



Sector wide approaches (SWAp) as a means for increasing the effectiveness of Aid for Trade

*Teemu Alexander Puutio**

Summary

Aid for Trade (AfT) flows often trickle from many sources, ranging from long-term multilateral donors such as from a Development Assistance Committee (DAC) member to emerging bilateral partners like China and India. It is typical for each donor to have unique requirements concerning the aid, including the application for funds, their implementation and the monitoring and evaluation thereof. Sectors wide approaches (SWAp) offer an appealing solution to the lack of absorptive capacity. With a SWAp in place, recipient governments can more easily implement their own long-term sectoral policies and development strategies. Increasing the coherence between AfT and the recipient's long-term strategic goals can significantly increase the effectiveness of aid. Based on the experience of Cambodia, it is essential to first build the political will internally, after which support is to be sought from the donors. Even with these two elements in hand, building the institutional framework and internal capacity to manage the SWAp takes time and commitment. It should be kept clear in mind that in the majority of cases the benefits are well worth the costs and expended endurance

Lack of absorptive capacity - a reason why Aid for Trade so often fails

This paper focuses on a particularly obvious yet often disregarded reason why Aid for Trade (AfT) sometimes fails to deliver - the lack of absorptive capacity in the recipient state.

AfT flows often trickle from many sources, ranging from long-term multilateral donors such as from a Development Assistance Committee (DAC) member to emerging bilateral partners like China and India. It is typical for each donor to have unique requirements concerning the aid, including the application for funds, their implementation and the monitoring and evaluation thereof. Aid which comes from many sources tends to flow to many destinations. Upholding coherence and avoiding duplication is difficult in particular when donors come with their own agendas and motivations in providing aid.

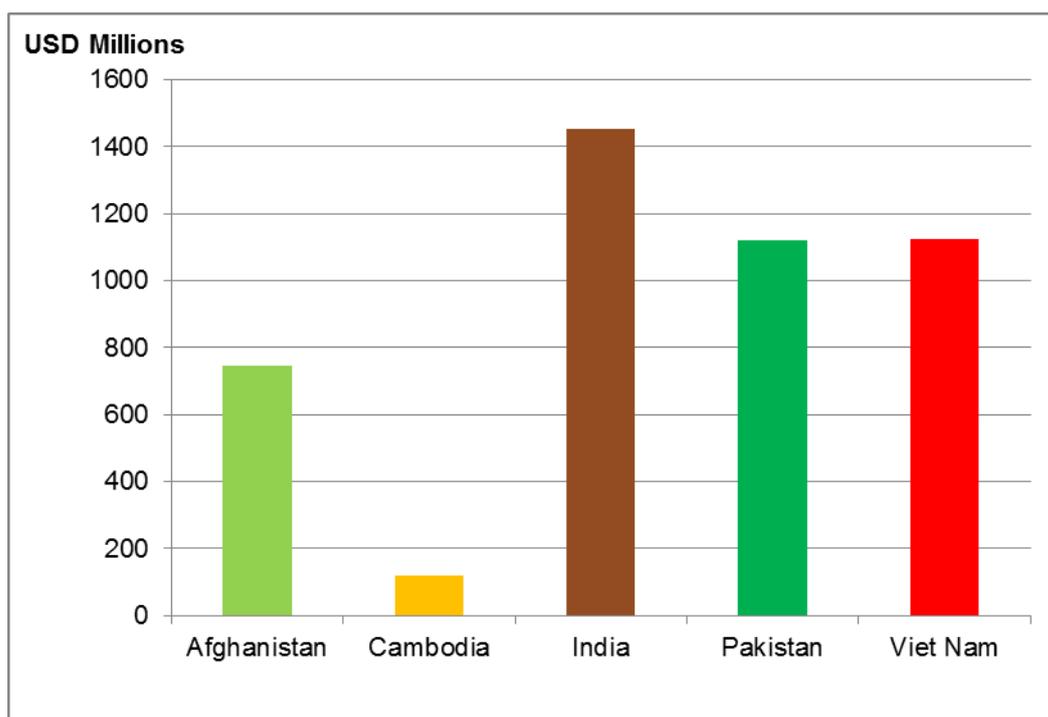
For many countries, initiating and coordinating multiple AfT projects can become tedious quickly. Laden with donor conditionalities, struggling recipient institutions may succumb to

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underutilization and inefficient use of committed funds and inability to strategically seek future funding. Further, with limited capacity to coordinate and manage AfT inflows, the most needy sectors easily become saturated and encumbered.

The poor ability of recipient institutions to administer AfT is often referred to as the lack of absorptive capacity. This lack is undoubtedly among the recipient-side reasons which make turning commitments into disbursements difficult (figure 1).

Figure 1. Average gaps between AfT commitments and actual AfT disbursements for selected countries (2002-2012)



Source: Author's own calculation, based on data from Organisation for Economic Co-Operation and Development (OECD) Query Wizard for International Development Statistics (QWIDS), available from <http://stats.oecd.org/qwids>

Left unaddressed, the lacking capacity to coordinate the financial flows in a strategic manner can present a serious problem for the sustainability of the AfT initiative. The fact that countries which are most in need of AfT often have the least able institutions extenuates the urgency of addressing the problem.

Sector wide approaches are a potential tool for addressing limited absorptive capacities

Sectors wide approaches (SWAs) offer an appealing solution to the lack of absorptive capacity.

SWAs refer to government led processes where both internal and external funding within a sector is brought under a single umbrella in figure 2 (ODI, 2001). The funds are then utilized

under a set of long-term strategies, policies and expenditure programmes which serve to rationalize long-term use.

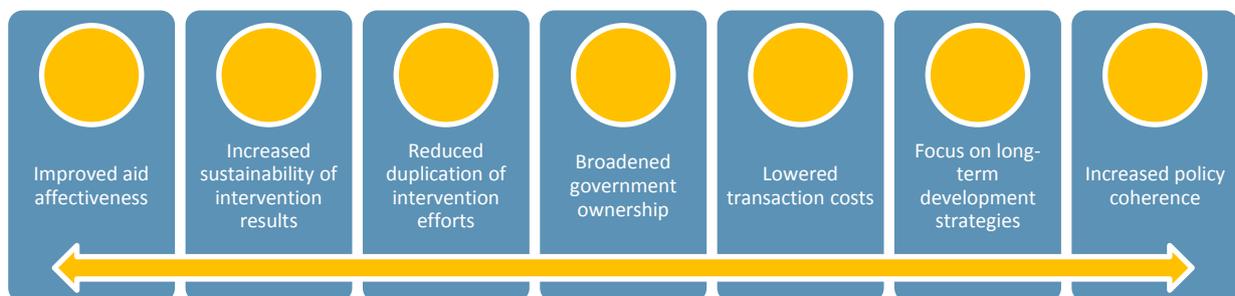
Figure 2. A typical SWAp architecture



SWAps first gained prominence in the field of health-care, where organizations like the World Health organization (WHO) moved from individual project-based interventions to sector wide programmes (cf. WHO, 2000). They emerged in response to the criticism against administering development assistance via individual projects, which often provide only fragmented and unsustainable results (UNFPA, 2004). Since then, SWAps have gained momentum and have been applied in other fields such as infrastructure, education and agriculture (ODI, 2001).

Thus far SWAps have been implemented in mostly low income countries highly dependent on foreign aid (DFID, 2001). The majority of developing countries like Ghana, Mozambique, Tanzania, Uganda, and Zambia have been implementing SWAps in the area of health-care before the turn of the millennium. In addition Bangladesh, Burkina Faso, Egypt, Mali, Pakistan, Senegal, Sierra-Leone, Zambia and Yemen have implemented SWAps. Some Latin-American countries like Bolivia and Nicaragua are taking steps towards SWAps, while the majority of the continent has yet to embrace them. The reason for the rising popularity of SWAps is simple – they help deliver much needed improvements in aid effectiveness and coordination (figure 3). Studies have shown that SWAps have increased health sector coordination, reduced duplication, lowered transaction costs, increased equity and sustainability, and strengthened countrywide management and delivery systems (WHO, 2004). At the same time, donors have reported higher levels of transparency, enhanced knowledge sharing and heightened impact of their support (OECD, 2003).

Figure 3. Potential benefits of implementing sector wide approaches



The potential benefits of sector wide approaches

By definition, SWAPs increase government leadership and ownership over development assistance. This is because SWAPs are implemented by placing recipient governments in the driver's seat and in full control of how aid is distributed within that sector instead of supporting the implementation of development interventions dictated by donors and their underlying motivations.

With a SWAP in place, recipient governments can more easily implement their own long-term sectoral policies and development strategies. Increasing the coherence between AfT and the recipient's long-term strategic goals can significantly increase the effectiveness of aid. In certain sectors, enhanced recipient control has been shown to increase overall efficiency as well (Garner et al., 2000).

SWAPs also help address the uncertainty of aid flows. In particular, pooling grant-based aid would create a source of funding which is not tied to repayment schedules, allowing the recipient government more flexibility and room to use the committed grants as buffers.

SWAPs change the relationship between the recipient and donor governments. For one, the donor and recipient are likely to interact more in formulating policies, and less on the details of its implementation (WHO, 2014). Further, recipient governments are given more responsibility over the results and their sustainability. These changes can lead to enhanced democratic accountability and transparency. Finally, SWAPs can also reduce the need for engaging donor staff and consultants, leading to a greater accumulation of localized capacity, skills and expertise.

Regardless of their benefits and wide application in developing countries, SWAPs are not without their downsides. First, their benefits are highly sensitive to both the sector and the overall status of the recipient country and its institutions (Mustalahti, 2008). Second, some donors have issued concerns that SWAPs move costs from recipients to donors instead of reducing them. Others have reported failed negotiations with potential recipients leading to exclusion of certain parts of the sectors (OECD, 2003). Consequently, not all donors are willing to give developing countries control over the aid resources.

Other prominent critiques concern the adoption of too abstract "blueprint SWAPs", excessive focus on systems and procedures instead of objectives and impacts, giving countries false expectations of higher funding leading to inefficient spending as a consequence, and having the implementation of SWAPs being dominated by central government agencies instead of involving a wider range of stakeholders (ODI, 2010).

What these critiques show is that SWAPs should not be taken as a panacea applicable to every sector.

Is trade amenable to SWAPs?

Soon after the popularity of SWAPs began to rise, the Overseas Development Institute (ODI) released list of criteria under which SWAPs are likely to be successful (ODI, 2000). As Table 1 shows, trade seems to fulfill the criteria well.

Table 1. Aid for Trade and the ODI criteria for successful SWApS

CRITERIA	AID FOR TRADE
Are public expenditures a major feature of the sector?	Yes, e.g. infrastructure, institutions.
Are donor contributions large enough for co-ordination to be a problem?	Yes, contributions are often significant and impose difficulties in co-ordination for least developed countries in particular.
Do the recipients and donors have agreements on the strategies related to the sector?	Yes, traditional donors in particular work through entities such as the WTO and the Enhanced Integrated Framework which promote consensus-building on strategies and policies.
Are there supportive macro-budget-environments which permit authorities to plan budgets ahead?	Yes, macro-level trade flows are followed and steered on a detailed level.
Are the institutional relationships manageable i.e. do institutions have clear mandates and rules of interaction?	Yes, trade is often managed by a single line ministry and it is often not dealt with as a cross-cutting subject.
Are the sector objectives compatible with the objectives of implementing a SWAp?	Often yes, in recent times trade ministries have often grown in size and responsibility, allowing for the addition of SWAp responsibilities and budget encumbrances.
Is the amount of significant donors relatively small?	Yes, the 24 members of the Development Assistance Committee accounted for 83.5 per cent of total AfT in 2012 (OECD 2013).

Source: Author's compilation based on Overseas Development Institute (2000). and OECD 2013

None of the above pose significant difficulties to implementation in the area of trade. In fact, many of already existing coordinating mechanisms such as the Enhanced Integrated Framework (EIF) utilizes one or more of the aforementioned features.

Key among the reasons why AfT could benefit from SWApS is the fact that trade is an area where long-term policies and strategies are not only common, but necessary. Institutions like the WTO ensure that governments establish sustainable and long-term policies which are periodically reviewed through e.g. the trade policy review mechanism. Other entities such as the EIF support developing countries in creating multi-year trade policies through Diagnostic Trade Integration Studies (DTIS) and further helps to ensure trade is mainstreamed into national development strategies and sectoral policies. The existence of long-term policies and the abundance of support for establishing them create a fertile ground for implementing SWApS.

Further, similar to the area of health-care, trade exponentially benefits from significant investments and long-term commitments which reduces the effectiveness of individual interventions. Like in health care, SWApS can provide an efficiency-raising aid management framework for managing the long-term investments in a cohesive, recipient country demand driven manner.

Implementing SWApS in the area of trade is facilitated by the fact that even the least developed countries have established trade related institutions such as ministries of commerce, boards of investment and other institutions which deal with complex and interconnected subject matters. As a consequence, SWApS in the area of trade can often be

implemented without the need to create a framework of institutions and back-stopping entities from nothing.

Implementing SWAp in the area of trade: The case of the Trade SWAp of Cambodia

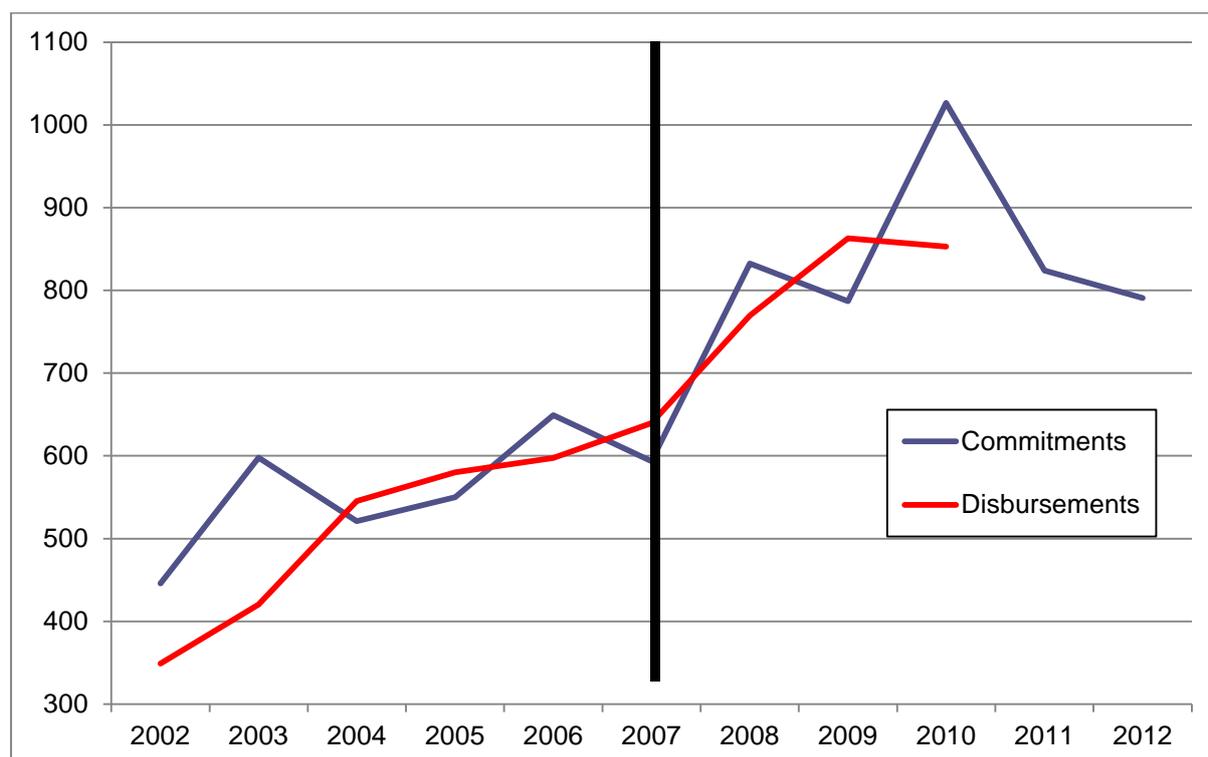
As shown above, trade is amenable to SWAp and likely to benefit from them. However, only Cambodia has implemented a comprehensive SWAp in the area of trade to date. Other countries have embarked on similar but more limited initiatives, such as the Lao People's Democratic Republic's programme based approach (NUDP, 2014). The Cambodian Trade SWAp was established in 2007, three years after Cambodia's accession to the WTO. The Trade SWAp initiative is spearheaded by the Ministry of Commerce with the support of other line ministries, and it is guided and monitored by the Sub-Steering Committee on Trade Development and Trade-Related Investment (Trade SWAp, 2010). The aim of the initiative is to strengthen the effectiveness of trade related assistance and by doing so further integrate Cambodia into the global economy and increase trade's contribution to Cambodia's growth (Trade SWAp, 2010).

Trade SWAp incorporates overarching policy and strategy objectives by incorporating them into three pillars which help guide and focus the initiative's outputs. Each pillar is responsible for delivering outputs against a set of monitoring and evaluation indicators, which are tied directly to the DTIS goals and objectives such as a significant increase in the contribution of the trade sector to GDP and deepening diversification of Cambodia's export base (CTIS, 2013). The government is planning to reform the pillar structure in the near future, potentially replacing it with a framework which is more aligned with the government's updated priorities and available donor funding (Ministry of Commerce, 2014b).

The returns of the Trade SWAp have been largely positive. Since the implementation of Trade SWAp, the environment for aid effectiveness has significantly improved (ICTSD, 2013). According to the Secretary of the State, Trade SWAp has created momentum for stronger dialogue and coordination between the stakeholders in the successful sectors such as the garment industry and has helped in deploying trade related technical assistance more effectively (ODI, 2009, Trade SWAp, 2010). In particular, Trade SWAp has been successful in building local capacity in dealing with the formulation, implementation and monitoring and evaluation of AfT projects (CTIS, 2013).

Figure 4 presents a comparison between commitments, and disbursements that have been lagged by two years to correct for necessary delays. This is based upon an observation that commitments are fully met after around two years, i.e. disbursements in 2012 are a reflection of commitments made in 2010 (Hudson, 2013). It can be seen throughout the reporting period that commitments and lagged disbursements closely follow each other even prior to the implementation of the Trade SWAp, with the exception of 2010. The implementation of Trade SWAp also coincides with a marked increase in the total bilateral AfT and a surge in the turnover of commitments to disbursements. Naturally there are many possible reasons behind these trends. However, the change in the implementation mechanism, the increasing capacity to coordinate aid and the positive awareness and dialogue created through the implementation of the Trade SWAp are undoubtedly among the key reasons.

Figure 4. Aid for Trade in Cambodia, Commitments vs. Lagged Disbursements



Note: Trade SWAp was initiated in 2007. Source: Data from OECD QWIDS available from <http://stats.oecd.org/qwids>, lagged interpretation is author's own

The Cambodian experience has shown that implementing SWApS successfully in the area of trade is feasible. Repeating the success elsewhere requires ensuring that the SWAp is built around several essential features, as mentioned in Table 2.

Table 2. Main features of a trade related SWAp

	FEATURES OF A SWAp	ASPECTS RELATED TO TRADE
1	<p>Establishing a programme-aid approach. Funding should be organized as a collective pool of funding for an overarching program which is implemented by the recipient government.</p>	<p><i>Pooling funds from bi- and multi-lateral donors together with funds from e.g. the Enhanced Integrated Framework</i></p>
2	<p>Efforts to harmonize the policies and procedures of aid provision The policies and strategies behind the provision and distribution of aid should be based on dialogue and partnership, instead of unilateral earmarking and dictation.</p>	<p><i>Linking the programme to trade policies, DTIS reports etc.</i></p>
3	<p>Ensuring evolution and development of the SWAp The SWAp should be periodically reviewed and revised to ensure that it addresses the most urgent needs of the sector with the most efficient means.</p>	<p><i>Ensuring discussions and interaction with wide range of stakeholders affected by trade, including private sector (Chamber of Commerce, SME associations etc.) and general public (NGOs, trade unions etc.) representatives.</i></p>

<p>4. Ensuring government ownership SWAps should assign the ownership and responsibility of the programme to the recipient government.</p>	<p><i>Aligning government policies with WTO commitments and facilitating trade policy review mechanism outputs to ensure policies are aligned with donors' expectations.</i></p>
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Source: Gould J., T. Takala, M. Nokkala (1998).

In addition, for a SWAp to be successful it needs to incorporate the following essential elements (UNFPA, 2005; OECD, 2006):

- A shared vision for trade sector development
- A recipient-owned sector policy and strategy which is clearly defined;
- An expenditure programme reflecting the implementation of the strategy in the medium-term including the usage of government resources;
- Mechanisms for systematically programming and distributing the resources in support of the sector;
- Monitoring and evaluation mechanisms which measure the progress towards agreed upon goals and strengthen accountability;
- Consultation mechanisms that engage the all of the significant stakeholders;
- A formal and recipient owned process for coordinating the aid and dialogue concerning the policies and strategies at the sector level;
- An agreed process for moving towards harmonized systems for reporting, budgeting financial management and procurement

Countries wishing to derive increased efficiency from AfT inflows are encouraged to engage in discussions with their donors and internal stakeholders concerning the possibility of implementing a SWAp in the area of trade. Based on the experience of Cambodia, it is essential to first build the political will internally, after which support is to be sought from the donors. Even with these two elements in hand, building the institutional framework and internal capacity to manage the SWAp takes time and commitment. It should be kept clear in mind that in the majority of cases the benefits are well worth the costs and expended endurance.

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Rajadamnern Nok Avenue

Bangkok 10200, Thailand

Tel: +66(0) 22881410

Fax: +66(0) 22881027