Forum (2008), only 18% of the reduction in intercontinental price gap between the United States and Europe was due to policies liberalising trade, while the rest was due to cheaper transportation. At present, United States' import data indicate that insurance and freight costs are twice those of tariff costs.

THE LINKS BETWEEN TRADE AND POVERTY REDUCTION

Much more analysis has been undertaken to clarify the links between trade and poverty. Despite differences of opinion among academics, there exists a reasonable consensus on the real and overall positive benefits countries can gain by opening up their economies. Indeed, the weight of evidence to date points strongly in the direction that greater openness is an important element explaining growth performance and has been a central feature of successful development. Furthermore, no country has developed successfully by closing itself off from the rest of the world, very few countries have grown over long periods of time without experiencing a large expansion of their trade, and most developing countries with rapid poverty reduction also enjoy high economic growth (*i.e.* the growth accounts for a large share of observed changes in income poverty reduction). Yet, the relationship between trade and growth is complex. Of the numerous empirical studies on the topic, most have failed to establish a systematic relationship between greater integration and growth, and there is little agreement on causality.

Nor is there a simple and general conclusion from the literature on the causal link between trade and poverty, be it directly between the two or through the impact of trade on growth and, in turn, on poverty. The evidence of poverty reduction presented in several recent surveys is weak (*e.g.* Bannister and Thugge, 2001; Berg and Krueger, 2003; Winters, McCulloch and McKay, 2004). Other studies find an increase in inequality: the World Bank (2005) concludes that during the 1990s countries with rapid economic growth and trade liberalisation achieved absolute poverty reduction but experienced increased inequality; UNDP (2005) finds that uneven distribution of the costs and benefits of trade liberalisation across and within countries has led to an uneven pattern of integration; and Kremer and Maskin (2007) establish that increased trade has tended to benefit elites in both rich and poor countries, thus increasing income inequalities. Other studies are more nuanced: Turner, Nguyen and Bird (2008) find the relationship between trade and poverty to be extremely complex and case-specific, making systematic empirical analyses rather difficult in practice.

The nature of tariff cuts is important as well. One recent study finds that a fall in end-product tariffs lowers wages in import-competing firms, but boosts wages in exporting firms. By comparison, a fall in input tariffs raises wages at import-using firms relative to those that only source locally (Amiti and Davis, 2008). Another recent study finds that trade liberalisation is associated with increases in inequality in countries well endowed with highly-skilled workers and capital, or with workers that have very low education levels, while it is associated with decreases in inequality in countries that are well endowed with primary-educated labour. However, relative endowments in capital are the key determinant, so that trade liberalisation is accompanied by reduced income inequality in low-income countries (De Melo, Gourdon and Maystre, 2006).

Finally, there are studies finding that trade has a beneficial effect on poverty reduction but that trade may not be the dominant factor. An IMF study (2002), which finds that trade openness reduces income inequality in both developed and developing countries, concludes that income inequality has risen in most countries over the past two decades due to technological progress, which increases the wages of the skilled relative to the wages of the unskilled. Although the poverty elasticity of growth can vary significantly between countries and across time (see *e.g.* World Bank, 2005), there is no evidence-based support that liberalised trade has an "adverse" impact on the poor. Cashin *et al.* (2001) examined the relationship between macroeconomic policies and improvements in a human development index for a given rate of per capita GDP growth and found no robust evidence that any openness variable was associated with either pro-poor or anti-poor growth. Cling (2006) also concludes, on the basis of a comprehensive literature review, that trade is not the main factor determining the evolution of poverty and inequality within countries.[1]

To conclude, economic growth, in general, is a rather messy process and no one should expect it to be unconditionally fair to all by design. That is why governments need policies for pro-poor growth aimed at reaching those sub-groups of people that growth would otherwise not reach. To make growth more pro-poor, OECD (2006a) highlights the need for policies to tackle the multiple dimensions of poverty, including the cross-cutting dimensions of gender and environment, and for policies that help empower the poor and help them connect up better to the growth process. In looking at both trade-to-growth and growth-to-poverty links, Cicowiez and Conconi (2008) conclude that the critical element in translating economic growth to reductions in poverty seems to be complementary and multi-dimensional public policy. These conclusions are confirmed by additional work concerning the links between trade, growth and poverty reduction undertaken by the University of Adelaide which highlighted five pre-requisites for developing a positive relationship between trade and poverty reduction: i) trade openness; ii) domestic reform; iii) a robust and responsible private sector; iv) institutional reforms; and v) political will and co-operation. In short, while trade, and therefore aid for trade, is positively linked to growth, trade policies alone cannot be relied upon to achieve a country's poverty reduction objectives.

EVALUATING AID FOR TRADE

Aid for trade is a relatively new concept, although donors have been providing trade-related assistance for many years. A number of them have recently reviewed their programmes and most have concluded that the direct effects on export (growth) volumes are rather difficult to substantiate. The most widely cited positive outcomes of trade-related donor assistance include improved understanding of the potential contribution trade can make to development, increased awareness and knowledge of trade policy issues (including WTO-related) and strengthened national dialogue. However, to date, very few aid-for-trade-specific evaluations exist, in part due to the fact that the initiative has only recently emerged as a distinct objective of development co-operation.

Consequently, the WTO Task Force recommended that increased evaluation of aid for trade should be promoted and funded. In particular, the Task Force suggested that: *"In-depth country-impact evaluations of Aid-for-Trade programmes should be undertaken to build knowledge and facilitate a results-based approach to delivery. Evaluation of in-country processes should focus,* inter alia*, on progress in mainstreaming trade in national development plans. Evaluations should adopt a results-based approach in order to ensure effectiveness of Aid-for-Trade programmes in relation to the objectives."*

Such an evaluative programme should review what is known about the effectiveness of aid-for-trade projects and programmes and identify gaps in our knowledge about performance. Next, the programme should establish how evaluations can contribute to improved knowledge and performance. The purpose of the review of existing aid-for-trade evaluations is to distil experiences in order to increase the effectiveness of aid for trade, and improve evaluation practices and outcomes.

Questions to be addressed might include: What is the present situation with regard to the number of existing aid-for-trade evaluations, their rigour and robustness? What are the conclusions of existing evaluations of aid-for-trade programmes and activities? What are the main knowledge gaps hampering the development of best practice in evaluating aid for trade?

Second, there is a need for an in-depth exploration of the most appropriate methods of evaluating aid-for-trade at programming and policy levels. In particular, the evaluation and aid-for-trade policy communities should answer the question of how to address the specificities of evaluating aid-for-trade activities, as opposed to other development programmes. Differences to be explored could include, but are not be limited to, the following: The particular difficulties involved in agreeing on an operational definition of aid for trade. How to take account of the cross-border, regional, sub-regional and international aspects of many aid-for-trade activities (a feature which increases the challenge of assessing performance and impacts)? How to apply the Paris Declaration on Aid Effectiveness and, in particular, how can principles of ownership, mutual accountability and management for results be incorporated in aid-for-trade programmes? How to look at the effect of an individual project or programme on the wider trade capacity of a country, (*e.g.* in view of the difficulties of demonstrating the links between micro projects and macro conditions)? How to incorporate the views of the private sector and civil society? How to address the data deficit and particular difficulties in establishing baseline information?[2]

STRENGTHENING COUNTRY OWNERSHIP

Aid and, by implication, aid-for-trade is effective only when it enables partner countries to achieve their own development goals. Consequently, the onus is on partner-country governments to enhance the ownership of their development efforts in consultation with their parliaments, citizens, civil society and the private sector. Local ownership of development efforts is fundamentally about political leadership, effective societal participation and domestic oversight and accountability.

For instance, a recent review of 45 case studies on how economies from around the world managed the challenges of WTO participation found that country ownership and national dialogue were of central importance (WTO, 2005). Key domestic stakeholders (*i.e.* government, business and civil society) need to manage the pace and nature of their country's integration into regional and global markets and to take full advantage of participation in the WTO. At the same time, the case studies show that there is a "threshold" level of institutional capacity and resources that are needed to implement WTO agreements and maintain an effective presence "at the table" in WTO negotiations. Beyond that threshold, however, the solution for successfully managing participation in the global trading system is local ownership and dialogue both among government institutions, and among government, private-sector and civil-society institutions.

Cases where a high level of interaction, information exchange and collaboration between major stakeholders was realised have tended to be "success stories". Cases where, for a variety of reasons, this collaboration and information exchange broke down, or where the priorities of the government and those of the private sector were mis-aligned, have tended to derive little benefit from greater integration into the global economy. Beyond the key requirement of national ownership and stakeholder dialogue, the case studies also highlight the need for strong political will and leadership from the highest levels as prerequisites for countries' ability to create a macro-economic policy environment conducive to private-sector development and growth through trade liberalisation.

There is now broad recognition that trade development strategies will be successful and sustained, and aid for trade fully effective only where the partner country takes the lead in determining the goals and the priorities of the strategy and sets the agenda for how they are to be achieved. The principle of ownership has gained greater prominence and acceptance, yet local ownership, as noted in chapter 2, remains relatively weak in many developing countries. Consequently, maintaining the momentum in aid-for-trade requires reinforcing the local component of the Aid-for-Trade Initiative and advancing the dialogue between partner countries and donors about remaining challenges is the second component of the way forward.

ADVANCING THE DIALOGUE

The Aid-for-Trade Initiative remains fully understandable only to those stakeholders working with it directly. This highlights the need for broader engagement and greater outreach to avert the danger of it becoming a subject only for dialogue among bureaucrats, divorced from the political landscape in which it must be carried forward. Given the political sensitivity of many trade reforms, the aid-for-trade dialogue should be broadened to engage parliaments, citizens, civil society and the private sector more effectively. In fact, there is still a compelling need to demonstrate – and broadcast the fact – that there are large potential gains to be made from broad-based multilateral trade liberalisation and the integration of developing countries into the global economy. Furthermore, stakeholders need to recognise that aid for trade is part of a larger picture encompassing international co-operation, improved policy coherence and a whole-of-government approach to economic development and poverty reduction.

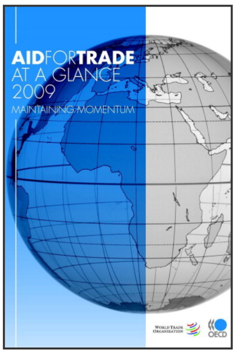
The dialogue between partner countries and donors needs not only to be broadened, but deepened as well. On a case-by-case, country-by-country and region-by-region basis, the dialogue should identify the nature and extent of the impediments that are presently preventing the benefits of trade from being fully realised. Next, partner countries and donors should set out how aid-for-trade will address the binding constraints to trade and how it will work with, and add value to, initiatives being taken by private firms. Finally, there is a clear need to work jointly towards more evidence-based decision making, shifting the focus from *inputs* to the achievement of clearly defined aid-for-trade *outcomes* and *impacts*. Strengthening the necessary performance culture requires a range of institutional and human reforms, reinforcing the importance of monitoring and evaluation, enhancing the links between planning, budgeting and results, and above all encouraging greater leadership and accountability.

The *Aid for Trade at a Glance* fact sheets provide a first effort to reinforce on a country-by-country basis the links between a partner country's "demand", donors' "response", the outcomes of priority aid-for- trade programmes and their impact on trade performance. The value of the fact sheets lies in creating incentives, through enhanced transparency based on a sustained dialogue among governments, civil society, private sector and donors, to improve the coherence of aid for trade with overall development strategies around which donors should align their support. In short, the focus on transparency and accountability at the local and regional level will provide incentives for more and better aid for trade. ■

NOTES

1. Other recent work on the relationship between globalisation, inequality and development includes Nissanke and Thorbecke (2007); Mamoon (2007) and Goldberg and Pavcnik (2007).

2. The OECD has commenced a work programme on evaluating aid for trade which will address a number of these issues and clarify the key audiences and their different evaluation needs.



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