Aid For Trade as finance for the Poor*

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Abstract

The Aid for Trade (AFT) Initiative was announced at the 2005 Hong-Kong World Trade Organisation (WTO) ministerial. Then, Doha round talks were stalled as developing countries were disenchanted with the world trading system they had signed up to a decade earlier under the Single Undertaking, whereby all members signed up to the same rules even though differential treatment for the Least Developed Countries (LDCs) provided some preferential market access to OECD markets and longer time periods to implement the obligations. So when the AFT was started, market access to OECD countries had not improved because of dirty tariffication in agriculture, technical assistance funding to help implement the WTO agreements (customs valuation, sanitary and phytosanitary measures, trade-related aspects of intellectual property rights) was not forthcoming and for the LDCs preferential access was dwindling as preferential agreements signed by developed countries were proliferating

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This paper focusses on channels through which AFT flows might help reduce poverty, the top priority-- under the MDGs (goal 1A is "Halve, between 1990 and 2015, the proportion of people living on less than $1.25 a day"). It does not deal with the voluminous literature covering the aid-growth nexus. At around $30 billion a year, AFT is about 30% of Official Development Assistance (ODA) financial flows to developing countries (remittance flows are more than the combined ODA and FDI flows). So trying to isolate the effects of AFT from other financial flows is looking for a needle in a haystack. Hence the focus is about the channels linking AFT to poverty reduction through trickle down effects and a reduction in trade costs; as well as on multiple rather than single-country studies to emphasize generalizable results.[1]

Section 1 reviews briefly the history of the AFT Initiative and the challenges it faces and section 2 discusses how the adding of objectives has complicated the evaluation of AFT. Section 3 contends that the evidence supports the view that trade is the engine of growth rather than the other way around and section 4 gives evidence of the trickle down effects of growth. Section 5 reports the evidence on the obstacles to trade caused by poor infrastructure and on the links between AFT disbursements and reduced trade costs. Section 6 concludes that the recently signed Trade Facilitation Agreement provides the opportunity to direct resources towards countries with the highest trade costs and highest poverty rates.

1. Origins and challenges facing the Aid for Trade Initiative

The AFT Initiative was launched in 2006 as support to the MDGs (goal 8 'developing a global partnership for development') with as targets, a rules-based, open, multilateral trading system, improved market-access including duty-free, quota-free market access for LDCs. It was designed to assist the WTO in addressing two clear challenges that were then plaguing the Doha negotiations: (i) by providing assistance, financial and technical, to help developing countries, particularly LDCs, to build the needed supply-side capacity to 'implement and benefit from WTO agreements' they had signed up to; (ii) by raising and disbursing rapidly substantial funds needed to gain support and breathe new life in the stalled Doha negotiations. Since the Doha talks remained stuck, the second challenge took precedence.

To ensure rapid disbursement, it was decided that AFT would take place through existing channels rather than through the creation of a new dedicated fund for delivery.[2] This led to confusion in classification: an existing infrastructure project could now be branded as AFT by donors while recipients reported that they did not receive any AFT. By the time the decisions about the reporting

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[1] Cadot et al (2014) and Cadot and de Melo (2014a, b, c) provide a critical survey of what we know (and don't know) about the efficacy of aid-for-trade with a greater focus on lessons from case studies.

[2] Among other qualification requirements, AFT as part of ODA concessional flows excludes IBRD, IFC and IDB lending and investments for trade. It also excludes non-DAC countries, notably the BRICS and especially China's presence in Africa.

of AFT flows in the OECD's Creditor Reporting System (CRS) were finalized, 30% of all sector-allocable official development assistance was potentially attributable to AFT.[3]

Figure 1: AFT disbursements per capita from 1995 to 2013
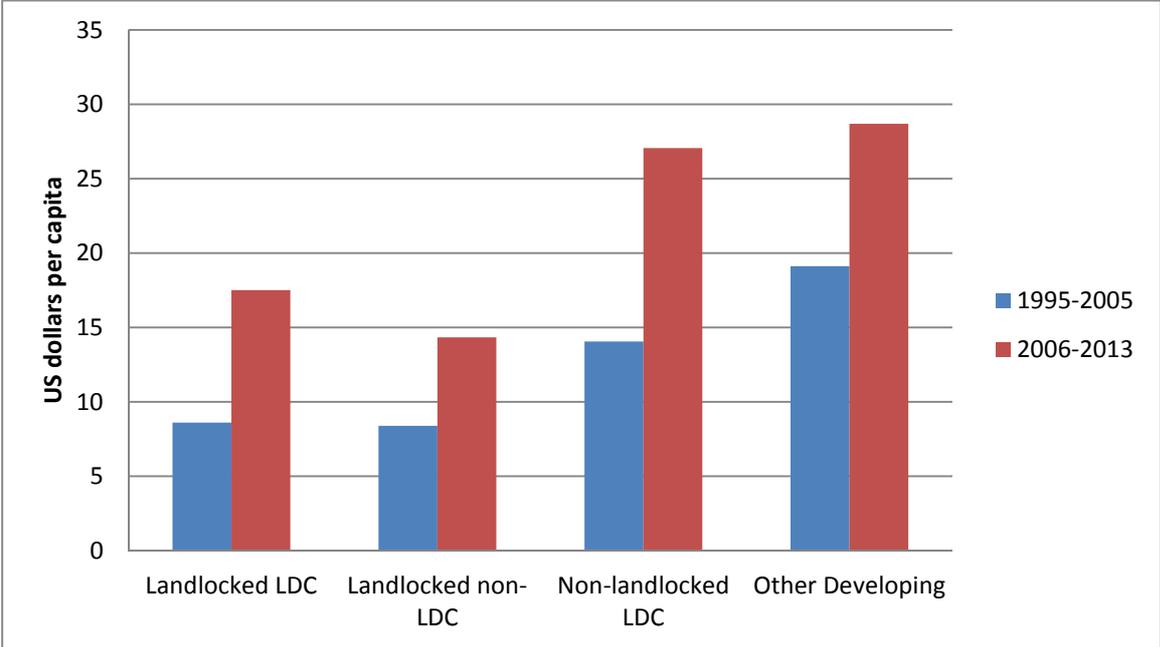
Source: Authors' calculations based on OECD-CRS data.

Notes:

LL-LDC(16) : Afghanistan, Bhutan, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lao People's Democratic, Lesotho, Malawi, Mali, Nepal, Niger, Rwanda, Uganda, Zambia.

Non-LL LDC (33): Angola, Bangladesh, Benin, Cambodia, Cape Verde, Comoros, Congo, Dem. Rep., Djibouti, Equatorial Guinea, Eritrea, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Liberia, Madagascar, Mauritania, Mozambique, Myanmar, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Tanzania, Timor-Leste, Togo, Tuvalu, Tanzania, Vanuatu, Yemen.

LL Non-LDC (14): Armenia, Azerbaijan, Bolivia, Botswana, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Paraguay, Swaziland, Tajikistan, Turkmenistan, Uzbekistan, Zimbabwe.

Other developing (87): Albania, Algeria, Antigua and Barbuda, Argentina, Barbados, Belarus, Belize, Bosnia and Herzegovina, Brazil, Bulgaria, Cameroon, Chile, China, Colombia, Congo, Rep., Costa Rica, Cote d'Ivoire, Croatia, Cuba, Dominica, Dominican Republic, Ecuador, Egypt, Arab Rep., El Salvador, Estonia, Fiji, Gabon, Georgia, Ghana, Grenada, Guatemala, Guyana, Honduras, Hungary, India, Indonesia, Iran, Islamic Rep., Iraq, Jamaica, Jordan, Kenya, Korea, Dem. Rep., Latvia, Lebanon, Libya, Lithuania, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Micronesia, Fed. States., Montenegro, Morocco, Namibia, Nicaragua, Nigeria, Oman, Pakistan, Palau, Panama, Papua New Guinea, Peru, Philippines, Poland, Romania, Russian Federation, Samoa, Serbia, Seychelles, South Africa, Sri Lanka, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadine, Suriname, Syrian Arab Republic, Thailand, Tonga, Trinidad and Tobago, Tunisia, Turkey, Ukraine, Uruguay, Venezuela, RB, Vietnam, West Bank and Gaza.

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3 Measurement issues plague the CRS making it difficult to know what really qualifies as AFT. For example, the CRS does not provide information about trade-related technical assistance and trade development which was previously collected under the joint OECD-WTO Trade Capacity Building Database. Disbursements for multilaterals are also badly tracked.

## 2. Expanding the scope has muddled AFT evaluation

Under the haste to raise funds to support the Doha negotiations, little effort was spent on coordination and on how to conduct evaluations. With funding becoming scarce as the financial crisis unravelled, showing results became more important. The focus of evaluation shifted from accountability to outcomes, but progress was slowed by donors using different yardsticks in their monitoring, all based on self-reporting and self-assessment of case stories. As these case stories were voluntarily supplied, observers commented that evaluation had turned into a 'beauty contest' (Hallaert, 2013). In effect, beyond winning the argument on mainstreaming trade in national development strategies, the AFT reviews turned out more about expanding the agenda than about conducting an evaluation of the effectiveness of AFT. Thus the WTO AFT work programme for 2012-13 covered new issues ("gender empowerment", "green growth", "climate change", "global value chains") to keep up the momentum on mobilizing funds and to maintain the interest of bilateral donors and development agencies in the Doha negotiations.[4]

The difficulties in evaluating AFT effectiveness is apparent in figure 2 which shows AFT disbursements from the CRS data base classified according to the broad categories of AFT: (i) technical assistance for trade policy and regulations; (ii) trade-related infrastructure; (iii) productive-capacity building (supporting the private sector to develop its comparative advantages and diversify its exports); (iv) trade-related adjustment; (v) other trade-related needs which are not covered under CRS data. Under this classification, one third of disbursements go to productive capacity building activities whose contribution to increased trade or to greater trade diversification is hard to capture and hard to distinguish from confounding factors[5]. For example, Hallaert (2013) notes an urban transportation project for Istanbul that made Turkey the third largest recipient of AFT in 2008. In any case, figure 2 shows no change in AFT disbursement patterns either towards 'hard' (e.g. roads and bridges) or towards 'soft' (e.g. trade policies and trade facilitation measures) infrastructure activities both of which have been found to be positively associated with increased trade. A narrower definition of AFT taking out the productive capacity building category and perhaps collapsing AFT into two categories, 'hard' and 'soft' would help see more clearly any change in trends in 'essential' AFT flows.

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4 In one of its summaries, the WTO concluded that "Economic growth, poverty reduction and regional integration remain the main focus of policy, but other priorities from the broader coherence agenda are increasing in importance in donor strategies"(WTO, 2011).

5 Acknowledging this issue the OECD has set up a new « Trade development marker » since 2008 in the CRS database to help in disentangling the capacity building categories of aid flows directly aiming at enhancing.

Figure 2: AFT disbursements by categories
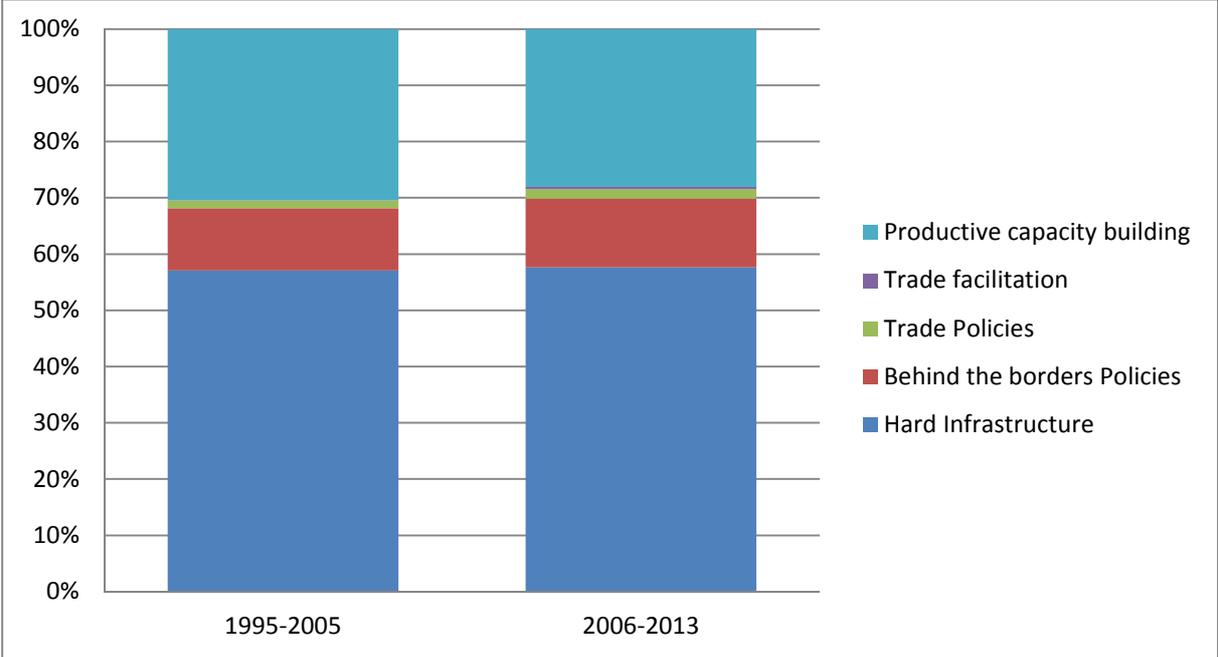
Notes : Hard infrastructure includes transport and energy related infrastructures. Behind the borders policy includes a range of interventions related to communications, business and banking. Trade policy focuses directly on trade policy design and implementation. Trade facilitation concerns the simplification and harmonisation of international import and export procedures. Finally, productive capacity building includes aid to agriculture, industry and mining. See Cadot and Melo (2014) annex for the necessary adjustment to the CRS data base to include trade-related technical assistance and trade development activities.

3. Trade as an Engine of Growth

The fact that no country has succeeded in the long-run by closing itself to trade is accepted. Exports are part of GDP so it is tautological to say that GDP growth is correlated with export growth. But stating that export growth causes GDP growth has continued to be controversial, at least until recently. Relying on panel techniques that control better for country specificities, Wacziarg and Welch (2008) upheld a widely-cited study by Sachs and Warner (1995): countries liberalizing trade experienced growth accelerations of the order of 2% per annum. These results were still subject to confounding influences as trade liberalization was usually part of broader reform packages and subject to reverse causality.[6] However this criticism has been largely handled by Feyrer (2009) with a time-varying instrument. He estimates that trade growth explains approximately 17 percent of the variation in cross-country income growth between 1960 and

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6 Frankel and Romer (1999) showed that after controlling for geographical characteristics (the only exogenous factor in the trade-growth nexus) trade correlated positively with accumulated growth (i.e. income). However, Rodrik et al. (2004) showed that the results were not robust to the inclusion of latitude and institutional quality variables leaving open the critique that instruments given by geography were static and therefore confoundable with many other country characteristics. Using time-varying instruments (rainfall and OECD growth) in a panel, Brückner and Lederman (2012) estimate that a 1 percentage point increase in the trade-GDP ratio causes a 0.5 percentage point in GDP.

1995.[7] In sum, the accumulating evidence strongly suggests that these confounding factors are being more convincingly controlled so that, in the end, trade does cause growth.

Showing that AFT flows lead to an increase in exports is more difficult and so far direct evidence is still limited although section 5 reports evidence that AFT notably increases exports through improvements in infrastructure. Start with simple correlations between past per capita AFT and subsequent export growth. Cadot et al. (2014) rank AFT recipients by average per-capita AFT received during 2000-05, then for each quintile, they split countries into two cohorts, 'low recipients' and 'high recipients'. They fail to detect higher per capita export growth in the 'high recipient group over the next five-year window (2005-2010). However, controlling for confounding macroeconomic factors and endogeneity, Cali and Te Velde (2011) and Vijil and Wagner (2012) show that, on average, AFT disbursements influence trade performance positively. Based on this evidence, Section 5 reports that AFT notably increases exports through improvements in infrastructure.

Using project level data, Brenton and Von Uexkull (2009) show that product-specific technical assistance projects coincided with increased exports of supported product lines but they note that projects might have been selected because, in the first place, they were growing fast. On a more positive note, on the other hand, fears that aid is tied to donor exports resulting only in gains to donors are not vindicated in recent data covering the period 1990-2010. Furthermore, taking AFT from all donors (rather than dyadic relations), Helbe, Mann and Wilson (2012) find that AFT increases exports of recipient countries to donors as well as imports of recipients from donors. Those results were corroborated later by Vijil (2014) for partners in a Free Trade Agreement and Hühne et al. (2014) who also show that the first effect systematically dominates the second, allaying fears that donors grant AFT primarily to promote their own export interests.

4. Does AFT contribute to reduce poverty?

So accept that AFT improve trade performance and that trade causes growth. Then does growth trickle down to the poor? Multiple within-country household surveys show that, on average, growth is 'good for the poor' in the sense that income (or consumption) growth of the lowest deciles matches growth of higher deciles in the distribution (Dollar and Kraay, 2002 and Dollar et al., 2013). Dollar et al. estimate that 62 percent (77 percent) of cross-country variation in the growth of incomes of the poorest 20 percent (40 percent) of the population is owing to growth in average incomes and that any of the included proxies for policies and institutions are significantly correlated with growth in incomes of the poor, beyond any direct effect of these variables on growth itself. In sum, on average, there is growth 'trickle down' and trade indirectly contributes to raising the income of the poorer households. Winters and Martuscelli (2014) also conclude that

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7 Exploiting the observation that technological change (lowering of air freight costs relative to maritime costs) has benefitted country pairs with relatively short air routes compared to sea routes gives a measure of distance that changes over time thereby allowing for the inclusion of country fixed effects eliminating the bias from omitting time invariant variables (e.g. institutions or distance from the equator).

trade liberalization generally raises average incomes by boosting growth temporarily. So, insofar as AFT reduces trade costs and/or encourages exports, either through at-the-border or behind-the-border measures, it should on average contribute to reducing poverty as improved trade performance raises income.

There is sketchy evidence that aid reduces poverty and that trade liberalization has ambiguous effects on income inequality but the established links between openness, poverty and the distribution of income are tenuous.[8] The next two figures aim at providing some crude illustrations of the link between AFT and poverty reduction. First, for AFT to reduce poverty, it should be disbursed in priority in countries with the highest poverty rates. Figure 3 plots average per capita AFT disbursements since the start of the AFT Initiative period against initial poverty rates around 2005 (the $2 per day cutoff is to ease readability).[9] The scatter plot shows that per capita disbursements went mostly towards countries with high beginning-of-period head count ratios, a not surprising pattern since AFT is concessional and, as such, is mostly directed to LICs. This is not to say that AFT is directly targeted to the poor but rather that on average the poorest countries tend to also face the highest trade costs, a point made by the results in Gamberoni and Newfarmer (2014).

Figure 3: AFT disbursements and Poverty
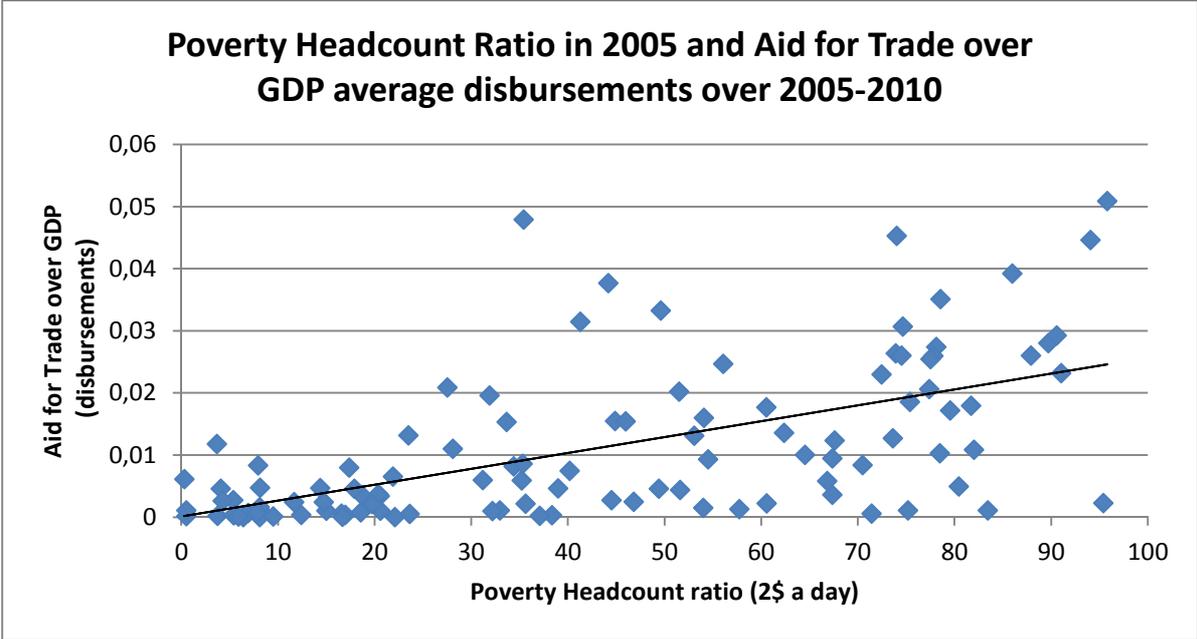
Source: Author's calculations from CRS, WBI and Povcal.net data. Notes: LLDCs: Landlocked developing countries. The Poverty Headcount ratio is based on a mixture of consumption and income micro studies depending on the best available data.

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8 Using dynamic panel techniques, Alvi and Senbeta (2011) find that aid reduces poverty. Even though fixed effects are included, these results are prone to biases raised in the openness-growth literature discussed above..

9 In 2010, around 2.4 billion people live under $2 a day with an average yearly reduction of the headcount of 0.4% (1.0%) excluding (including) China (Ravallion, 2015) over the period 1990-2010. For reasons relating to the growing tensions in donor countries in the post-cold-war period, Pritchett (2015 points out that the "dollar a day" standard of extreme poverty actually attempts to 'define development down' and that a much higher cut-off figure would be needed to reflect the development objectives of aid recipients.

Figure 4 presents rough evidence that the amounts of AFT disbursed in developing countries tend to be positively correlated with poverty reduction. To control for economic size, figure 4 uses per capita disbursements rather than disbursements per GDP as in figure 3. Countries are classified by quartiles from highest to lowest initial (around 2005) head count ratios (HCR) with within countries split into 'low recipients and 'high recipients' bins within each quartile. If countries within each quartile faced 'similar' conditions, and if aid for trade had a sizable impact on poverty, then within each quartile, the highest recipients of AFT funds would show the greatest reductions in poverty as measured by absolute percentage point reduction in the HCR. From the sample of 109 countries used in figure 4, it is roughly the case. Only in the second quartile, countries with the larger poverty reduction between 2005 and 2010 are the countries that received less AFT on average. However, when looking at the percentage reduction in poverty (i.e. the percentage reduction figures in the bins), the association of reduction in poverty with AFT disbursements across quartiles is weak. Initial levels of inequality could contribute to this pattern as the poverty impact of a given rate of growth would be less if initial inequality is higher (Ravallion, 2015, chp.10). Alternatively, aggregate-level evidence drawing on summary measures of poverty and inequality are subject to the influence of confounding factors explaining also the mixed results from figure 4. It also explains why there is so little aggregate evidence that AFT reduces poverty directly or that it has a noticeable impact on the distribution of income.

Figure 4: AFT disbursements and Poverty Profiles
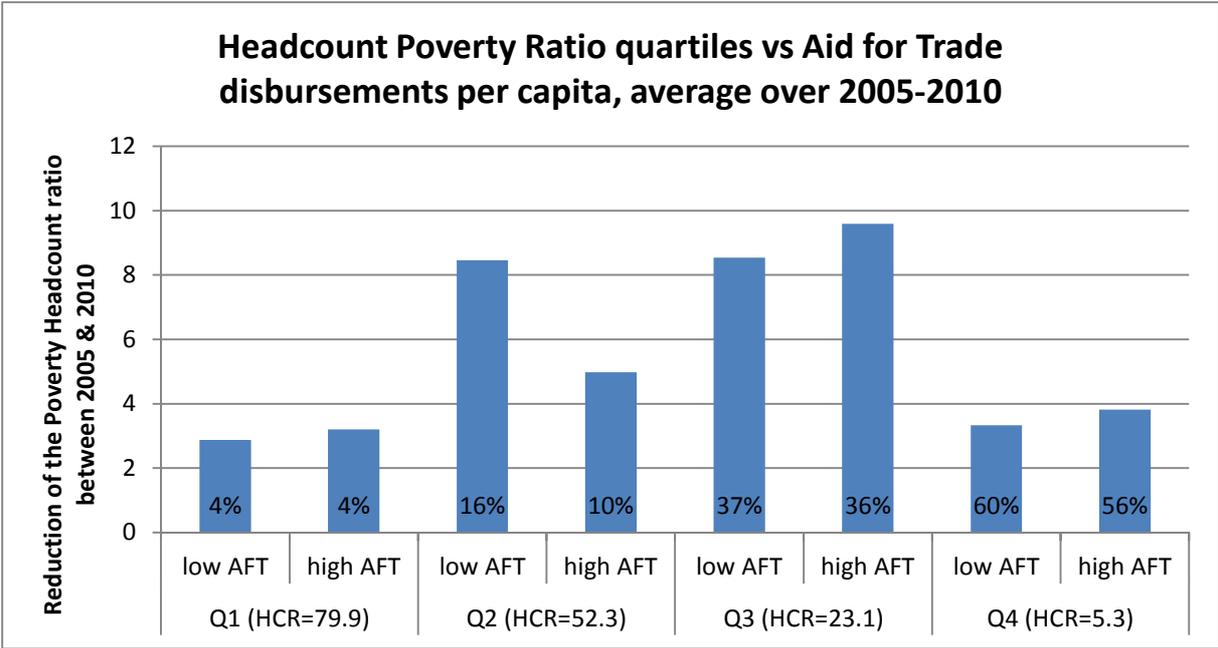
Source: Author's calculations from CRS, WBI and Povcal.net data.

Notes: Sample of 109 developing countries. HCR= Headcount ratio. The figures in the bins represent the percentage reductions in HCR between 2005 and 2010.

Indeed AFT can potentially influence poverty directly or indirectly through many channels and those impacts are difficult to capture at the macroeconomic level because of confounding factors. The list of potential channels is long, related to very diverse economic mechanisms and their

detailed exploration well beyond the scope of this chapter. We mention two examples here: improvements in infrastructure and improvements in productive capacity. Casaburi et al. (2013) evaluate the effects of an EU feeder-road rehabilitation program in Sierra Leone. They find that the market power of a few intermediaries are strongly reduced as the price of cassava is increased by 18% along rehabilitated roads and the costs of goods sold in rural areas is reduced. Both effects should be pro-poor.

Alternatively, aid to productive capacities, as part of AFT, can indirectly influence poverty through targeted investments notably in agricultural production. By financing training in agriculture, irrigation projects, the supply of fertilizer, etc., AFT should contribute in raising the productivity of poor unskilled farmers that are close to or below the poverty line. For example, Dillon (2011) evaluates irrigation investments in northern Mali. He finds significant positive increases in total household consumption, agricultural production, informal food sharing and livestock holdings for households who have access to irrigation. These results suggest that pro-poor welfare gains can be realized with targeted investments in an area with low agricultural potential and high vulnerability to climatic shocks. Furthermore, Dercon and Christiaensen (2011) investigate the impact of the risk of poor consumption outcomes on the adoption and use of fertilizer in Ethiopia. They show that the use of fertilizer results in higher yields and substantial returns on average. They also show that the use of fertilizer is a high risk moderate reward activity as returns tend to be lower than without fertilizer given the sunk cost of the input. They conclude that measures that remove the risks linked to bad weather conditions such as insurance schemes or drought resistant varieties can increase yield helping overcome risk-induced poverty traps.

Learning more about how AFT might reduce poverty requires also household data which can be used to trace the channels through which reduction in trade costs affect poverty. Improved access to infrastructure; changes in at-the-border and in behind-the-border policy measures will affect households through three main channels: changes in labor income via changes in wages; changes in revenue through changes in production induced by changes in prices or access to infrastructure; and changes in consumption patterns through changes in prices of goods consumed by households. Micro studies can help to highlight the dynamic between trade performance and poverty in specific contexts and how AFT can strengthen or dampen this relationship. For example, Nicita *et al.* (2014) use household surveys for six SSA countries (Burkina Faso, Cameroon, Côte d'Ivoire, Ethiopia, Gambia, Madagascar) to trace the effects of an elimination of protection (tariffs and non-tariff barriers) on the entire distribution of income. They find that in five of the six countries, the current protection structure has a pro-poor bias because of the dominating effect of the favorable effect of high protection of agricultural goods that are sold by the poorest households (an elimination of protection would reduce the skilled-unskilled wage gap, but the effect would be dominated by the loss income from the lower prices of goods sold by the poorest households). Other studies surveyed by Winters and Martuscelli (2014) reach the similar conclusion that at least, in the short to medium term, the consumption effect dominates so that a reduction of protection is likely to be anti-poor if agricultural productivities are relatively more protected.

5. Reducing Trade Costs should remain the key objective for AFT

It is widely accepted that trade costs is the major determinant of trade performance and there is evidence that AFT flows have contributed to increasing trade flows through 'soft' and 'hard' infrastructure channels. According to the ubiquitous gravity model of trade, reduction in trade costs account for about one third of the increase in the volume of trade[10]. Take as an example the Istanbul Program of Action which calls for a doubling of the global share of LDC exports by 2020. Then, at equal income growth rates, LDCs would have to reduce their trade costs twice as fast as that of their competitors of LDCs in world markets.

Figure 5 gives a breakdown of the evolution of normalized average trade costs for landlocked low income countries (LL-LICs) relative to non-LL-LICs. The figure shows that LL-LICs have been losing ground over the past 15 years. Because LL-LICs trade mostly low-value products transported by sea, they did not benefit from the dramatic fall in air transport costs. Less improvement in logistics performance must have been another important factor in the relative performance across country categories. In any case, controlling for income growth, it is relative performance on trade costs that will determine the evolution of a country's share in world trade.

Figure 5 : Calibrated Trade Costs (group averages), 1996-2009
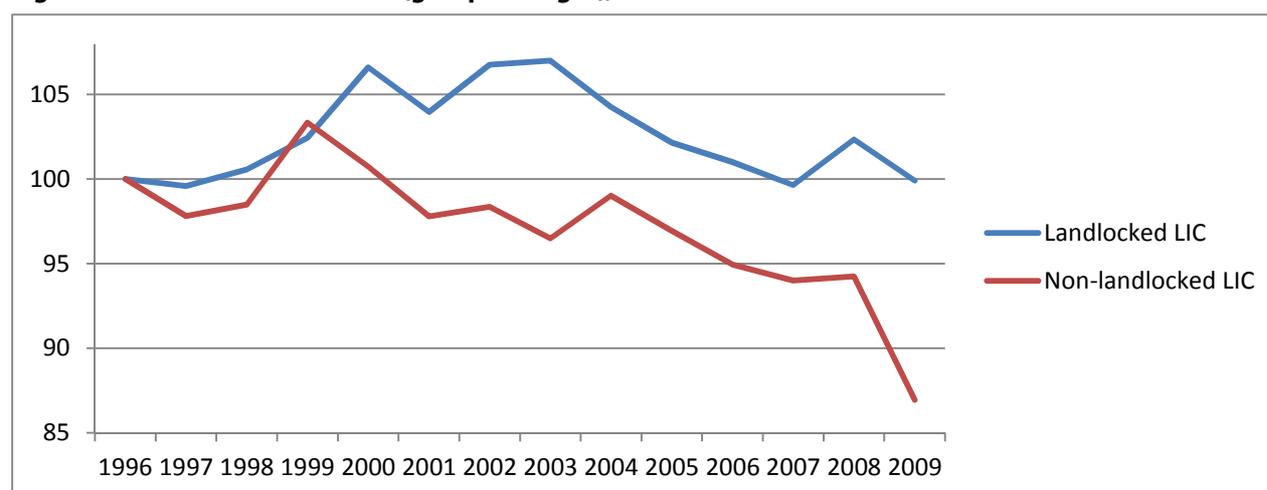
Source: Authors construction based on Arvis et al. (2013)
Note: The figure shows average trade costs for goods with respect to the 10 largest importing countries, by World Bank income groups, 1996-2009, 1996=100.
Landlocked Low Income Countries (17): Ethiopia, Lao PDR, Burundi, Burkina Faso, Tajikistan, Zimbabwe, Central African Republic, Chad, Uganda, Nepal, Niger, Kyrgyz Republic, Rwanda, Mali, Zambia
Non-landlocked Low Income Countries (17): Afghanistan, Malawi, Bangladesh, Togo, Guinea, Sierra Leone, Madagascar, Congo Dem. Rep., Mauritania, Eritrea, Ghana, Gambia, The, Cambodia, Liberia, Benin, Tanzania, Mozambique, Kenya, Comoros.

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10 If one accepts that structural gravity holds on the data (and that income and trade are jointly determined), the inverted gravity approach provides an estimate (rather a calibration) of aggregate trade costs directly obtained from observable data. This gives the yearly ad-valorem estimates of total bilateral trade costs (including the effects of tariffs, language barriers, currency barriers, the equivalent of NTMs, etc.) shown in figure 5. Besides being compatible with a large family of micro-based trade theories, these gravity-based calibrations have two advantages over common proxies of trade costs. First, they do not rely on a functional form for trade costs; second, they vary over time while typical proxies in the standard gravity approach (e.g. distance) do not vary over time. At the same time, the notion of trade costs captured in the gravity model subsumes all trade costs including new capacity, worker training etc…

Three components of trade costs have been scrutinized in gravity models of bilateral trade: (i) geography (i.e. size, terrain natural infrastructure like water ways, country size, landlocked etc…); (ii) 'hard' infrastructure (roads, rail, ports, airports); (iii) 'soft' infrastructure (border-related costs like customs administration and document preparation, border-related policies like tariffs and Non-tariff Measures (NTMs) in both domestic and destination markets, and behind-the-border policies like communications and regulatory policies). Of these, (ii) and (iii) are up for improvement by directed AFT. In most studies on the volume of bilateral trade, indicators of geography and hard infrastructure capture a larger portion of the variance in trade costs than indicators of behind-the-border policies. Several studies also find that differences in the values of proxy indicators for the quality of hard infrastructure contribute more towards accounting for differences in trade costs than differences in geography.

While proxies for both components of trade costs are found to have an impact on the volume of trade, there is controversy on their relative importance and on the distribution of AFT between 'hard' and 'soft' infrastructure (about 10% of AFT disbursements go to soft infrastructure). Limão and Venables (2000) estimated that hard infrastructure accounted for nearly half of the transport cost penalty borne by intra-african trade. Other evidence points towards the logistics market as the main driver of differences in trade costs across countries. Market power in maritime transport from 'shipping conferences' raise freight rates substantially. For road transport, Teravaninthorn and Raballand (2008) estimate that widespread bilateral trade agreements and cartels throughout West Africa result in freight rates per ton 80% higher and truck utilization rates 40% less than in East Africa . Djankov *et al.* (2010) estimate that that 75 per cent of the time delays are attributable to weak institutional features and 25 per cent by poor physical infrastructure.

The implication of this work is that rather than following blindly a 'big push' approach and build roads and bridges, donors should also pursue a policy dialogue hand to hand with recipient governments to improve regulatory frameworks and ensure competition in the provision of services. Improving the soft institutional and regulatory infrastructure will require less funding but is an integral part of trade costs. In conclusion all quantitative evidence confirms the importance of trade costs without any component emerging as consistently more important.

A few studies have explored the channels through which AFT flows reduce trade costs and hence contribute to expanded trade. For example, Vijil and Wagner (2012) find that when all controls are included, the quality of hard infrastructure proxied a composite index of roads and telecom densities is significantly positively correlated with aid to infrastructure. Ferro, Portugal and Wilson (2014) find that aid to banking services and energy has significant effects on the performance of downstream manufacturing sectors.

6 Conclusions

The evidence reviewed here supports three broad conclusions. First, the accumulated evidence across countries supports the view that trade is an engine of growth rather than the other way around and that growth trickles down. On average, growth is good for the poor and the incomes of the bottom 20 percent of the distribution rise in proportion to average incomes. Trade liberalization also raises average incomes (i.e boosts economic growth temporarily), but the effects on inequality and poverty is context-specific depending both on the consumption pattern of the poor relative to the rich and on other complementary conditions.

Second, detecting direct effects of the AFT initiative at the macro level has proved to be difficult. This should not be surprising since aid flows characterized as AFT is dwarfed by other sources of capital flows and the categorization of AFT is not conducive to analyzing its effects on economic performance. However, several studies over longer periods of time starting in the 1990s have shown that AFT flows from all donors influence trade performance positively and that proxies for the quality of infrastructure are positively correlated with aid flows to infrastructure. Various indicators of hard and soft infrastructure have also repeatedly been found to be positively correlated with trade volumes, justifying the views that AFT disbursements should focus on measures that will reduce these trade costs.

Third, case studies, of which only a few were mentioned here, have shown that AFT has helped reduce poverty through other channels. For example, targeted aid to productive capacity in agriculture and insurance schemes to remove risks can raise the productivity of households close to the poverty line. Road rehabilitation can also reduce the monopsonistic power of traders in remote areas, thereby raising the incomes of the poor selling agricultural products. More on lessons case studies are summarized in the papers cited in the references.

In conclusion, as argued in our companion paper (Melo and Wagner, 2015), the signing of the Trade Facilitation Agreement (TFA) in December 2013 which calls for specific measures to reduce trade costs caused by poorly functioning customs has been fortuitous for AFT. While not all AFT funding would go towards implementing the TFA, this focus would have a double benefit: mobilizing support and answering the call for Managing for Development Results (MfDR) which cuts across the pillars of Paris declaration pillars.[11] The aid community should therefore welcome the decision to focus the WTO's fifth Global Review of AFT to be held in June 2015 on the theme of "Reducing Trade Costs for Inclusive, Sustainable Growth". Furthermore by focusing AFT resources on LDCs, especially LLDCs, AFT would target funds towards countries with the highest trade costs and the highest poverty rates.

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11 Since 2012, the World Bank has a third lending instrument called 'Program for Results', the first to link directly disbursements to results. Up to 5% of World Bank lending can go through this instrument which is still in its early stages, but has apparently met with success. See Gelb and Hashmi (2014).

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Pascal

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