

## Conclusions and Policy Implications

This study is one of the first efforts to focus on the effects of AfT in SVEs. The evidence in this paper suggests that SVEs fall into a category of countries in special need of AfT due to their relative disadvantage in international trade and to their higher expected adjustment costs to trade integration relative to other developing countries. Although the rationale for AfT is particularly clear for SVEs, no donor has a specific AfT focus on these countries. There are a number of programmes that may be particularly relevant for SVEs as they address some of the trade-related shocks likely to be faced by these countries, such as the EU SFA for bananas, the Special Fund for Rum and the trade integration mechanism. However, there is no programme we are aware of that addresses specific trade constraints faced by SVEs, such as the consequences of remoteness and smallness. This may be a useful addition that should be considered if SVEs are to compete effectively in an integrated trade regime.

Despite the lack of specific programmes for SVEs, these countries receive relatively high levels of AfT per capita. Small countries, and thus SVEs, receive higher per capita amounts of AfT, as also of general aid. However, AfT to SVEs declined somewhat in the years leading up to 2006, but seems to have bounced back in 2007. Whether this trend is just a temporary spike or the beginning of a new rising trend for SVEs is open to question. AfT to SVEs is provided mainly by a few large donors, including the EC, Australia, Japan, and to lesser extent France, Portugal, the USA and New Zealand. At the beginning of the decade, SVEs were receiving disproportionately more AfT given their share in total ODA; this was reversed in the following years (and in 2004 SVEs' specialisation index was lower than that of any income groups). These large swings suggest that there may not be a long-term strategy in terms of AfT allocation across countries, and to SVEs in particular.

We then investigate in more detail how AfT is expected to influence trade performance. Using a simple export demand model we show how AfT may benefit exports of developing countries, and of SVEs in particular. The review of the evidence available on the effectiveness of past AfT on trade performance is mixed. This examination is challenging owing to the difficulty of isolating the impact of AfT programmes on the recipients' economy. This attribution problem has often resulted in a lack of clear and measurable objectives and indicators in programming documents. However, some problems in the programming and delivery of AfT seem apparent. For example, administrative constraints faced by ACP countries in dealing with EU procedures usually lead to very slow rates of aid disbursement, which may undermine the value of the assistance extended in support of time-sensitive adjustment processes. Moreover, our review suggests the importance of ownership, alignment and harmonisation as critical factors of success of AfT, much in line with the traditional aid effective-

ness literature. The implications mainly refer to the need to involve stakeholders, and trade and other officials in beneficiary countries in the very beginning – to help design programmes, and devise specific objectives and implementation strategies, keeping country-specific conditions in mind.

Lack of proper data and benchmarks (e.g. outcome variables to rate the project against) has often constrained the possibility of properly assessing the effectiveness of AfT over a large number of projects. By using a large panel dataset of developing countries we provide new systematic evidence on the effectiveness of AfT. Using original empirical models, we examine the overall impact of different types of trade-related assistance on specific trade-performance indicators. Importantly, we identify the impact of AfT on SVEs and other developing countries separately. The results suggest that a particular type of AfT, i.e. aid for trade facilitation, seems to have a significant cost-reducing effect on the costs of handling exports; back of the envelope calculations indicate that this appears to be an investment with an interesting return. SVEs seem to enjoy particularly high returns on aid for trade facilitation, which is consistent with these countries having on average higher unit transaction costs on exports (as these are spread over smaller volumes of exports). Our results further suggest that aid to economic infrastructure increases overall exports for developing countries, and more so for SVEs, while aid to productive capacity has no significant effect on exports for either SVEs or non-SVEs. The weak effect of aid to productive capacity may be partly explained with a poor identification strategy, as this type of aid is mostly sectoral and thus should be measured against sectoral exports. When we do this (using sectoral exports and sectoral aid for four broad sectors), we find heterogeneous effects of AfT across sectors. In particular, sectoral AfT seems to have a positive impact on tourism and mineral exports, which is considerably larger in SVEs than in non-SVEs. On the other hand, food and manufacturing exports do not appear to benefit from higher AfT.

On the basis of these findings and the review of the evidence, we provide suggestions for donors of AfT, as well as for SVEs.

- First, donors could consider introducing AfT programmes (or projects) addressing specific trade-related constraints faced by SVEs, including remoteness and isolation, as these seem to be binding especially in a world of trade. AfT could help *inter alia* by funding connective infrastructure and improving the efficiency of existing infrastructure.
- Second, donors should increase the rates of AfT disbursement, as slow rates tend to undermine the value of the assistance extended in support of time-sensitive adjustment processes, such as the trade-related ones experienced by SVEs.
- Third, it is desirable for donors to programme their trade-related activities for longer timespans and with more active participation by the recipients. This would increase the predictability and ownership of AfT flows. These recommendations are in line with those for general aid, but given the high variability of trade-related aid, in particular towards SVEs, they may be of particular importance in this context.

- Fourth, donors could consider scaling up the level of aid for trade facilitation, as this appears to be a particularly cost-effective investment. This is particularly the case for SVEs.
- Fifth, as the impact of aid to economic infrastructure on exports seems to be especially high in SVEs, it would be worth considering how to increase its envelope.
- Sixth, donors should work with recipients to identify those contexts in which there is more need for aid to productive sectors, considering that this form of aid seems to work better in certain sectors in SVEs, such as tourism and minerals.

## Notes

- 1 The Doha Ministerial Declaration of the WTO, adopted in 2001, established a work programme with the objective of framing responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system. However, this was not meant to create a sub-category of WTO members. While many SVEs receive trade preferences under various bilateral and regional arrangements, under the multilateral trade talks they are not considered for special preferences that are generally granted to the group of countries known as the least developed countries. For details of the status of SVEs in the WTO see Smith (2009).
- 2 See Qureshi and te Velde (2008) for a more complete analysis of the challenges faced by small states.
- 3 The study also included a substantial data collection effort on relevant indicators, such as wages of skilled, semi-skilled and unskilled labour, and airfreight, seafreight and telecommunications costs.
- 4 These countries are Antigua and Barbuda, The Bahamas, Bahrain, Barbados, Belize, Botswana, Brunei Darussalam, Cape Verde, Comoros, Cyprus, Djibouti, Dominica, Equatorial Guinea, Fiji Islands, Gabon, The Gambia, Grenada, Guyana, Jamaica, Kiribati, Lesotho, Maldives, Malta, Mauritius, Nauru, Papua New Guinea, Samoa, São Tomé and Príncipe, Seychelles, Solomon Islands, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Swaziland, Tonga, Trinidad and Tobago, Tuvalu and Vanuatu. Estimates of the reported trade shares of these countries are based on the data (on export earnings of different countries in current US\$) provided by UNCTAD.
- 5 Eight countries participated in the first stage of JITAP: Benin, Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Tunisia, Uganda and the United Republic of Tanzania. Four of these are LDCs. A group of eight countries was later added: Botswana, Cameroon, Malawi, Mali, Mauritania, Mozambique, Senegal and Zambia.
- 6 This is based on the review of multilateral and bilateral programmes carried out by Cali *et al.* (2006).
- 7 See, for instance the German Development Co-operation (GTZ) strategy (<http://www.gtz.de/en/themen/laendliche-entwicklung/25014.htm>) and the UK DFID strategy (<http://www.dfid.gov.uk/aboutDFID/organisation/intertradedept.asp>).
- 8 Both of the schemes are funded by DFID and the Netherlands Ministry of Foreign Affairs (NMFA). AECF also receives funding from the International Fund for Agricultural Development (IFAD), while EAIF receives funding from the Swiss State Secretariat for Economic Affairs (SECO) and the Swedish International Development Corporation Agency (SIDA).
- 9 See Section 5 for an appraisal of some EC trade-related programmes
- 10 Data for ODA are obtained from the OECD/DAC database on aid flows.
- 11 This means that if an amount  $x_{ij}$  of good is shipped from  $i$  to  $j$ , only  $x_{ij}/\tau_{ij}$  will reach location  $j$ .
- 12 More specifically, the impact of technical papers and regional seminars within UNCTAD's technical assistance programmes was in doubt, and the report also concluded that the former was not a transparent and efficient channel for allocation of TRTA funds.
- 13 We use  $\ln(1 + Atf)$  to avoid missing and negative values. The main results are robust to using  $\ln(Atf)$  as well.
- 14 This is reinforced by the data description given by WTO/OECD (2008) according to which '... trade facilitation relates to a wide range of activities such as import and export procedures (e.g. customs or licensing procedures); transport formalities; and payments, insurance, and other financial requirements [...] Cutting red tape at the point where goods enter a country and providing easier access to this kind of information are two ways of "facilitating" trade.'
- 15 We also check the robustness of the results to using a foreign market potential measure computed by Mayer (2008) through bilateral trade data.
- 16 Not shown here; available from the authors upon request.
- 17 We include Oceania in Asia.
- 18 The average value of  $\ln(1 + Atf) = 0.35$ ; thus a 100 per cent increase in  $(1 + Atf)$  is equivalent to an increase in  $Atf$  by 1.35 million, which is associated with a 20 per cent decrease in costs of exporting. This means that a 1 million rise in  $Atf$  is associated with a reduction in costs of 14.5 per cent (US\$178).
- 19 Given the consistency of the *Ainfra* coefficients across the different samples, we can probably rule out the other possible explanation for this change in the *Apc* coefficient, i.e. that reporting has improved over time, thus limiting the measurement error of the earlier period, which was driving the insignificant results of the 1995–2007 period.