



Effectiveness and Impact of Aid for Trade Initiative In Bangladesh

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INTRODUCTION



1.1 Context

- ✓ Poor countries cannot take advantage of the benefits of global trade in spite of the preferential trade due to supply side constraints
- ✓ Several global initiatives by development partners have been undertaken to provide technical and financial support to enhance LDCs' trade performance, e.g. IF, EIF.
- ✓ Unfortunately, most of these efforts were unsuccessful in improving critical trade capacity and enhancing competitiveness of LDCs.
- ✓ Shortcomings of those initiatives led to the launch of the Aid for Trade (AfT) initiative at the Sixth WTO Ministerial Conference in Hong Kong in December 2005 as a coordinated effort to help developing countries, and especially LDCs, to improve their trade capacity.



1.1 Context

- Since the launch of the AfT initiative, *four* Global Reviews have been conducted by the WTO and the Organisation for Economic Cooperation and Development (OECD) in 2007, 2009, 2011 and 2013 for the monitoring and evaluation of AfT.
- Apart from the official process of evaluating AfT there have been limited attempts to monitor the effectiveness of AfT in the recipient countries in a comprehensive manner.
- Assessing the effectiveness of trade-related development assistance has been at the centre of the international debate on AfT.
- As part of this debate, the International Centre for Trade and Sustainable Development (ICTSD) and the Nepal-based institute named South Asia Watch on Trade, Economics and Environment (SAWTEE) have developed a methodological framework for conducting country-level assessments of the effectiveness of AfT



1.1 Context

- Justification of Bangladesh case study:
 - ü Bangladesh's progress in integrating into the global economy through increased trade activity in the last few decades.
 - ü As an LDC, even though Bangladesh receives special and differential treatment (S&DT) and preferential market access, the realisation of benefits from such preferences has been partial due to several supply-side constraints.
 - ü The country has also received support for capacity building in the area of trade through various special programmes to overcome its supply-side constraints.
 - ü There has not been any in-depth independent study on the effectiveness of AfT initiative in Bangladesh since the launch of the initiative in 2005.



1.2 Objective of the study

- Measure the progress of AfT commitment and disbursement and evaluate the overall effectiveness of AfT in the country;
- Assess the impact of AfT flows on the country's trade performance based on data and information from both primary and secondary sources;
- Provide stakeholders with appropriate recommendations for policy measures based on the analysis performed in the study.



1.3 Methodology of the study

- Integrated approach for the assessment of the effectiveness and impact of AfT proposed by Adhikari (2011)
- Aspects of aid effectiveness:
 - ü AfT funds trajectory,
 - ü ownership,
 - ü alignment,
 - ü donor coordination,
 - ü South-South cooperation,
 - ü coherence,
 - ü absorptive capacity. and
 - ü environmental sustainability.
- **Macro level Impact:** export performance, diversification levels, private sector development, infrastructure, local productivity, governance and human resource development
- **Micro level impact:** AfT projects in the readymade garments (RMG) sector



OVERVIEW OF AID FOR TRADE IN BANGLADESH



2. Overview of Aid for Trade in Bangladesh

- The support scheme under AfT initiative is divided into two time periods based on the official initiation of the AfT process:
 - the base period between 2002 and 2005, and
 - the recent period after 2005, that is 2006-11

Table : Global AfT disbursement vis-à-vis Bangladesh (constant 2010 prices)

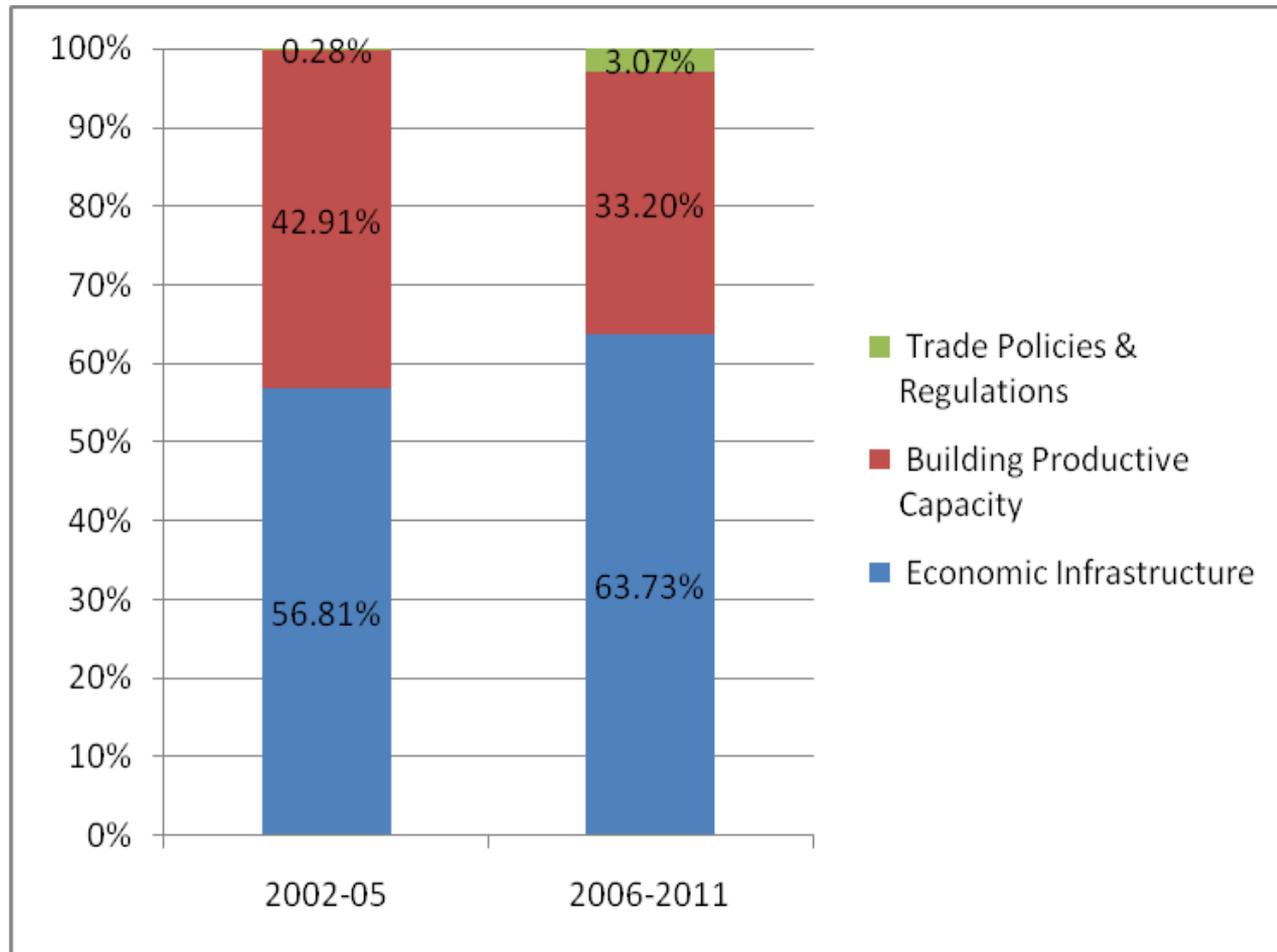
Sectors	Global AfT Growth (%) <i>during 2002-05 and 2006-11</i>	Bangladesh's AfT Growth (%) <i>during 2002-05 and 2006-11</i>
Economic Infrastructure	77.92	-20.00
Building Productive Capacity	56.03	-44.81
Trade Policies & Regulations	59.54	686.03

Source: OECD-CRS database.



2. Overview of Aid for Trade in Bangladesh

Figure : Share of broader AfT categories in total AfT disbursement in Bangladesh

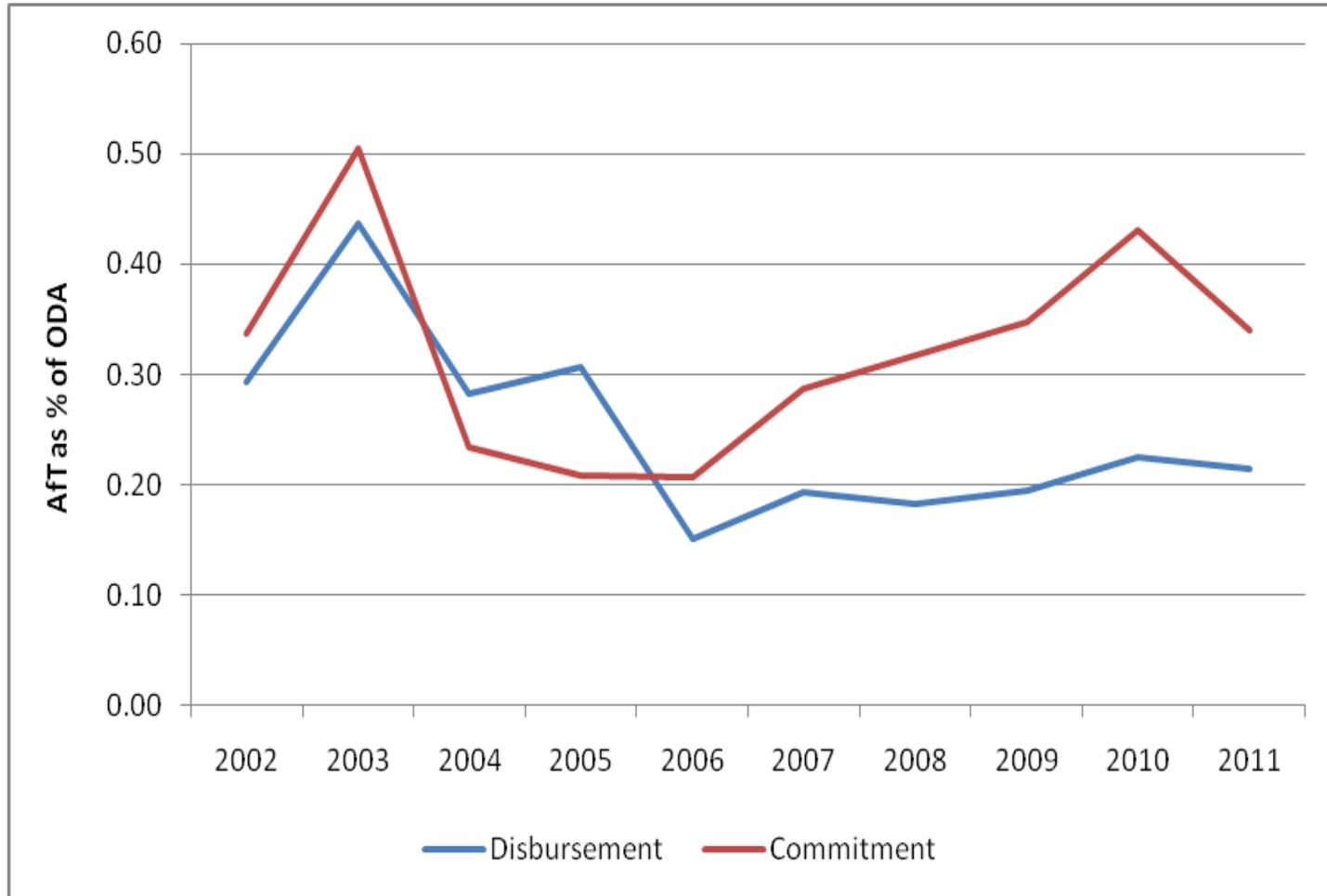


Source: OECD-CRS database



2. Overview of Aid for Trade in Bangladesh

Figure : Share of AfT disbursement as % of ODA disbursement to Bangladesh



Source: OECD-CRS database.



2. Overview of Aid for Trade in Bangladesh

- A sectoral disaggregation of the disbursed AfT in Bangladesh reveals that though total volume of AfT is increasing since 2002, the yearly average growth rate during 2006-11 is negative (-28.68 per cent) as opposed to 67 per cent at the global level.
- If the present trend of AfT flow continues, it will be difficult for the country to have any meaningful impact of AfT towards achieving national development goals.
- AfT for 'economic infrastructure' and 'productive capacity' saw a large cut in 2006 leading to the lowest disbursement that year.
- Since then, flows to these two categories, which together constitute about 97 per cent of AfT funds in Bangladesh, increased, though with an oscillatory trend.
- Trade policy and regulation has experienced the highest growth in the recent period, even though the total volume is much lower than economic infrastructure and productive capacity.



EVALUATION OF AFT IN BANGLADESH



3. Evaluation of AfT in Bangladesh

3.1. AfT trajectory

WTO Task Force on AfT, “**additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid for Trade mandate**”.

- 1.1 **Additionality**: Absolute amount and growth of AfT and non-AfT ODA in recent period is greater than that of the base period
- 1.2 **Predictability**: Variation between commitment and disbursement; extent to which AfT projects have been completed as initially agreed without any external resource constraint
- 1.3 **Grant vs loans**: Changes in composition of the grant and loan components over time



AfT trajectory: Additionality

Indicator 1: Total volume of AfT commitments and disbursement in absolute terms (average per year) during the recent period 2006-11 is greater than AfT the base period 2002-05 (USD million, constant 2010 prices)

Sectors	Commitment			Disbursement		
	Avg per year (2002-05)	Avg per year (2006-11)	Indicator 1 met	Avg per year (2002-05)	Avg per year (2006-11)	Indicator 1 met
Economic Infrastructure	518.58	746.62	Yes	312.07	249.66	No
Building Productive Capacity	250.82	287.02	Yes	235.68	130.07	No
Trade Policies & Regulations	5.96	14.35	Yes	1.53	12.01	Yes
TOTAL	775.36	1047.99	Yes	549.28	391.74	No

Source: OECD-CRS database.



3. Evaluation of AfT in Bangladesh

AfT trajectory: Additionality

Indicator 2: Non-AfT ODA in the recent period is greater than non-AfT ODA in 2002-05 (USD million, constant 2010 prices)

Aid	Commitment			Disbursement		
	Avg per year (2002-05)	Avg per year (2006-11)	Indicator 2 met	Avg per year (2002-05)	Avg per year (2006-11)	Indicator 2 met
Total Non-AfT ODA	1687.38	2193.53	Yes	1123.12	1620.59	Yes

Source: OECD-CRS database.



AfT trajectory: Additionality

Indicator 3: Growth rate of non-AfT ODA in recent period is greater than or equal to that of the base period (*USD million, constant 2010 prices*)

	Commitment			Disbursement		
	Growth rate (2002-05)	Growth rate (2006-11)	Indicator 3 met	Growth rate (2002-05)	Growth rate (2006-11)	Indicator 3 met
Aid						
Non-AfT ODA	66.33%	51.43%	No	18.99%	10.67%	No

Source: OECD-CRS database.



AfT trajectory: Additionality

Indicator 4: Growth rate of non-AfT ODA in the recent period *in Bangladesh* is greater than or equal to that of the period 2002-11 at the global level (*USD million, constant 2010 prices*)

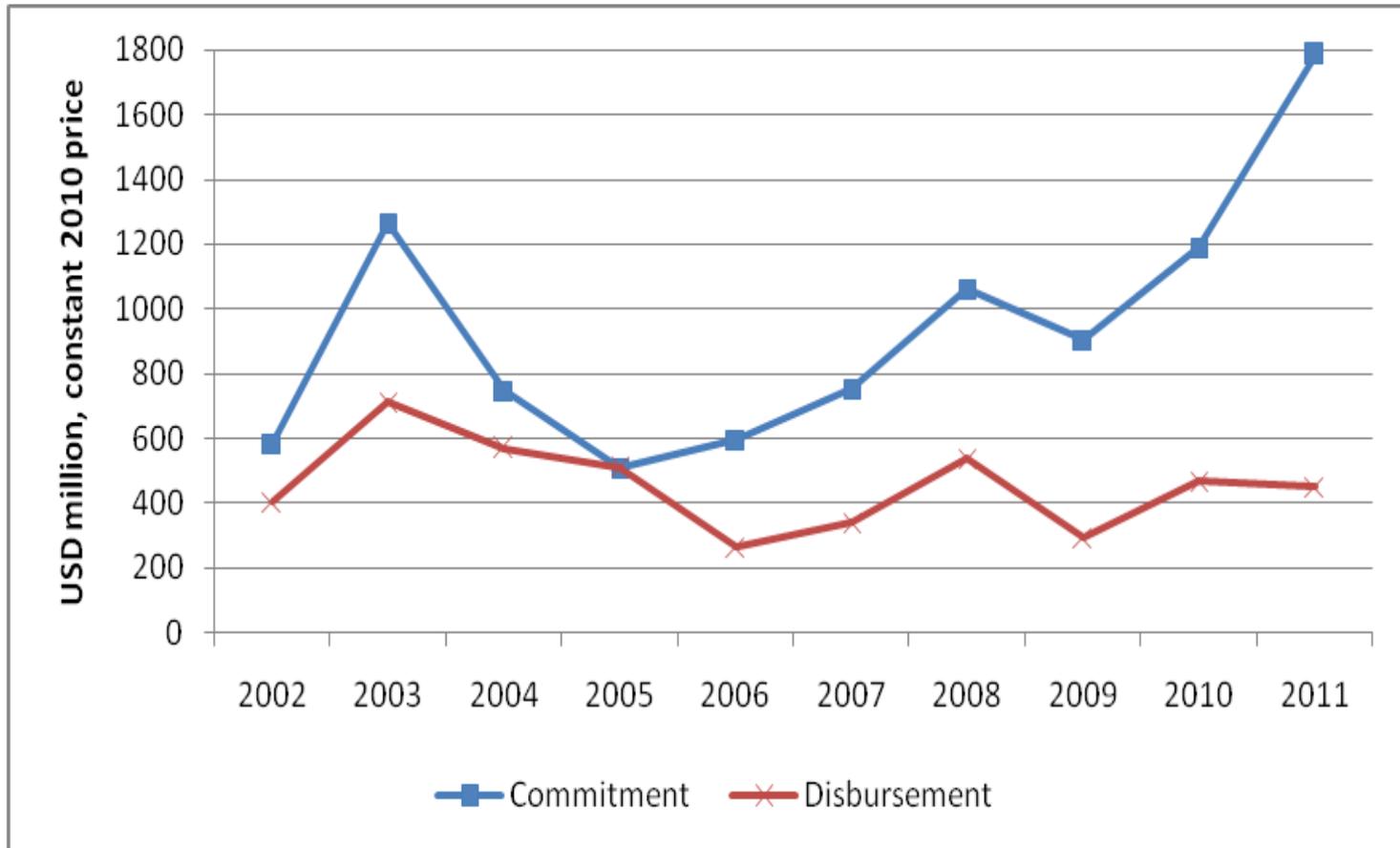
	Commitment			Disbursement		
	Growth rate (2006-11) (Bangladesh)	Global growth rate (2002-11)	Indicator 4 met	Growth rate (2006-11)	Global growth rate (2002-11)	Indicator 4 met
Aid						
Non-AfT ODA	51.43%	48.97%	Yes	10.67%	69.17%	No

Source: OECD-CRS database



AfT trajectory: Predictability

Figure : Commitment vs. disbursement of AfT



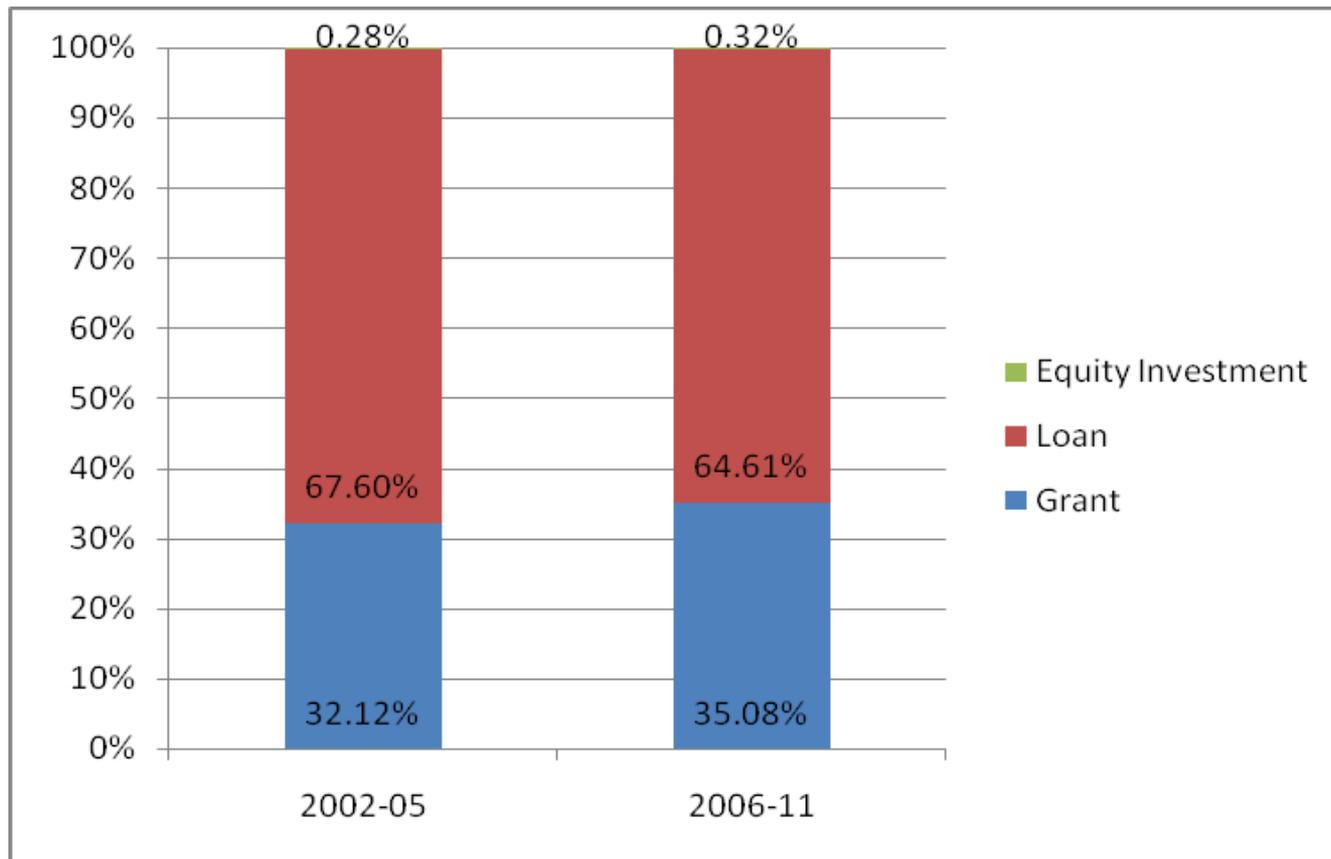
Source: OECD CRS database



3. Evaluation of AfT in Bangladesh

AfT trajectory: Grant vs loans

Figure : AfT disbursement to Bangladesh: share of grant, loan and equity investment



Source: OECD-CRS database.



3. Evaluation of AfT in Bangladesh

Whether AfT exhibits	According to data and documents	According to stakeholders
Additionality	No Disbursement of AfT has decreased during 2006-10 compared to 2002-05.	No
Predictability	No Total disbursement as a share of total commitment of AfT declined in the recent period, except for AfT in the category of 'trade policies and regulations'.	Change in the priority of donor countries and delayed implementation of projects are factors behind unpredictability
Grant vs. Loan	Share of grant in AfT is increasing in the recent period but the major part of aid still comes in the form of loans.	Infrastructure projects should be in grants form

Source: Authors



3.2 Ownership

- National policy documents recognise trade as an important impetus for growth and several ministries are involved in the formulation of trade-related policies, though the bulk of trade activity is concentrated in the MoC.
- Though AfT has not been mainstreamed formally, the Government and donors are making earnest efforts to strengthen institutions that are pertinent to AfT. These initiatives include the formulation of a trade policy, launching of AIMS and studies to investigate country specific approaches to monitor AfT flows.
- In terms of relevance, generally trade-related foreign assisted projects are found to be strongly in line with national development priorities



3. *Evaluation of AfT in Bangladesh*

3.2 Ownership

- In spite of weak national coordination, the GoB has exhibited the capacity to shoulder a large share of the cost of donor supported investment projects. In fact, the GoB share has risen in the post-Hong Kong period.
- Ownership of trade-related aid programmes is gaining momentum at the formal level but not as vigorously at the substantive level.
- Public sector reform and empowering government officials to dictate AfT flows will be a critical area to address in order to make AfT demand-driven.
- Although AfT is not yet widely recognised either by the government or business community, efforts to strengthen management of trade-related aid projects in Bangladesh is creating the groundwork for establishing AfT.



3. Evaluation of AfT in Bangladesh

Whether AfT exhibits Ownership	According to data and documents	According to stakeholders
Mainstreaming	Trade has been mainstreamed to a large extent in the national development plans such as the SFYP and the PP. However, Bangladesh's effort to mainstream AfT into national policies is still limited	Very few AfT projects are mainstreamed
Relevance to domestic policies	Major AfT projects meet many national objectives	AfT projects have relevance to Bangladesh as it aims to achieve higher growth
National level coordination and stakeholder involvement	There is an institutional mechanism for AfT project coordination	However, national level coordination of projects is weak. The scope for involvement of broader stakeholders besides the government and donors is very narrow
Sustainability	In spite of weak national coordination, the GoB has exhibited the capacity to shoulder a large share of the cost of donor supported investment projects	Partial



3.3 Alignment

- No information on AfT alignment
- The flow of ODA in Bangladesh has been aligned with national priorities to some extent as is observed from the medium term and long term plans of Bangladesh.
- There has been a reduction in the number of parallel project implementation units since 2005.
- Aid is also becoming untied over the years. In 2009 the share of untied aid to the country was 93 per cent of total aid received.
- However, requirements for health, education, gender empowerment, climate change and infrastructure are huge compared to the flow of aid.
- Improved alignment of AfT projects is expected to have positive impact on the delivery, implementation and sustainability of projects.



3. Evaluation of AfT in Bangladesh

Whether AfT exhibits	According to data and documents	According to stakeholders
Alignment		
Alignment with partners' development strategies	In case of ODA, 100 per cent of aid flows to Bangladesh was aligned with national priorities by 2010	Flow of ODA in Bangladesh is aligned with national priorities, but no information on AfT
Use of country system	Some improvement	Capacity building support by donors is now better coordinated and consistent with national and sectoral priorities
Untied aid	Some improvement in terms of aid being untied	Donors continue to impose conditions
Demand-supply gap	Requirements for health, education, gender empowerment, climate change and infrastructure are huge compared to the flow of aid	Trade-related projects are mostly supply-driven. There is a need for more donor support for improving physical infrastructure

Source: Authors



3. Evaluation of AfT in Bangladesh

3.4 Donor Coordination

- LCG, a platform of donors and the government is useful for ensuring transparency on various donor initiatives and avoidance of duplication of projects.
- Aid relationship has also improved through JCS between the GoB and donors. However, mutual accountability by way of involving all stakeholders in the country is yet to be in place.

3.5 South-South Cooperation

- India and China are major trading partners of Bangladesh. However, Bangladesh has huge trade imbalance with both these countries.
- Existing trade arrangements are not being translated into economic gains for Bangladesh due to high NTBs.
- ODA disbursement from these two emerging economies has only been around 1 to 4 per cent of total ODA to Bangladesh.
- Much of the ODA support from China and India comes in the form of suppliers' credit and is used to finance infrastructure projects.
- Interviews suggest that for Bangladesh, market access is a priority in South-South cooperation.
- Stakeholders are not very confident about increase in AfT flows from their neighbours in light of the track record.



3.6 Limitations in Absorptive Capacities

- Low implementation level of development programmes has been a perennial problem for Bangladesh which affects the utilisation rate of aid.
- Lack of efficient administrative mechanism, low human capacity, political instability and stringent donor requirements are major reasons for this.

3.7 Coherence with Environmental Sustainability

- AfT projects have not been linked to adaptation and mitigation measures to address the impact of climate change.
- A review of the technical assistance projects under the ADP of the GoB during 2002-2012 reveals that only one project titled 'Promotion of Social and Environmental Standards in the Readymade Garments Sector' funded by GIZ during 2008-10 is remotely linked to climate change as it aimed to promote trade through social and environmental compliance.



3. Evaluation of AfT in Bangladesh

Whether AfT exhibits	According to data and documents	According to stakeholders
Donor coordination	Coordination among donors has improved through local consultative groups and joint cooperation strategy	Marginal improvement on donor coordination. Donors also prefer to coordinate various activities themselves bypassing the government
South-South Cooperation	Support from India and China forms only a fraction of total ODA to Bangladesh. NTBs have undermined existing trade arrangements	For Bangladesh market access is a priority in South-South cooperation. Stakeholders are not confident about increase in AfT flows from their neighbours in light of the track record
Absorptive capacity	Low absorption capacity due to lower implementation of development programmes	Lack of efficient administrative mechanism, low human capacity, political instability and stringent donor requirements are major reasons for low absorption capacity
Coherence with environmental sustainability	Good environmental policy but AfT projects are not procedurally linked to climate change adaptation and mitigation measures	Concerned ministries to tackle the impact of climate change lack awareness on the AfT initiative

Source: Authors

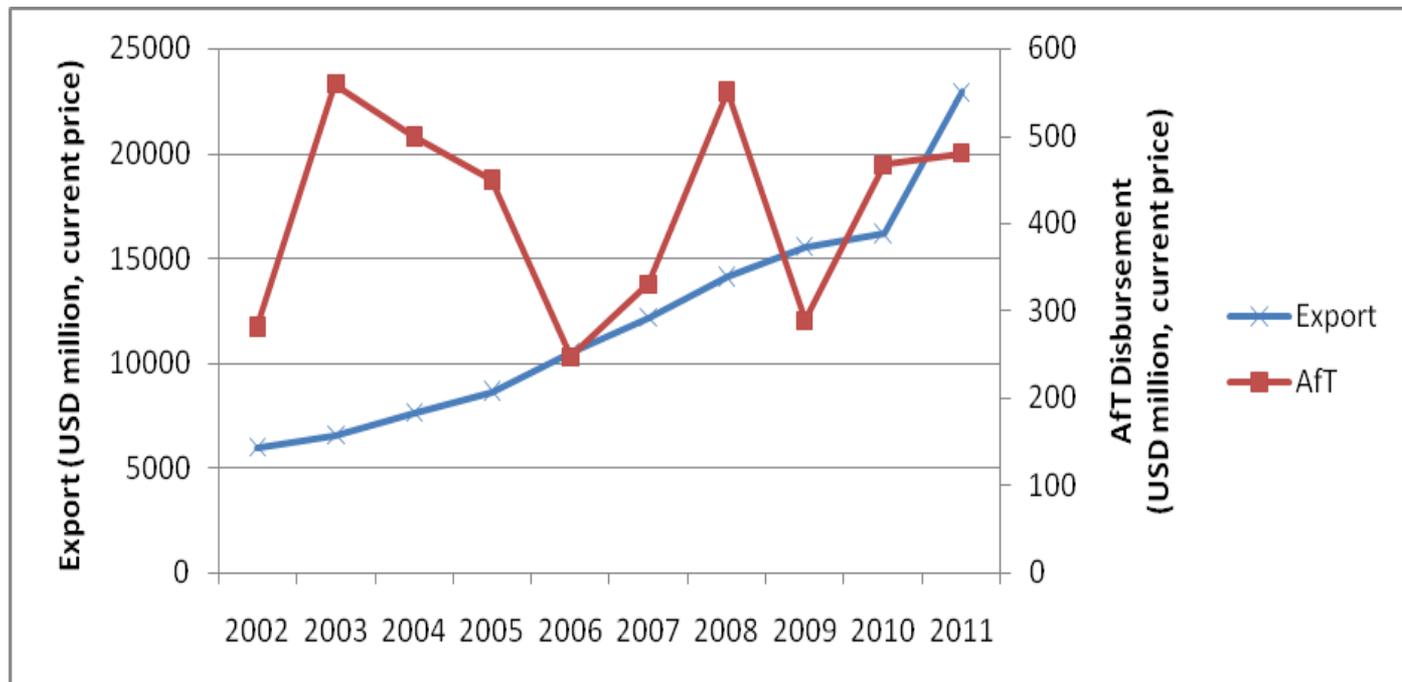


4. Impact of AfT in Bangladesh

4.1 At the Macro Level

- During 2002-11 both AfT disbursement to and exports from Bangladesh has increased but at different magnitudes and directions. It is difficult to make any straightforward association between AfT disbursements and export performance in Bangladesh.

Figure : Total export and aid for trade



Source: OECD-CRS database; GoB.



4. *Impact of AfT in Bangladesh*

4.1 At the Macro Level

- A combination of donor- and state-driven policy changes starting in the late 1980s were instrumental in creating a favorable business environment to boost exports.
- In the case of RMG, FDI played a far greater role than aid in supporting the industry.
- The impact of donor efforts to diversify the economy by strengthening high potential sectors like leather and light engineering will not be fully clear until these industries mature and reach productivity levels of the garment industry.
- One enabling factor is a strong infrastructure to facilitate trade. Aid is believed to have been a trigger behind sweeping changes in regulation and administrative policies (e.g. overhaul and automation of the NBR and Customs).
- The assessment of donor-led capacity building programmes among stakeholders is not as optimistic though it is considered a priority target area for aid.



4. Impact of AfT in Bangladesh

4.2 At the Micro Level: RMG

- In addition to the GoB's support in various forms as mentioned above the RMG sector has received support from a number of donors.
 - ü During 2002-12 a total of 17 trade-related technical assistance projects have been identified from the ADP documents;
 - ü Completed projects: 12; Ongoing projects: 5;
 - ü The MoC is the implementing agency for 14 projects
- These projects have been evaluated in terms of Relevance, Efficacy, Efficiency and Sustainability.
- The above mentioned projects for the RMG sector have been undertaken in line with the broader policy context of Bangladesh.
- RMG sector projects address some of the critical areas of the industry such as capacity building of workers and fulfillment of compliance requirements which in turn helped to improve competitiveness of the sector.
- Implementation of projects can be made more efficient, and project outcomes sustainable with adequate supply of human resources at the implementing ministries and improved coordination amongst various ministries.



4. Impact of AfT in Bangladesh

Selected AfT Projects on RMG	Objectives/Activities
Bangladesh Export diversification project (BDXDP): Product and Market development, Project coordination and development support component (1999-2005; World Bank)	Looked at the strengths and weaknesses of the sector and provided recommendations to enable the industry to meet post-MFA challenges
Bangladesh Quality support export diversification programme (BQSP) (EC; January 2006-June 2010)	Aimed to bring quality standards and quality management
Project preparatory technical assistance for small and medium enterprise development and export expansion programme (SMEDEEP) (ADB; 2003-06)	Training programme for displaced RMG workers under “Retraining of Displaced RMG Workers”
Small project facilities (SPF) (EU; 2004-07)	Promote civil society dialogue and to facilitate EU/Bangladesh cooperation in the areas of export diversification, trade-related matters and economic cooperation
Promotion of Social, Environmental and Production Standards (PROGRESS) (GIZ: 2005-2009)	Improve competitiveness of RMG sector through application of social and environmental standards as well as through skills development and productivity improvement
Preparatory assistance for trade and human development employment implication of MFA phase-out and sustainable policy (UNDP; 2006-07)	Development of activities geared towards enhancing the capacity of the government and other stakeholders, contributing to improved working conditions and a more competitive garment sector



Summary of Impacts

Whether AfT exhibits Impact	According to data and documents	According to stakeholders
At the Macro Level	No impact at the macro level; there has been erratic flow of AfT disbursement	Impact of AfT on the export sector has been marginal. The export sector flourished due to various national and international policies
At the Micro Level	RMG sector has benefitted from various AfT supported projects	Stakeholders feel the AfT in the RMG sector has been useful

Source: Authors



5. Recommendations

- Definition and categorisation of AfT
- Formation of an AfT Cell
- Mainstreaming trade policies
- More resources
- Home-grown projects
- Capacity building



THANK YOU