

Launch Meeting of the Research Project on *Evaluating Effectiveness of Aid for Trade in Nepal*

18 January 2011
Hotel Himalaya, Lalitpur

The launch meeting of a research project on "Evaluating Effectiveness of Aid for Trade in Nepal" was held in Kathmandu on 18 January 2011. About 50 stakeholders, including policy makers, academics, economists, private sector representatives, donor community and media persons, participated in the meeting.

The project is part of a global project initiated by Geneva-based International Centre for Trade and Sustainable Development (ICTSD) and South Asia Watch on Trade, Economics and Environment (SAWTEE), in collaboration with several other organizations, in six countries in Africa, Asia and Latin America/Caribbean. The objectives of the project are:

- To prepare a benchmark for monitoring the progress in commitment, disbursement, and utilization of Aid for Trade (AFT) resources, and evaluate the effectiveness of AFT on the ground.
- To collect/collate data/information to help stakeholders, including donors, partner governments, the private sector and civil society, make informed interventions/decisions on AFT issues.
- To contribute to the regional/global review processes.

Since Nepal has been selected as one of the countries in which case study is going to be conducted, SAWTEE has taken up the responsibility of implementing the project in Nepal. While the project will be implemented over the next five months, the launch meeting is intended to provide a platform for:

- Introducing the project concept as well as methodology to stakeholders and seek their feedback on how to fine tune the latter in the Nepali context.
- Identifying the key stakeholders/allies who could provide useful information to the evaluation team, and eliciting their support.

In the launch meeting, Mr Ratnakar Adhikari, General Secretary, SAWTEE introduced the project concept and methodology to stakeholders, who in turn provided their feedback on the same and how to make the project effective. Participants welcomed the initiation of the project as a very important and timely endeavour.

In his presentation Mr. Adhikari highlighted the fact that the monitoring and evaluation made at the global level by the Organisation for Economic Cooperation and Development and the World Trade Organization (WTO) are not fulfilling the true spirit of the recommendations of the WTO Task Force on AFT, which form the bedrock of the post-Hong Kong WTO Ministerial trade-related external assistance agenda. He identified concentration of assistance, lack of predictability of assistance, increasingly debt-creating nature of funding and broadness of definition blurring the difference between other official development assistance and AFT as the major challenges facing the AFT initiative.

In the context of Nepal, he enumerated the challenges at two levels to ensuring effective delivery and utilization of AFT. On the donor's side, the major challenges are lack of coordination; lack of appreciation of the concept of AFT at the level of donors' field offices; and the major focus being on software rather than hardware. The problems at the government level include: failure to fully mainstreaming of trade into the development agenda, particularly at the sectoral level; a lack of coordination within and outside the government; and low level of absorptive capacity.

While presenting the methodology, he divided them into various clusters and provided the indicators as well as possible sources of data/information based on the recommendations of the WTO Task Force on AFT; the Paris Declaration on Aid Effectiveness; an assessment of the current approaches to monitoring and evaluating; literature review; and interviews conducted with stakeholders in Bangladesh and Nepal as well as in Geneva.

Mr Chandra Ghimire, Joint Secretary, Ministry of Commerce and Supplies (MoCS), Government of Nepal noted that both structural aspects (e.g., size of aid and mechanism of delivery) and behavioral aspects (e.g., absorptive capacity) of aid should be considered. He suggested that the short-run (results), medium-run (results) and long-run (outcome) impacts of AFT be assessed. Stressing mutual accountability on the part of donors and recipients, he noted that the need for "concrete and visible results on the ground" applies to both parties. He pointed out that while additionality requirement seems to have been met, AFT in infrastructure and productive capacity building has been declining. He informed the gathering that the Government of Nepal is developing a Tier II project under the Enhanced Integrated Framework, and that consultations are being held with donors for the implementation of Nepal Trade Integration Strategy. He pointed out that while the Government of Nepal is aggressively mainstreaming trade in its development strategy, trade is yet to be integrated into the local-level donor agenda. Some donors even do not have a global AFT strategy. Lack of dedicated staff for AFT matters in donor agencies is also a problem. There is also a tendency among donors to shift regular official development assistance to AFT. There are concerns about both quantity and quality of AFT. The problems on the part of the Government of Nepal include: AFT not appearing strongly in the existing foreign aid policy; poor database on aid; low awareness at the government level; and lack of clear modalities on mobilization and utilization of AFT.

On the methodology, Mr Ghimire welcomed that the project is going beyond the suggestions of the WTO's Task Force on AFT in evaluating the effectiveness of AFT, and made the following comments:

- The additionality criterion should be applied to the sectoral level too.
- Difference between pledged and committed amounts of aid should be used as another measure of predictability.
- The answer to the question as to who designed and led the aid allocation process should shed light on ownership.
- The extent of use of the coordination mechanism of the Government of Nepal in the aid-giving and -taking process should be one indicator of alignment.
- For sustainability, whether the government has made an allocation of domestic resources for an AFT project under a separate budget line should be another indicator.
- The extent to which donors avail themselves of the MoCS-led coordination mechanism while providing AFT should be another indicator of effectiveness.
- As there is a trend among donors to bypass the existing government mechanism for aid delivery, how resources are being channelized by donors should be assessed.
- While assessing the effectiveness of AFT, whether resources are directed at developing the entire value chain of products with export potential along with creating and strengthening related trade infrastructure should be assessed. This is because donors have the tendency to spread resources over many products.
- In assessing absorptive capacity, whether projects are completed or resources utilized within the extended time, where relevant, should also be taken into account.
- The share of aid that goes into consultancy fees should be taken into account in assessing utilization of aid.
- How AFT is addressing adjustment costs resulting from trade liberalization is an important area that the study would do well to assess.
- While assessing the coherence of AFT financing with other financing, it may be more worthwhile to focus on areas other than climate change.

Mr Kush Kumar Joshi, President, Federation of Nepalese Chambers of Commerce and Industry (FNCCI), said the objectives of the project are very pertinent, as the effectiveness of AFT in enhancing Nepal's export performance remains highly questionable. Whatever little assistance Nepal has received for trade is mostly in the area of awareness raising and research, with only

consultants appearing to have benefited from the latter. The area of enhancing productive capacity has been grossly neglected. Mr Joshi suggested that the focus of AFT should be on market intelligence, reducing export cost, complementing public-private partnership, and developing the value chain of products identified as having high export potential.

Dr Bishwambher Pyakuryal, Professor, Central Department of Economics, Tribhuvan University, seconded Joint Secretary Ghimire's view that absorptive capacity should be assessed at the level of both parties, the recipients and the donors. He argued that the macroeconomic difficulties facing Nepal makes the mobilization of an adequate matching fund by Nepal government difficult. He said that the study under the project is very relevant in the context of an alarmingly widening trade deficit, as the study would come up with recommendations for making AFT effective, which could help improve the country's dismal export performance. He stressed the need for a dialogue on AFT as awareness about it is poor and the need for regular tracking of AFT. Pointing out that Nepal has the lowest investment in roads as a percentage of GDP in South Asia, he highlighted the potential importance of AFT in building trade-related infrastructure. He suggested that an econometric study be carried out to assess the impact of AFT; that the impact of AFT on human development be also assessed, even if on a limited scale; and that the multi-donor-funded binding constraints to growth and development study in Nepal be drawn upon.

In the floor discussion, it was stressed that predictability and sustainability are the most important of the four criteria identified by the WTO Task Force on AFT. Monitoring and evaluation of AFT is important but it entails cost. How to bear the cost is a big question. Non-debt creating finance is very important for an LDC like Nepal, and to measuring the grant component of AFT, as mentioned in the methodology, will be important. Whether AFT is truly over and above the traditional aid flows is a matter of concern and the study is expected to make the real situation clear. It was suggested that the study also look into how AFT can help Nepal's regional integration efforts, and assess the impact of AFT at the national as well as regional levels. It was pointed out that Nepal's foreign aid policy, formulated in 2002, be revisited to, among others, incorporate AFT.

In the context of some ambassadors doling out funds in villages, bypassing the official mechanism, it was highlighted that the study will face the challenge of getting a true picture of the disbursement and allocation of aid. The need to evaluate the alignment of aid flow with domestic needs and priorities was emphasized by many participants. It was suggested that the study look into to what extent AFT has been an effective financing for stability and sustainability of exports, and that it provide concrete recommendations in that regard.

Making his remarks as the chief guest, Mr Madhav Ghimire, Chief Secretary, Government of Nepal, flagged the need to be realistic while assessing AFT, pointing out that problems that have plagued aid effectiveness for decades will naturally also dog a new concept such as the AFT. He noted that of late donor focus has been on the peace process and democratization (as, for

example, reiterated by the donors' latest peace and development strategy for Nepal), with the economic, including trade, agenda relegated to the sidelines. He stressed the need for ending the "government's monopoly on aid", pointing out that this may help prioritize AFT. While policy-level trade mainstreaming is easy, the challenge is to ensure that trade issues are in-built in projects and programmes. Mr Ghimire observed that what is needed is tangible investment rather than technical assistance. But he also cautioned that getting AFT is not a panacea and Nepal must first put its own house in order, for example, by setting priority sectors for AFT.

In his remarks as the chair of the meeting, Dr Posh Raj Pandey, Executive Chairman, SAWTEE, observed that the following factors have to be considered in evaluating the quality of AFT: the nature of conditionalities; whether the process is demand-driven or not; the sustainability of the projects and activities supported by AFT; the extent of participation of stakeholders in the various stages of the aid process; and whether external support takes a holistic approach (designed towards developing entire value chains) or not. He noted that, on effectiveness of AFT, stakeholders appear to be concerned about issues such as the mechanism under which aid is negotiated and delivered; mutual accountability of donors and the recipient; the sectors in which aid is directed; the impact on exports; and private sector engagement.