

# Findings of the Research on Evaluating Development Effectiveness of Aid for Trade in Nepal

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# Background

- ▶ Fundamental assumption in the context of trade and development
  - Managed correctly trade integration can help LDCs achieve their developmental objectives
  - Major impediment to export expansion are supply-side constraints and adjustment problems, addressing which is the key mandate of Aid for Trade (AfT)
- ▶ Global community is at loss trying to find the effectiveness of AfT because Geneva (WTO) and Paris (OECD) based and largely top-down mechanisms have not very been helpful

# Objectives

- ▶ To fill this gap country case studies are currently being conducted in Malawi and Mauritius (Africa) Cambodia and Nepal (Asia), and Jamaica and Peru (Americas).
- ▶ The specific objectives of these studies, including the one in Nepal are:
  - To prepare benchmark for monitoring the progress in commitment, disbursement, and utilization of AfT resources and evaluate its effectiveness in Nepal.
  - To collect/collate data/information to help various stakeholders, including donors, partner governments, private sector and civil society make informed interventions/decisions on AfT issues.
  - To prepare a case study based on evaluation of a project funded through trade-related development assistance and/or AfT.
  - To contribute to the regional/global review processes.

# Methodology

Largely based on the methodology developed by ICTSD and SAWTEE. Specific details are provided in Table 1.

**Table 1: Detailed methodology**

Primary sources		Secondary sources	
Qualitative	Quantitative	Qualitative	Quantitative
Interviews with stakeholders based on semi-structured questionnaire	Interviews with stakeholders based on semi-structured questionnaire	Literature, reports, websites from various national and international sources	<u>Aid (including AfT data)</u> - OECD CRS - Ministry of Finance - Ghimire (2011)
<u>Case study through</u> - Documents analysis - Focus group discussion			<u>Other data</u> - WB (WDI) for CPI and exports data - IMF (DOTS) for RER data - Kaufmann <i>et al</i> (2009) for Political Risk data

# Limitations

- ▶ Nepal is a unique case due to post-conflict/transitional situation, which is only partially captured by the “political risk” indicator; “external validity” may be limited
- ▶ Due to specialized nature of study, the study team had to rely on interviews of stakeholders, who had moderate to sufficient level of knowledge about the issue; even after prompting there are considerable “don’t know/can’t say” type of answers
- ▶ Difficulty in measuring impact at the “outcome” level primary because of attribution problem, absence of counterfactuals and lack of robust data.

# Trade related technical assistance (TRTA) in Nepal

- ▶ Nepal has participated in most of the TRTAs including:
  - Window I and II of Integrated Framework (IF)
  - Standard and Trade Development Facility (STDF)
  - Tier I of Enhanced IF (EIF)
  - Doha Development Agenda TRTA
- ▶ But not on:
  - Trade Facilitation Facility (TFF) – new initiative
  - Joint Integrated Trade Assistance Programme (JITAP) – not eligible
- ▶ In line with global experience of these initiatives have been which is “moderately satisfactory”, Nepal has achieved limited success through these initiatives

# Aid for Trade in Nepal

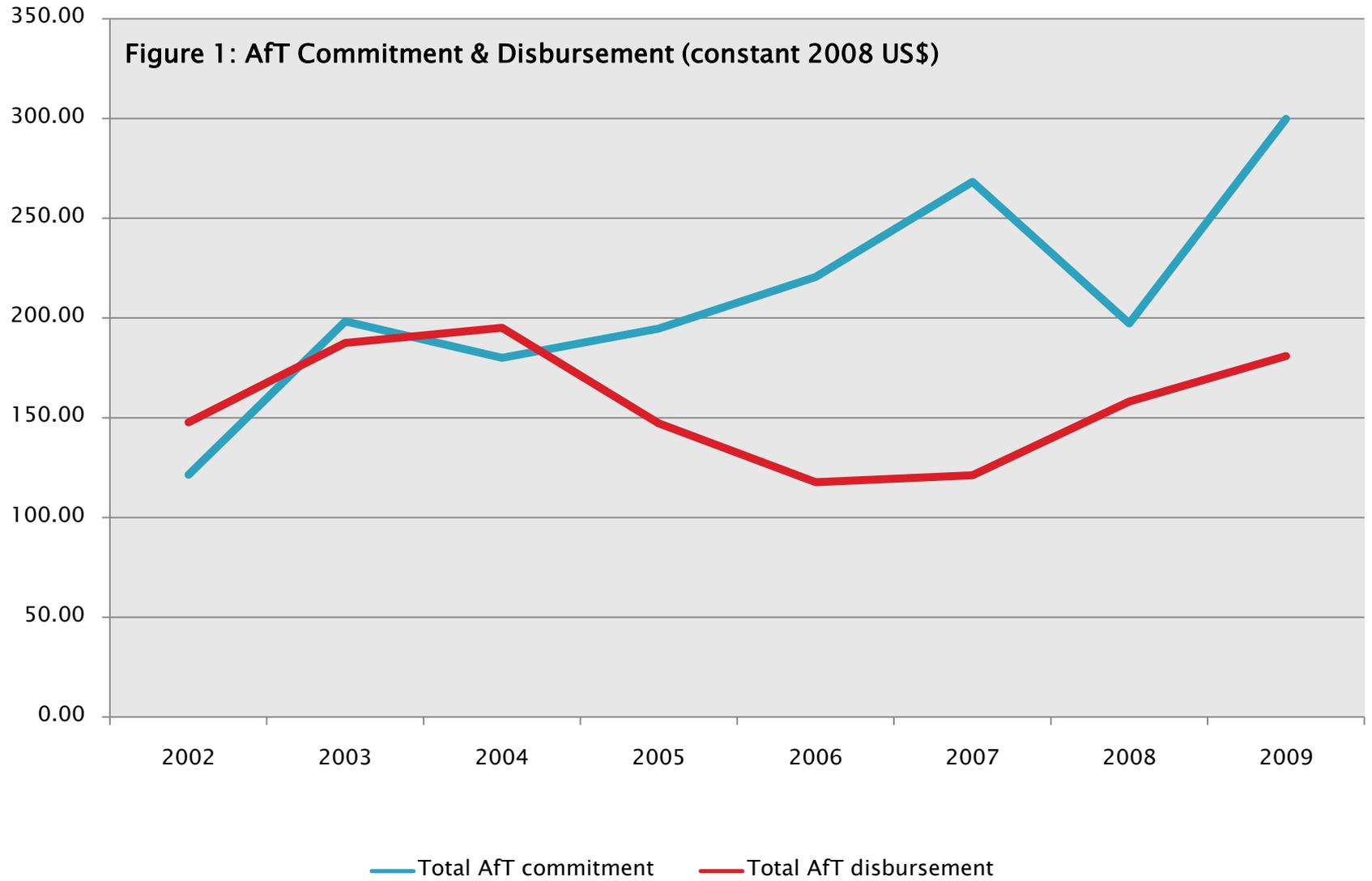
- ▶ Aid for trade has been more or less growing in Nepal since 2002, in line with the global growth; and the growth has been higher in the recent period (2006-09) compared to the base period (2002-05), although all category did not register similar growth (Table 2)
- ▶ However, disbursement has not kept pace with commitments (Figure 1)
- ▶ There is a lack of mechanism to systematically record the flow of AfT at the national level, due to which the above figures could not be verified from the national sources

**Table 2: Growth in global AfT commitment vis-à-vis Nepal (2002-2005) vs. (2006-2009), USD 2008 constant**

Sector/Time period	Global (average)			Nepal (average)		
	2002-05	2006-09	Growth (%)	2002-05	2006-09	Growth (%)
Economic infrastructure	12,993	18,012	39	77.17	157.14	104%
Building productive capacity	11,338	15,124	33	96.34	87.77	-9%
Trade policies & regulations (inc. TR Adj.)	843	1,202	43	0.08	1.61	1913%
Total AfT	25,174	34,344	36	173.6	246.52	42%

Source: OCED Creditor Reporting System (CRS)

Figure 1: AfT Commitment & Disbursement (constant 2008 US\$)



# Major findings of the empirical study



# Additionality (commitment) - YES

**Table 3a: Additionality criteria**

Conditions to be satisfied	Test	Yes (Y) No (N)
AfT in the recent period is greater than AfT in the base period	Increased by 42%	Y
Non-AfT ODA in the recent period is greater than non-AfT ODA in the base period	Increased by 65%	Y
Growth rate of non-AfT ODA in the recent period is greater than or equal to the growth rate of non-AfT ODA in the base period	Increased by 42.9 percent compared to 2.7% in base period	Y
Growth rate of non-AfT ODA in the recent period in Nepal is greater than or equal to the growth rate of non-AfT ODA at the global level	Increased by 42.9 percent in Nepal compared to 8% at the global level	Y

Notes Base period (2002-2005); Recent period (2006-2009)

Source: OECD CRS

# Additionality (disbursement) - NO

Table 3b: Additionality criteria

Conditions to be satisfied	Test	Yes (Y) No (N)
AfT in the recent period is greater than AfT in the base period	Decreased by 14.7%	N
Non-AfT ODA in the recent period is greater than non-AfT ODA in the base period	Increased by 59%	Y
Growth rate of non-AfT ODA in the recent period is greater than or equal to the growth rate of non-AfT ODA in the base period	Increased by 16.8 % percent compared to 3.2 % in base period	Y
Growth rate of non-AfT ODA in the recent period in Nepal is greater than or equal to the growth rate of non-AfT ODA at the global level	Increased by 16.8 % in Nepal compared to 10% at the global level	Y

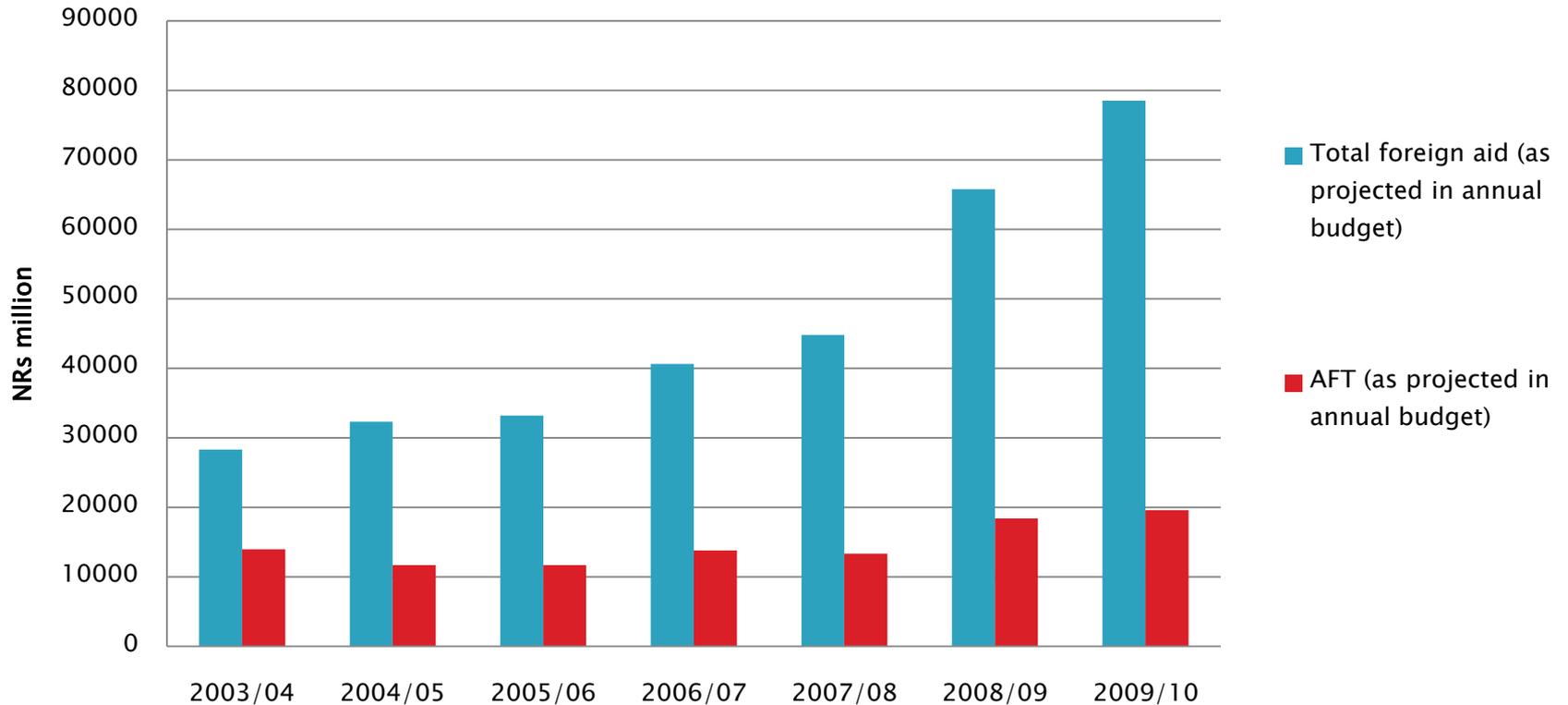
Notes Base period (2002-2005); Recent period (2006-2009)

Source: OECD CRS

# Additionality from national sources

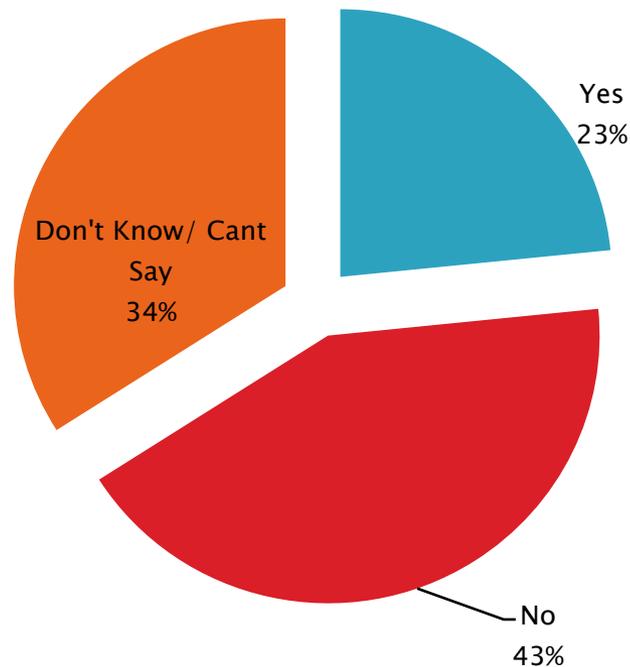
- ▶ Only possible for **commitment, not for disbursement**
- ▶ First two conditions are fulfilled, pointing towards additionality, because:
  - Compared to the base period, average AfT commitments have increased by 20 percent, from NRs 12.8 billion to NRs 15.4 billion
  - Average non-AfT ODA commitment increased by a much higher 113 percent.
- ▶ However, due to data constraints, it is not appropriate to test the two other conditions with national data, although AfT as percentage of total ODA has been declining (Figure 2)

## Figure 2: Total aid vs. AFT commitments (as projected in annual budget)



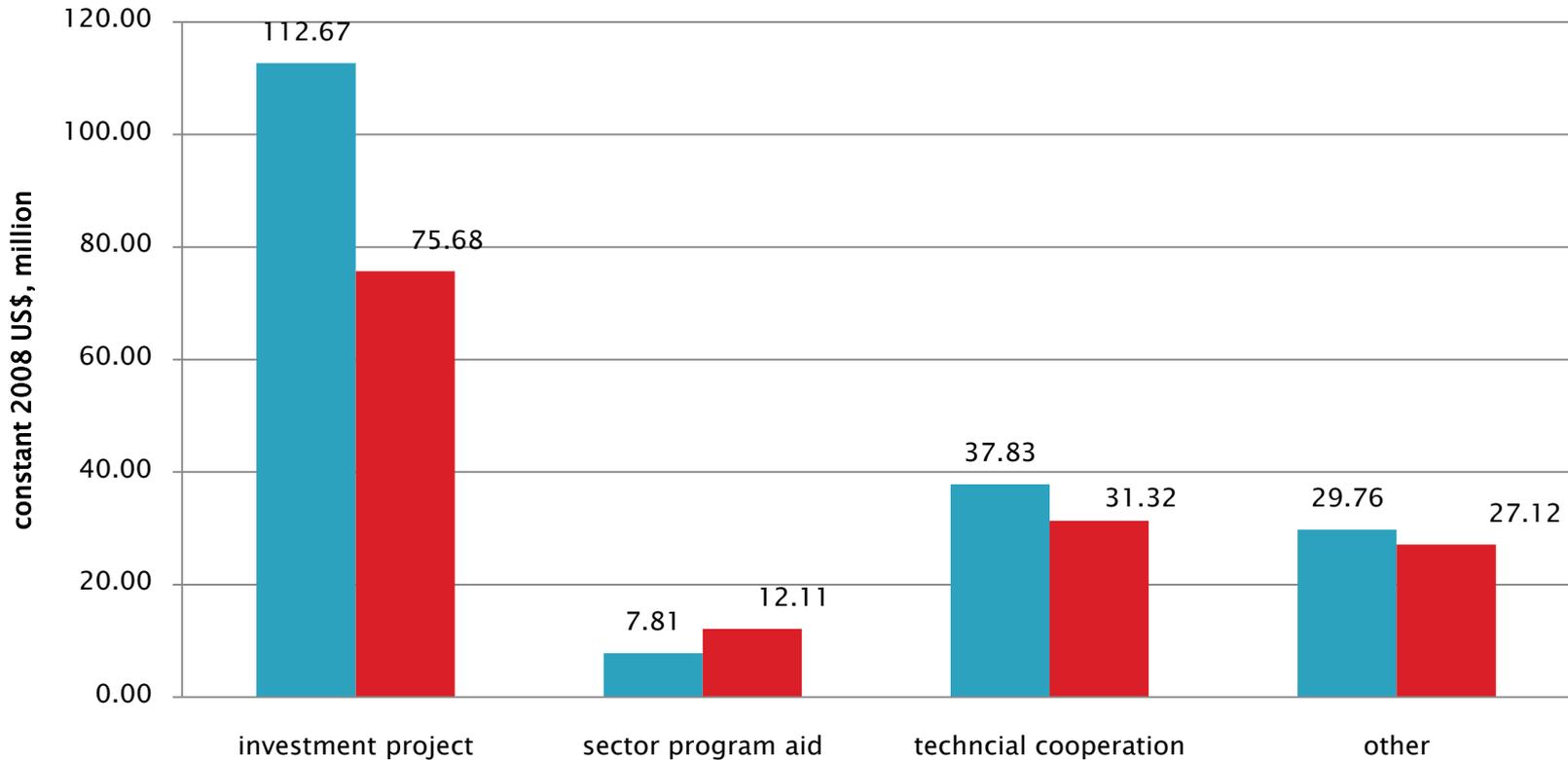
# Additionality: Survey result

**Figure 3: Has Nepal received a higher amount of AFT after the launch of the initiative in 2005?**



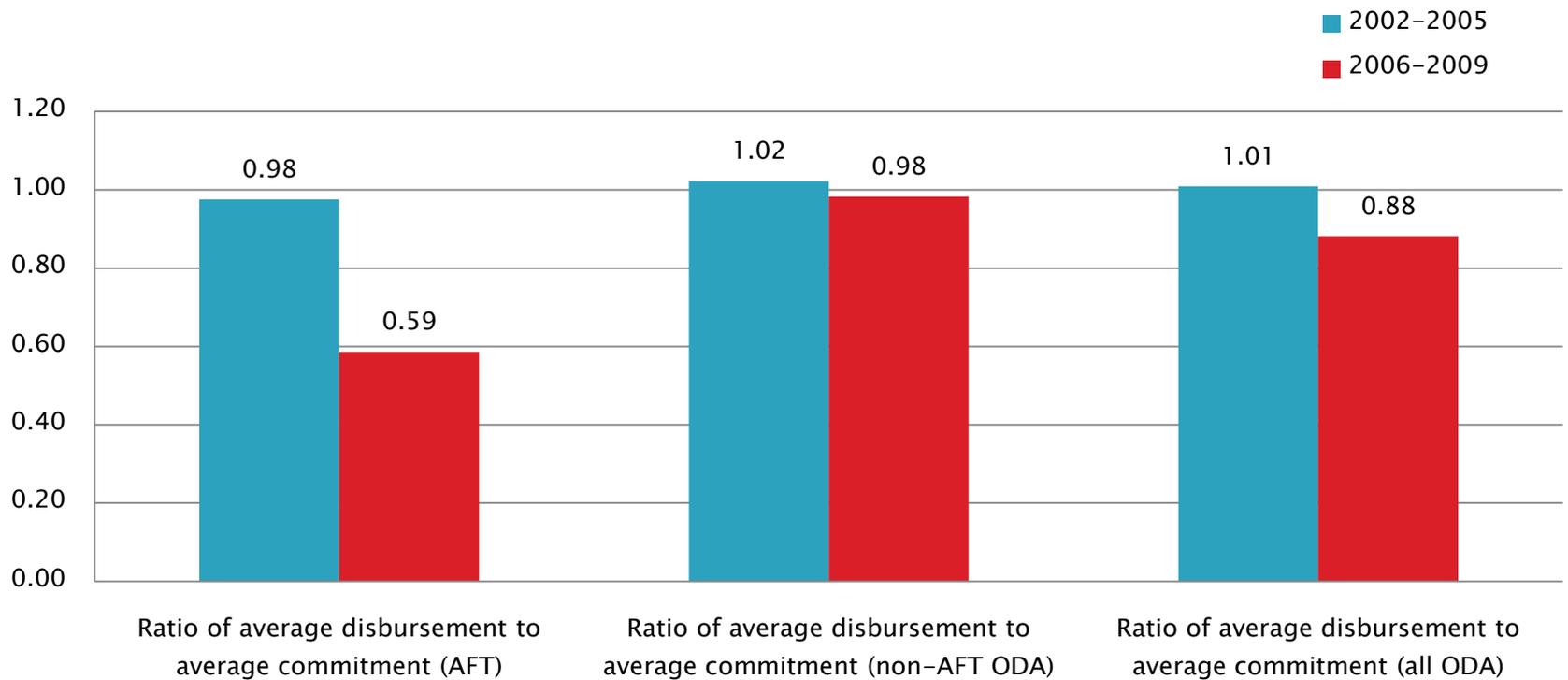
# Nature of AfT (disbursement)

Figure 4a: Different categories of assistance (disbursement)



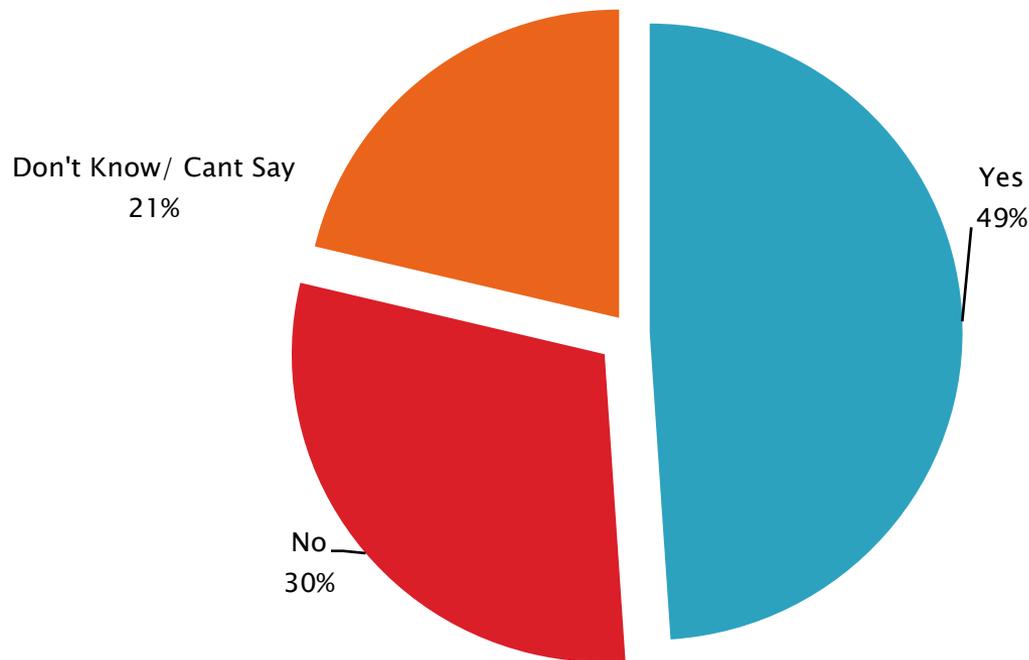
# Predictability based on OECD data

**Figure 5: Variation between disbursement and commitment**



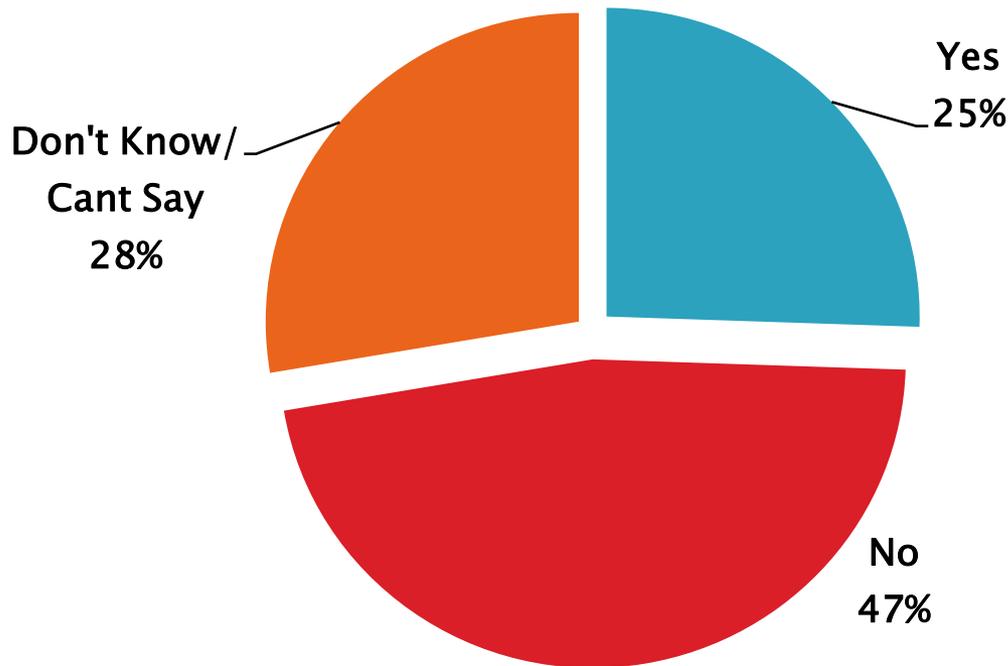
# Predictability (based on survey result) - I

**Figure 6a: Has there been variation between the commitment made by donors and actual disbursement that takes place?**



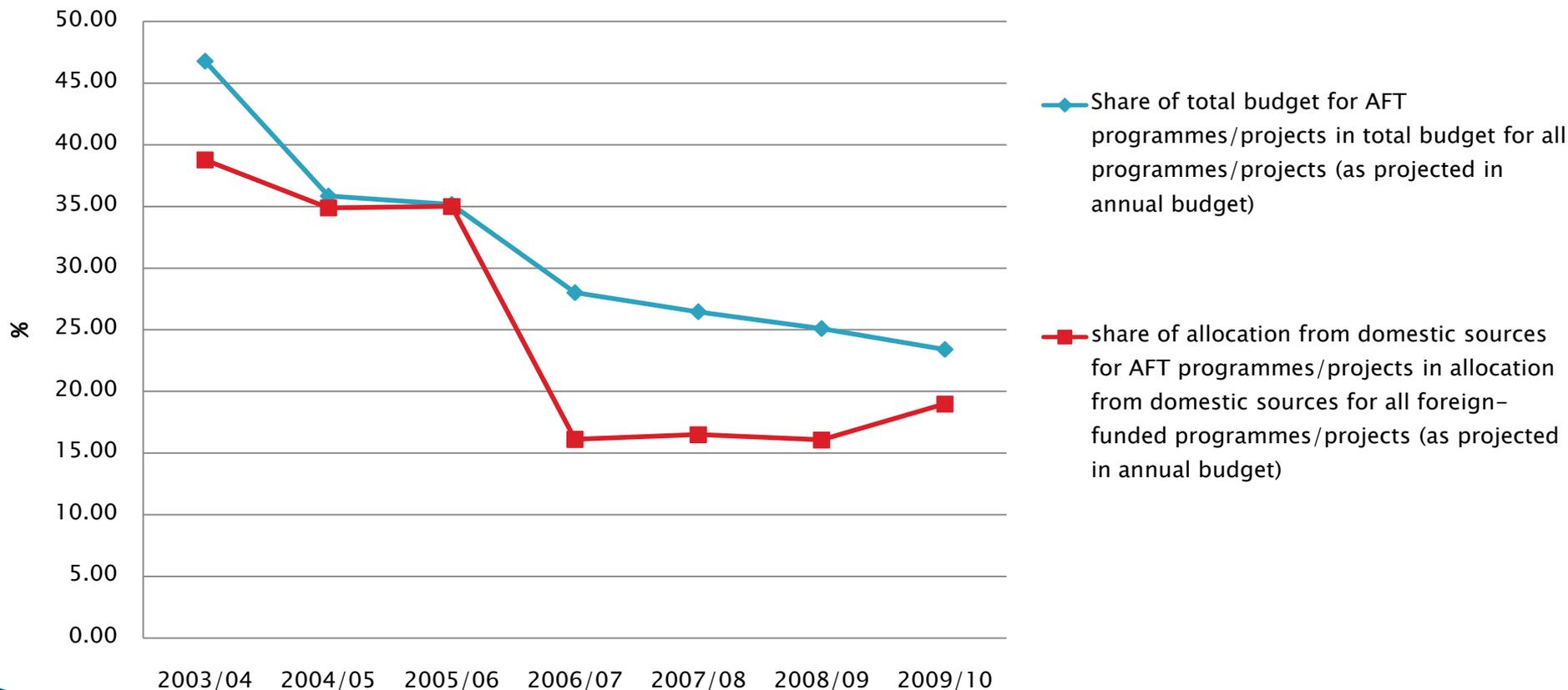
# Predictability (based on survey result) - II

**Figure 6b: Have you encountered external resource constraints, even after a commitment to this effect is made by the donor(s)?**



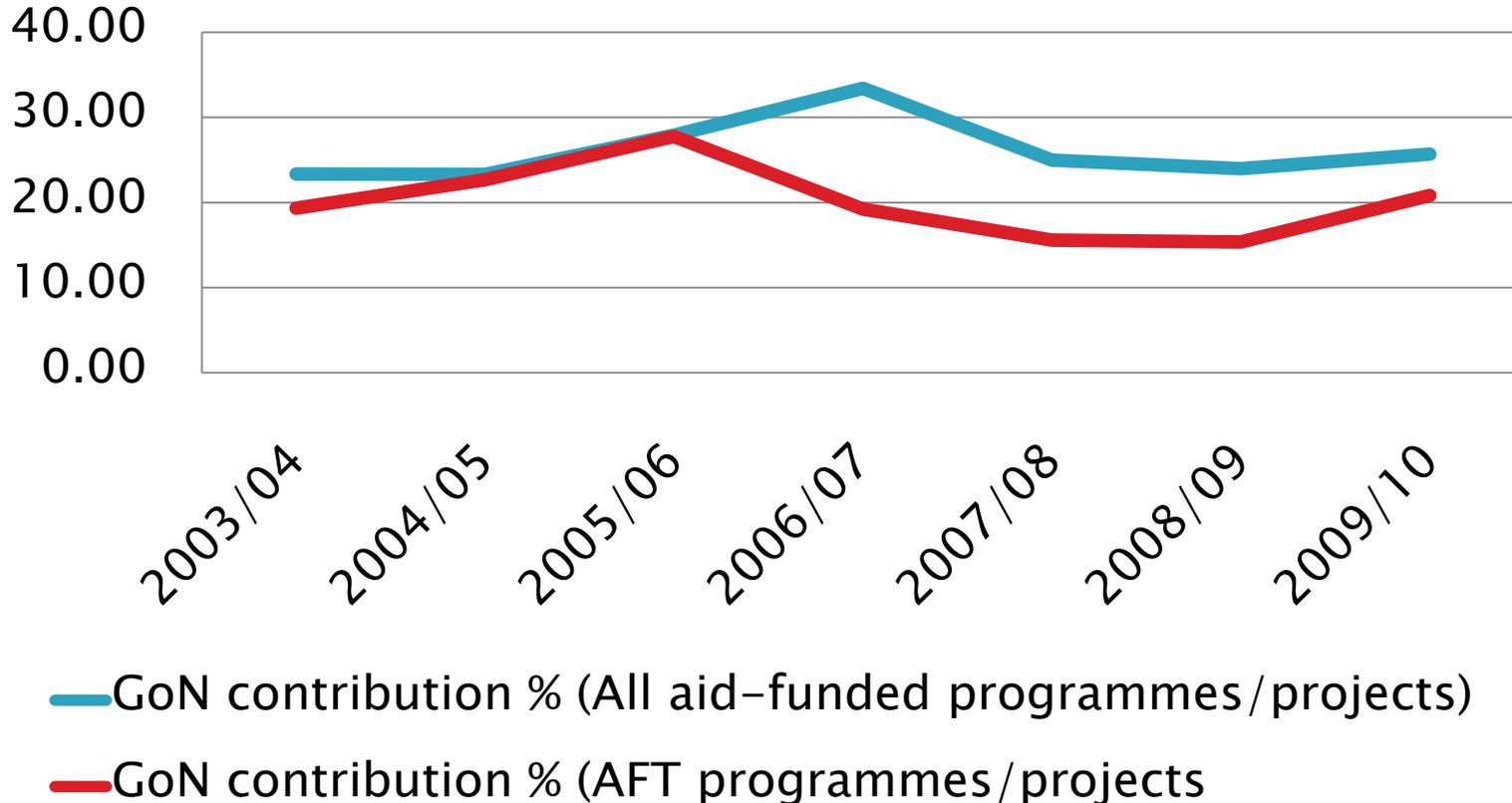
# Sustainability (based on GoN data) - I

## Figure 7a: Budgetary allocation for AFT programmes/projects



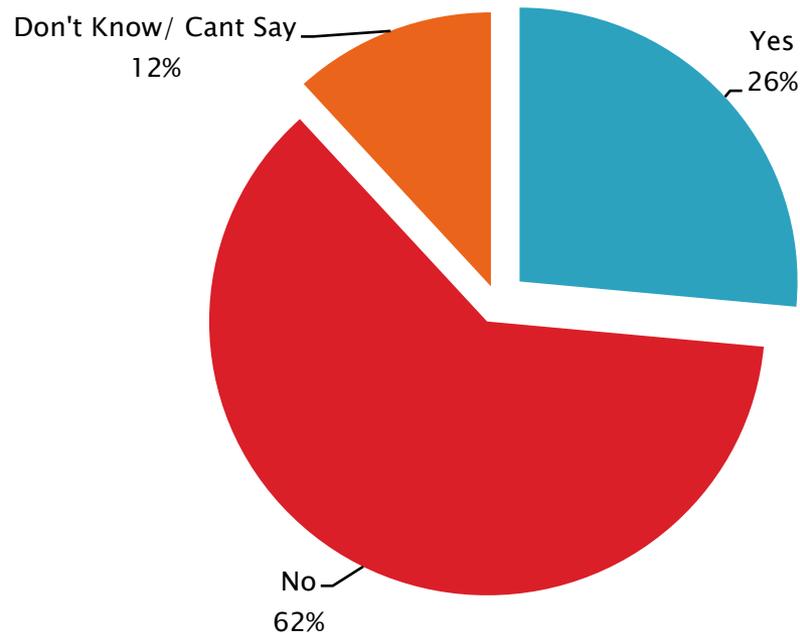
# Sustainability (based on GoN data) – II

Figure 7b: GoN's relative contribution in aid-funded programmes/projects (as projected in annual budget)



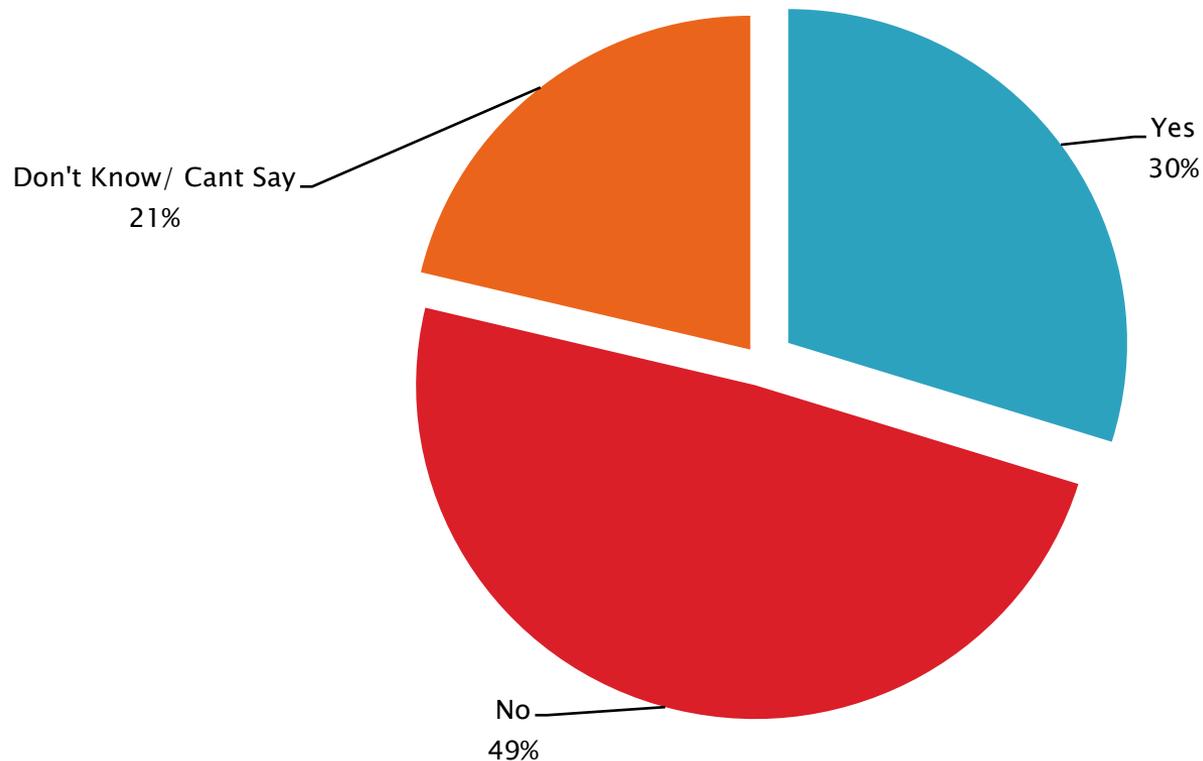
# Sustainability (survey result) – I

**Figure 8a: Are there any project funded through AFT funding, where sustainability aspect has been taken care of by the government?**



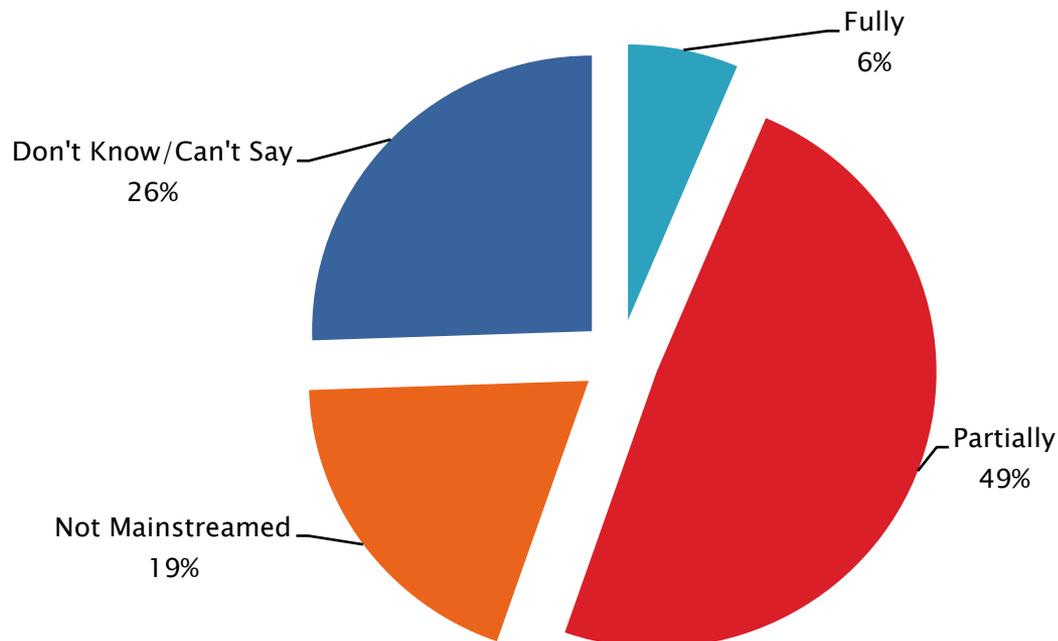
# Sustainability (survey result) – II

Figure 8b: Have the AFT donors been building the capacity/expertise of local institutions/experts such that AFT projects could continue even when donor support ceases?



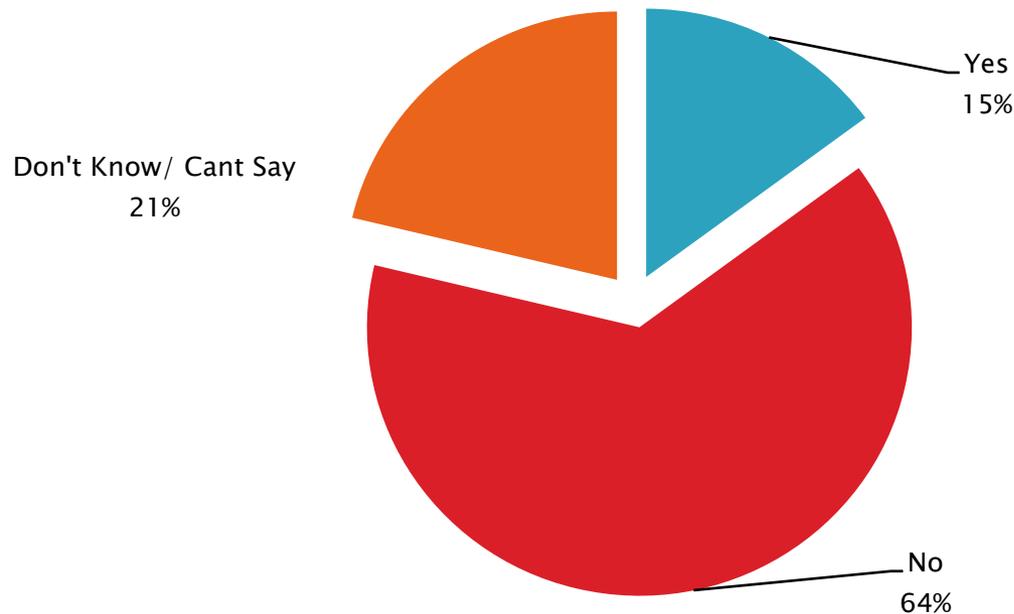
# Ownership/mainstreaming (survey results) – I

**Figure 9a: To what extent government of Nepal has mainstreamed trade in the national development strategy at the substantive level?**



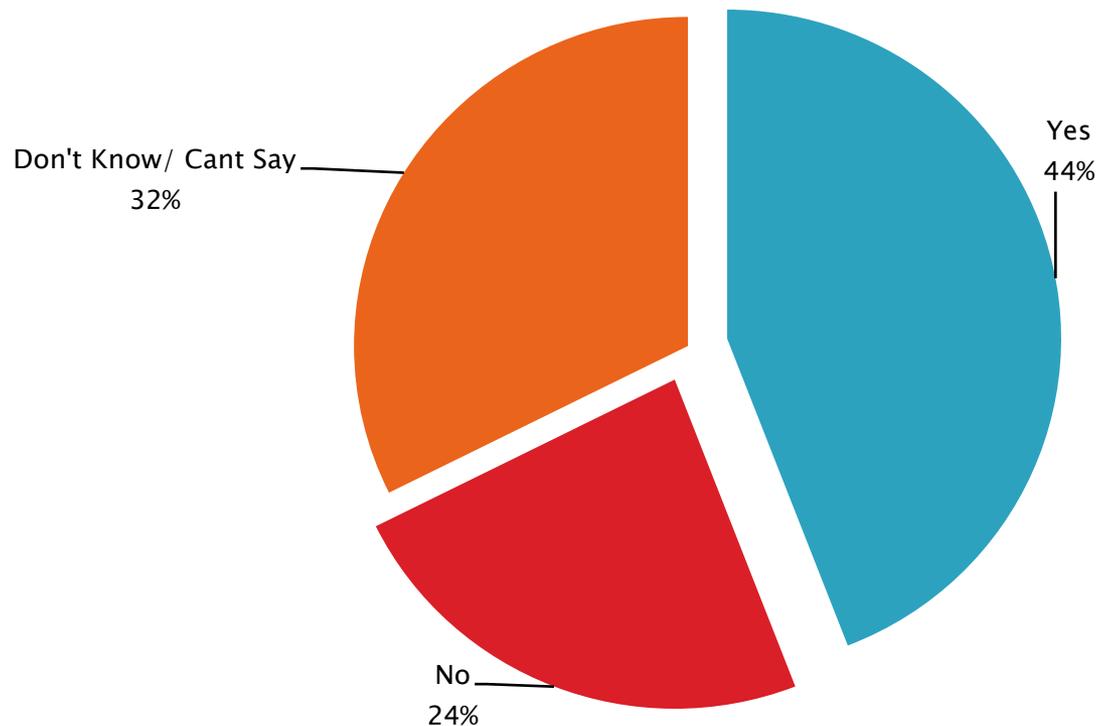
# Ownership/mainstreaming (survey results) – II

**Figure 9b: Have donors mainstreamed trade in the planning and implementation of their aid strategy?**



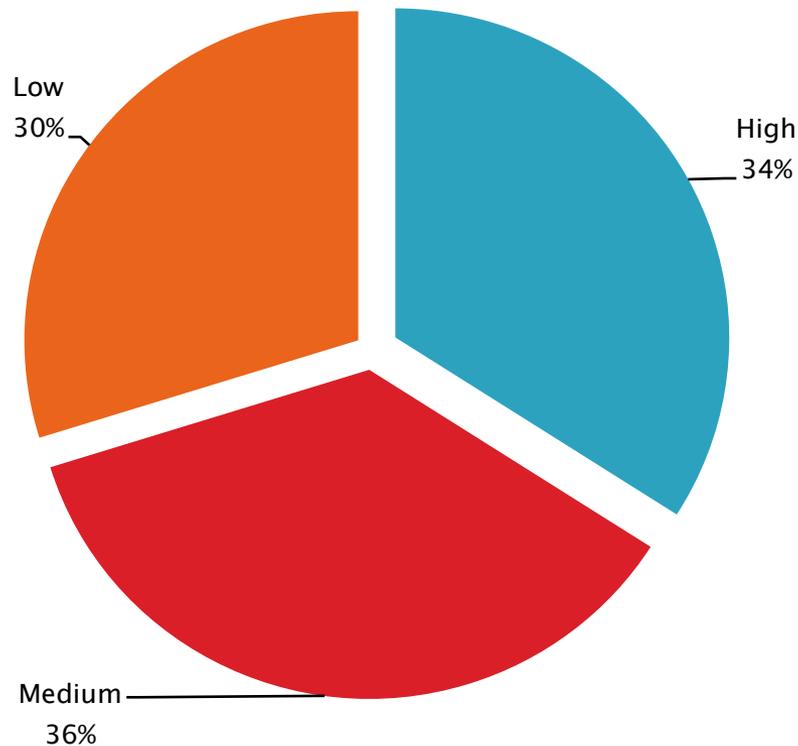
# Alignment (survey result)

Figure 10: Are AFT projects implemented through PIUs created by donors themselves?



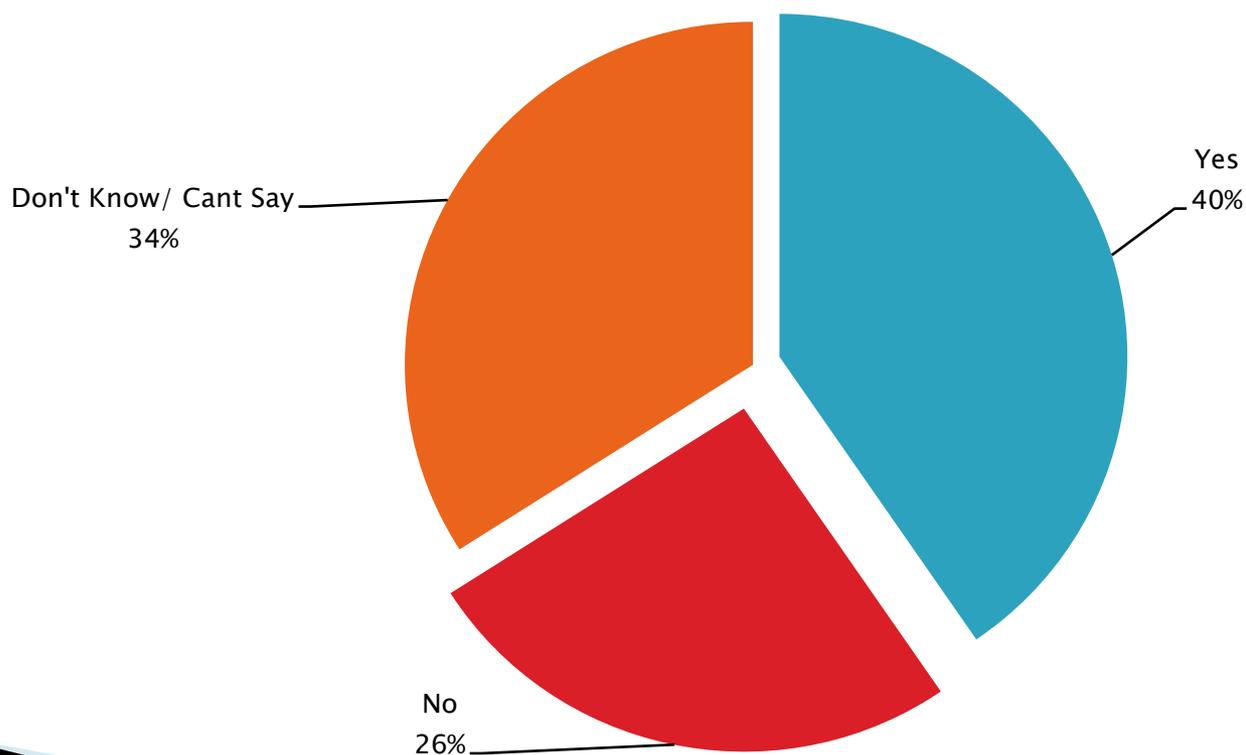
# Donor coordination (survey result) –I

**Figure 11a: What is the level of duplication, if at all, amongst the donors on the given category AFT project/programme?**



# Donor coordination (survey result) –II

**Figure 11b: Have the donors been able to establish synergy between the AFT project/porgrammes?**



# Macro level impact (survey result)

- ▶ Regression analysis based on AfT disbursement and export performance data for 15 years' period (1995 to 2009) shows AfT has had a positive impact on exports performance
- ▶ Results show that
  - Without controlling for other influencing factors it is found that 1 percentage increase in AfT disbursement (with a lag of one year) is associated with exports growth by 0.224 percentage.
  - When we control for other factors (real world demand, real effective exchange rate and political risk), the increase in exports growth as a result of 1 percent increase in AfT disbursement turns out to be 0.117 percentage.

# Case study: project selection criteria

- ▶ Five criteria for project selection
  - Category: Project falling clearly under one of the six categories of AfT identified by AfT Task Force
  - Time-frame: Substantial project/programme activities implemented between 2002 and 2009 (the period under observation)
  - Information: Availability of information, including a website of the project and presence of institutional memory to seek and obtain required information
  - Modality: Multiple modality of delivery (“hardware” and “software”)
  - Donor: Multiple donors’ engagement
- ▶ Based on these criteria Enhancing Nepal’s Trade Related Capacity (ENTReC) project was selected

# Case study (Project level impact evaluation)

**Table 4: Impact evaluation**

Project intervention	Results	Major constraints/additional points
Increase competitiveness of Nepali exporters	Partially achieved	Aggravation of supply-side constraints mainly due to fluid political situation
Create a more empowered and engaged private sector	Partially achieved	Lack of institutional memory of the private sector and discontinuity of some of the activities initiated under the project
Enhance the rigor of analysis underpinning Nepali trade policy	Partially achieved	Lack of full support for the completion of database for inserting country into GTAP and transfer of responsibility to the Planning Commission
Foster human development friendly investment climate	Very limited achievement	Continued deterioration of investment climate and non-enactment of major economic legislations because of them falling outside the priority of the government, and non-adoption of investment policy due to split of the Ministry
Explore areas of future promises for Nepal's trade-related economic growth	Fully achieved	Preparation of NTIS is a major achievement in the areas of exploring the future promises for Nepal's trade-related economic growth

# Coherence

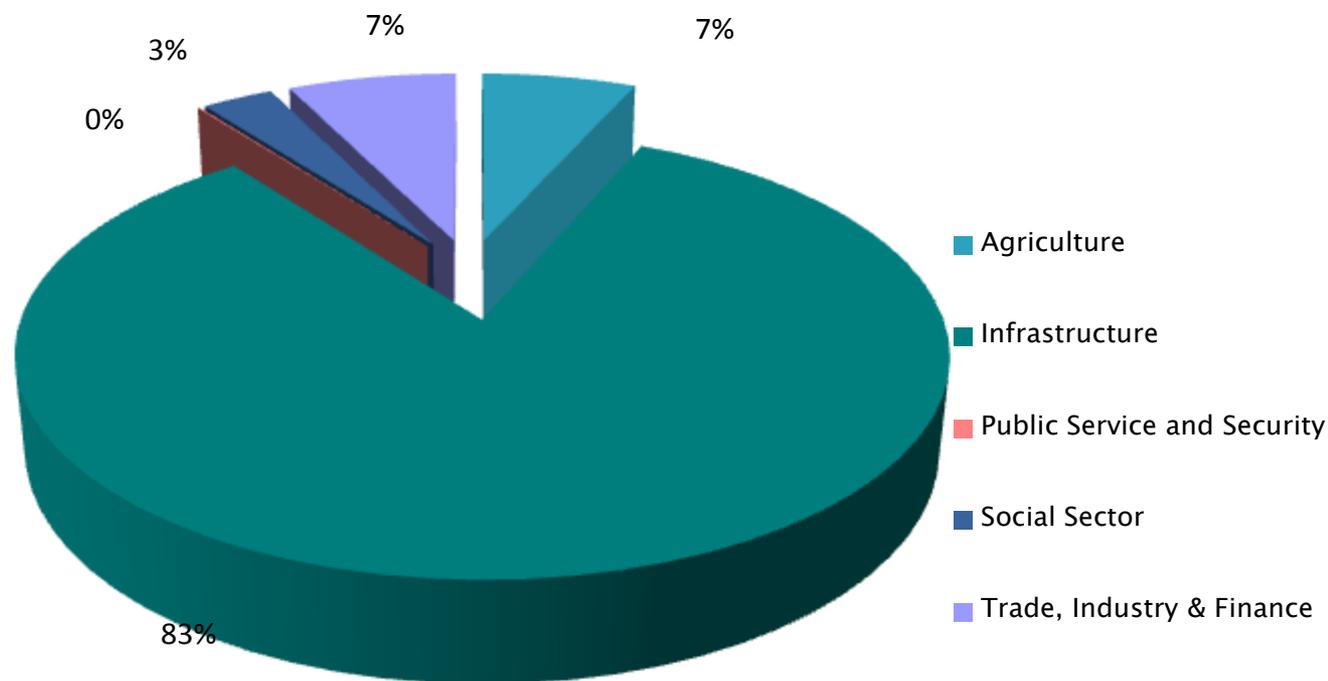


# Climate financing

- ▶ Although there are possible synergies between these two modes of financing, there has been limited efforts to exploit the opportunity
  - So far, the major climate finance Nepal has received since 2005 is US\$1.25 million for the preparation of NAPA, for whose implementation more aid is in the pipeline.
  - But, the aid that is coming for the implementation of NAPA is about 10 percent of the required US\$1 billion.
  - There is potential to leverage climate finance for the development of economic infrastructure like hydroelectricity.
- ▶ Regarding donors, most of them have not explicitly linked trade with climate change in Nepal. For instance, while the Finnish government takes AfT as a cross-cutting issue and link it with climate finance at the global level, they have not done so in the case of Nepal

# South-South cooperation

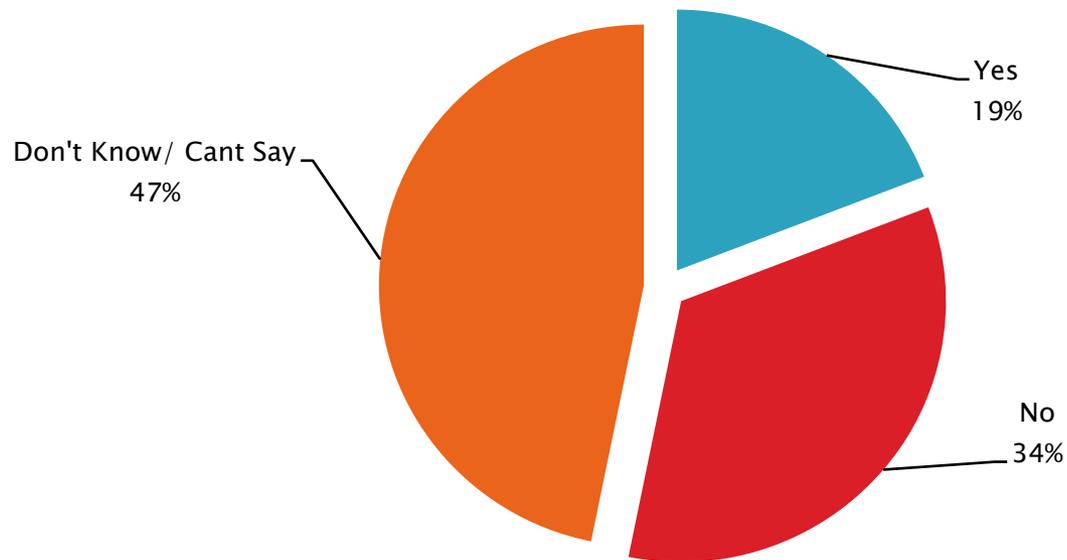
Figure 12: Percentage shares of support to various sectors (2004/05- 2010/11)



Source: Ghimire (2011)

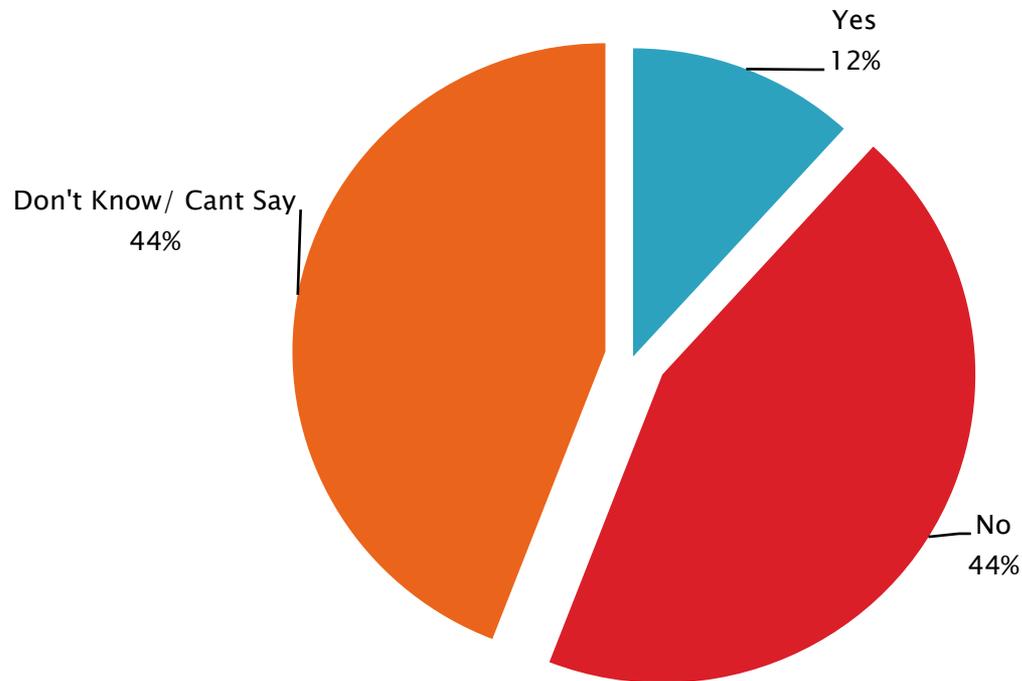
# South-South cooperation (survey result) –I

**Figure 13a: Are the support provided by the South-South donors in line with our trade and development priorities?**



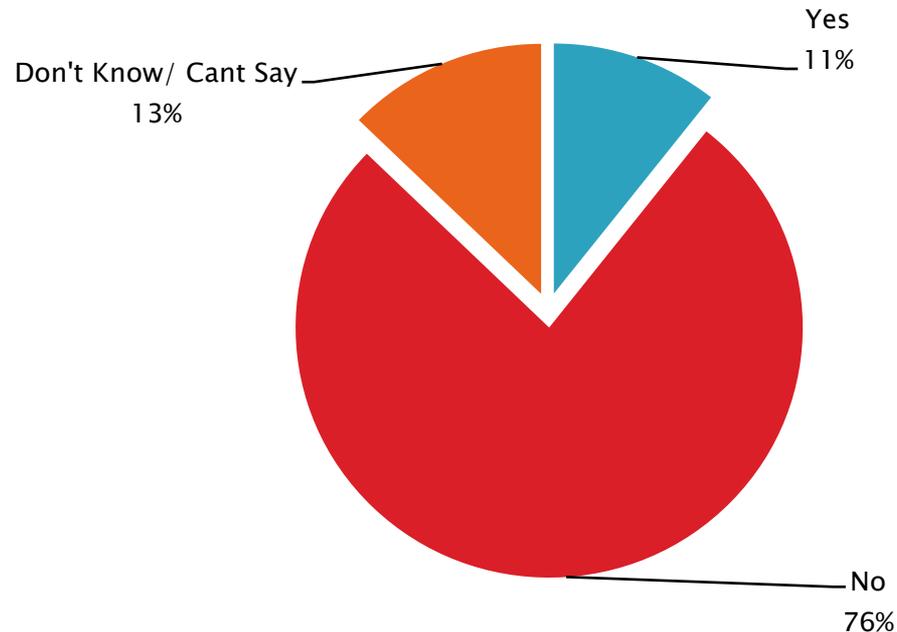
# South-South cooperation (survey result) –II

**Figure 13b: Have South-South donors been adhering to the basic tenets of Paris Declaration on Aid Effectiveness?**



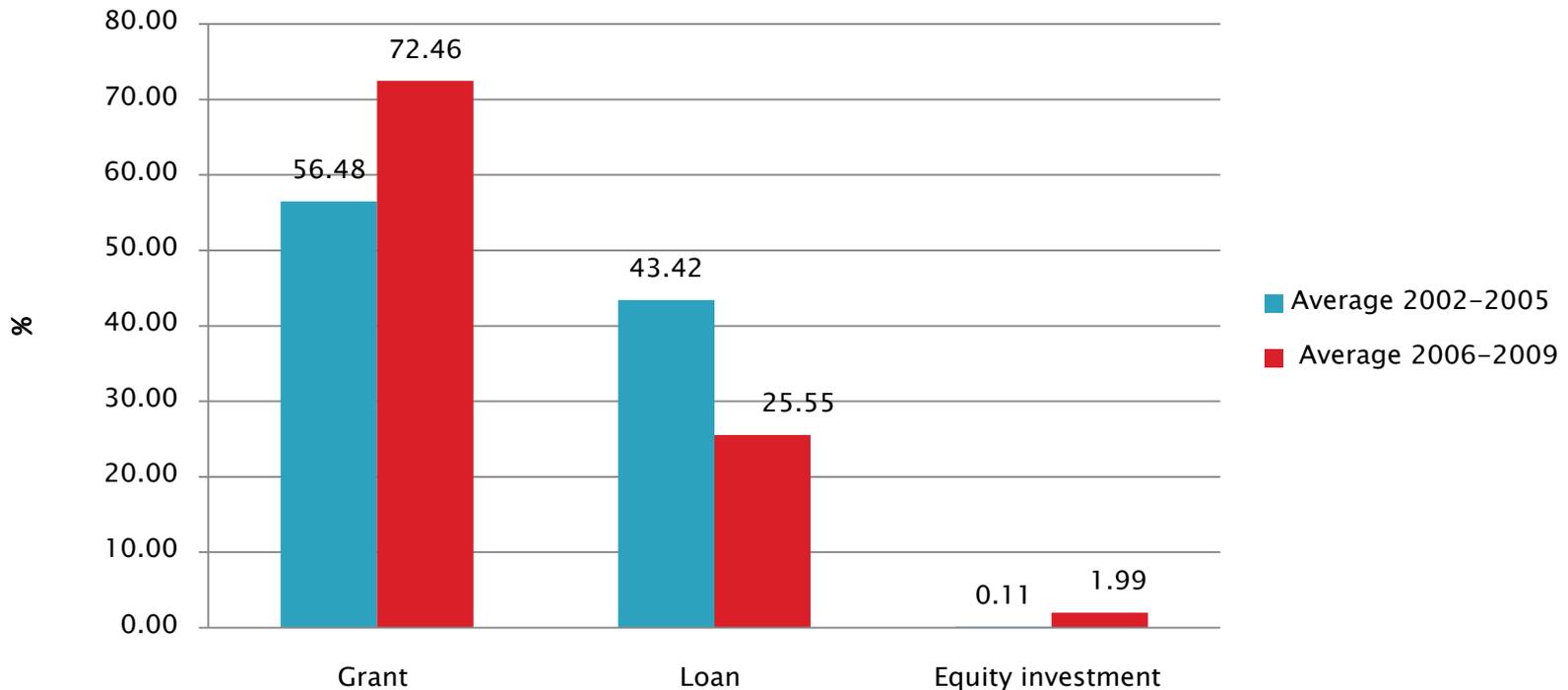
# Demand-supply gap

**Figure 14: Do you think Nepal is being supplied with AFT to meet its demand for such resources?**



# Grant vs. loan

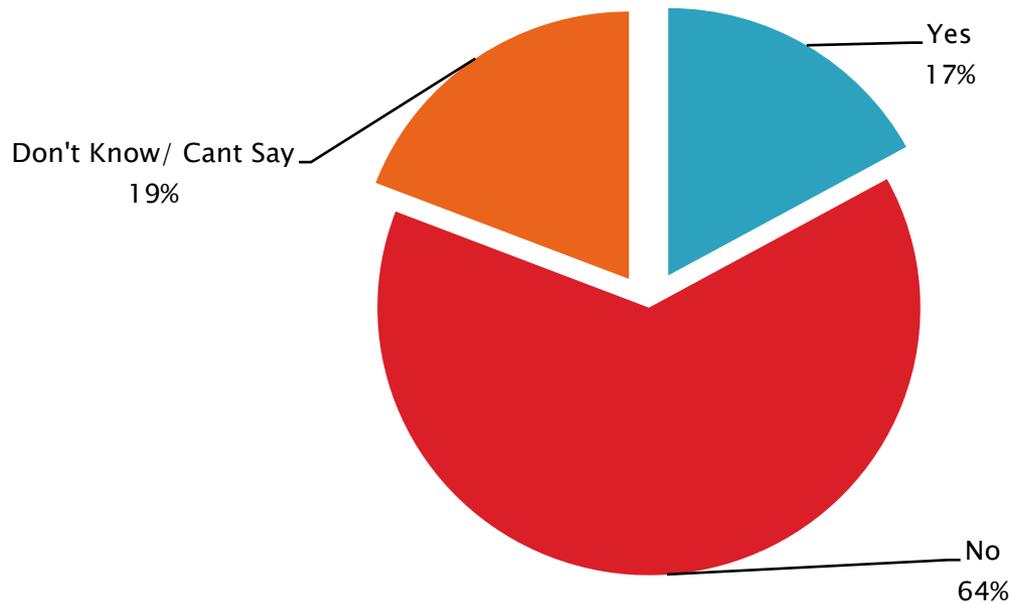
Figure 15: Shares grant, loan, equity in AFT commitments



Source: OECD CRS

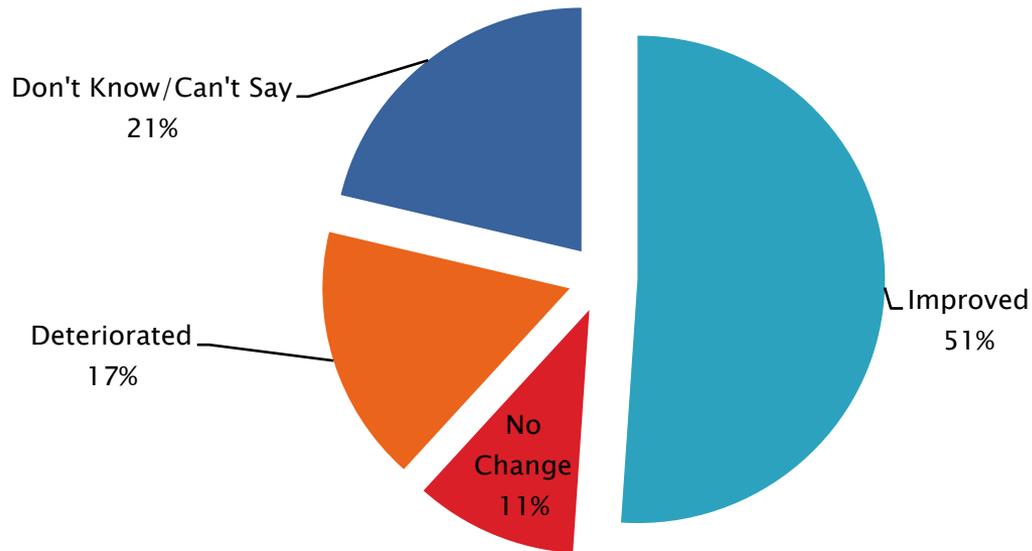
# Absorptive capacity – I

**Figure 16a: Do you think the absorptive capacity of Nepal government agencies, responsible for implementing AFT projects, is adequate?**



# Absorptive capacity – II

**Figure 16b: How do you rate the absorptive capacity of the government compared to say, five years ago?**



# Conclusions – I

- ▶ AfT has been additional in terms of commitment but not on disbursement from OECD sources, but national sources do not provide much indication
- ▶ Predictability in AfT funding has been limited
- ▶ Sustainability of AfT is doubtful mainly because of the lack of government's contribution to the project and predilection of a large number of donors to hire their own consultants rather than building capacity of the local institutions/experts
- ▶ Of late, GoN has mainstreamed trade in the development process but donors have not done so at the local level

# Conclusions – II

- ▶ Majority of donors continue to implement AfT projects through parallel implementation unit (PIUs) and follow their own financial management, audit and procurement systems.
- ▶ Duplication of AfT funding is widely prevalent, although the efforts to create synergy is laudable
- ▶ Impact of AfT on export growth is positive and non-trivial, even after controlling for other factors that could affect export performance
- ▶ Project case study suggests that it has partially achieved the invention strategies in most areas, fully achieved in one area, and very limited achievement was noticed in one area.

# Conclusions – III

- ▶ Coherence with climate financing and South-South funding have not been satisfactory, neither at the GoN's level nor at the donors' level
  - ▶ There is a considerable gap between demand and supply of AfT
  - ▶ Grants component of AfT and indeed other ODA has been rising in the context of Nepal, with the loan component falling
  - ▶ Although absorptive capacity of the governmental agencies responsible for implementing AfT project is not satisfactory, there has been some improvement in the past five years' period
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# Thank you

We solicit your  
comments and suggestions

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