

# Promoting intra-regional trade in North Africa

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*07 December 2017*

## Question

*What interventions to promote intra-regional trade in North Africa have worked?*

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# 1. Overview

Following the launch of the Aid for Trade (AfT) initiative in 2005, donor spending on interventions to promote developing country trade has grown rapidly (UNECA & WTO, 2017: p.3).<sup>1</sup> These interventions can be divided into four categories (i) trade policy and regulation support; (ii) trade-related infrastructure support; (iii) productive capacity building (including trade development) and (iv) trade-related adjustment support.<sup>2</sup> Interventions to promote trade are typically referred to as AfT projects or programmes in the literature, and this report will employ the same terminology

In line with global trends, spending on trade-related interventions in North Africa more than doubled between 2005 and 2015.<sup>3</sup> Moreover, AfT was relatively more important in North Africa than other regions. Its share in total aid was 39% over the period, compared with 20% for Sub-Saharan Africa. Indeed, in per capita terms, North Africa received more AfT than any other African region (UNECA, 2015: p.14). Nevertheless, evidence on the effectiveness of these interventions in promoting intra-regional trade is absent for two reasons. First, only a fraction of North Africa's trade programming has an explicit intra-regional focus. Both OECD data and experts' contributions confirm that the majority of AfT projects occur at the national level. Typically, national projects aim to improve individual countries' international export performance rather than enhance regional integration (OECD, 2014: p.17). Second, measuring the trade impacts of any AfT intervention is fraught with challenges due to a lack of credible data, attribution problems and, above all, an absence of counterfactuals (Basnett, Engel, Kennan, Kingombe, Massa & te Velde, 2012: p.49; OECD & WTO, 2010: p.3). As a result, a review of the empirical literature by the Overseas Development Institute finds there is "scant" evidence on what has worked, particularly at the regional level (Basnett et al., 2012: pp.15-18). Unfortunately, this finding holds true for North Africa.

In the absence of directly relevant literature, this review summarises the state of the evidence on interventions to promote trade and what works, with a particular focus on regional projects. Though the evidence base is limited, it finds that there are emerging best practices in AfT programming. Some of these apply to all AfT interventions, and some are specific to regional projects.

## General AfT best practice

1. *Ensure effective coordination with recipient stakeholders/ national ownership.* Coordination between donors and recipient stakeholders ensures AfT interventions are aligned with national/ regional trade-related needs, improving effectiveness and sustainability. This can be achieved through the establishment of government-led coordination and consultation platforms. Cambodia's sector-wide approach to trade reform provides a good example.
2. *Integrate the private sector.* Relatedly, involving the private sector throughout the AfT programme cycle enhances effectiveness. The private sector has played an important role

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<sup>1</sup> The AfT initiative was launched at the World Trade Organization Hong Kong Ministerial Conference in 2005. Its aim, as stated by the WTO AfT Task Force is to "assist developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalised trade and increased market access".

<sup>2</sup> See OECD & WTO (2010: p.2) for a description of these intervention categories.

<sup>3</sup> Figures are based on author's calculations using OECD-Creditor Reporting System Database, consulted in December 2017.

in successful AfT programmes by identifying the barriers traders face and monitoring whether aid programmes actually remove these.

3. *Focus on results.* AfT programmes with robust Monitoring and Evaluation frameworks are better able to introduce improvements in ongoing implementation and generate lessons learned for future projects. Such programmes provide clear, measurable performance indicators (including intermediate outcomes, such as port clearance times) and collect baseline data against these. They also tend to integrate M&E throughout the project cycle and introduce independence in evaluation.

### **Regional AfT best practice**

1. *Offer incentives to national policy-makers to engage with regional programmes.* National policymakers are less likely to devote scarce resources to programmes where they perceive that many of the benefits will accrue externally. Donors can tackle this issue by offering participating countries financial incentives, such as a higher concessionality level for regional programmes than national ones.
2. *Involve an “honest broker” at each stage of regional programming.* Inclusion of an “honest broker”, such as a regional development bank, can address some of the political and diplomatic challenges associated with regional AfT projects.
3. *Invest in building the capacity of regional organisations.* Regional institutions are a key partner in transnational interventions to promote trade, playing a co-ordinating and monitoring and evaluation role. Regional AfT programmes should include technical assistance to regional organisations in areas such as trade policy development, customs reform and management.

## **2. Interventions to promote trade: what works?**

Interventions to promote trade “work” when they enhance countries’ capacity to trade at the outcome level and improve trade performance (and reduce poverty) at the impact level (OECD, n.d.). Trade capacity indicators are wide-ranging and may include, inter alia, logistic performance, infrastructure quality and ease of doing business indices. Trade performance indicators include, inter alia, reduced trade costs, increased trade volumes/ values and increased economic integration. These outcome objectives are common to all AfT projects and programmes, though some have additional goals.

There are two main bodies of evidence on the effectiveness and impact of AfT interventions: (i) econometric evidence and (ii) case study and survey evidence collected under the OECD/ WTO AfT monitoring framework. Econometric evidence employs cross-sectional or panel data to estimate the average *impact* of AfT on trade performance for a given sample of countries or firms (Basnett & Massa, 2015: p.10). OECD/ WTO’s survey evidence measures donors’ and recipients’ perceptions on AfT effectiveness over time, as well as their views on priority trade-assistance needs, what is working and what is not. The case studies, submitted by various public and private actors on a voluntary basis, provide evidence on how AfT is operationalised on the ground, and the outcomes and impact of particular interventions (OECD, n.d.). Since 2011, a summary of the survey and case study evidence has been published every two years in OECD/ WTO’s Global Review of AfT, alongside data on AfT flows.

In recent years, a number of secondary reviews have synthesised the findings emerging from one or both of these bodies of evidence. They have also assessed the overall strength of the body of evidence in terms of size, quality and context.<sup>4</sup> The conclusions of five such reviews - Basnett et al. (2012) (also summarised in Basnett & Engel, 2013), OECD (2014), Basnett & Massa (2015), Lammersen & Roberts (2015) and UNECA (2015) - are set out below. Particular attention is paid to findings on the impact of AfT interventions on regional trade outcomes, though only OECD (2014) focuses solely on this evidence.<sup>5</sup>

## Strength of the evidence

While Basnett et al. (2012: p.15) find that the body of econometric evidence on the impact of AfT is small, Basnett & Massa (2015: p.10) find that it has grown to be *medium-sized* (26 studies).<sup>6</sup> However, there are a number of gaps (Basnett et al., 2012: pp.16-8; Basnett & Massa, 2015: p.26). Most studies assess the effectiveness of AfT flows at an aggregated level. Those that do measure the impact of aid for specific AfT interventions have focused disproportionately on trade policy and regulations (particularly customs reform) and trade-related infrastructure, while aid to productive capacity building (including trade development) and trade-related adjustment assistance have received little attention. Moreover, country coverage is uneven and few studies have explicitly modelled differences in AfT impact across regions or focused on impact in one region. Similarly, cross-sector comparisons of AfT impact are limited. Thus, the econometric evidence provides only tentative conclusions about the contexts in which different trade interventions have worked best.

The econometric evidence also suffers from *quality* concerns. Though quantitative techniques for estimating impact have become more sophisticated, there is a lack of complete, accurate cross-country data on AfT flows (Basnett et al., 2012: p.25). The vast majority of studies rely on the OECD Creditor Reporting System (CRS) database, which provides data on aid disbursements by type of project. However, the CRS only includes data on aid originating from members of the OECD Development Assistance Committee (DAC), omitting assistance from key donors such as China and many multilateral agencies. The CRS also overestimates the level of AfT provided by DAC members, since it does not disaggregate the trade component of projects that have trade and non-trade objectives. Such measurement inaccuracies bias estimates of AfT impact in econometric models.

The body of evidence generated by the WTO/ OECD AfT monitoring framework is large: between 62 and 84 developing countries and between 30 and 52 donors have participated in each round of

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<sup>4</sup> See DFID, 2014, *How to Note: Assessing the Strength of Evidence* for a description of these strength criteria.

<sup>5</sup> OECD (2014) reviews evidence on the role of AfT in deepening economic integration (i.e. intra-regional trade). It surveys relevant case studies from the OECD/WTO Global Review of AfT in 2011 and also presents new data from three regional AfT programmes in Southeast Asia (ASEAN), Mesoamerica and Africa (Economic Community of West Africa States).

<sup>6</sup> In fact, Basnett & Massa (2015) may underestimate the size of the body of econometric evidence on AfT, since their review only includes studies on trade facilitation interventions. Trade facilitation interventions include trade policy and regulation support, trade-related infrastructure support and trade development but do not include building productive capacity and trade-related adjustment support (Basnett et al., 2012: p.16)

the AfT self-assessment survey.<sup>7</sup> Additionally, 531 case studies of AfT projects and programmes have been submitted by public, private and non-governmental actors to date (OECD/ WTO, 2017: p.27; OECD/ WTO, 2015: pp.28-9; OECD/ WTO, 2013: p.30; OECD/ WTO, 2011: p.24). However, the quality of this evidence suffers from a lack of objectivity and comparability. Basnett et al. (2012: p.52) find that the survey questions “are highly subjective and very few questions allow for easy cross-country comparisons”. Similarly, the sample of case studies suffers from the absence of a rigorous sampling methodology and common analytical framework which would ensure adequate representation and comparability of the available evidence on AfT effectiveness and impact (Lammersen & Roberts, 2015: p.13). Moreover, the quality of the individual case studies tends to be low. For example, very few include project performance indicators measured against baselines or control for other explanatory variables when analysing intervention results (Basnett et al., 2012: pp.47-8). Thus, Basnett et al. (2012: p.52) conclude “The current WTO/OECD Global Review process... does not sufficiently improve our understanding [of the effectiveness and impact of AfT]”.

Basnett et al. (2012) and Basnett & Massa (2015) argue that the body of evidence on AfT interventions and what has worked would be considerably strengthened by more systematic evaluations of individual projects and programmes, including both simple and impact evaluations. Econometric models are suitable for understanding the average relationship between AfT interventions and trade performance, but project evaluations shed light on causal pathways (i.e. “Theories of Change”) and thus *why* particular interventions work or not. The absence of this evidence may be due to the particular challenges of evaluating AfT projects, including lack of credible data, attribution problems and (in the case of impact evaluations) the absence of counterfactuals.

In summary, the evidence on what interventions to promote trade have worked is limited to moderate. Moreover, it is particularly limited with regards to regional interventions: “few, if any, evaluations of the resources going into regional Aid for Trade and to support RECs [regional economic communities] have been conducted” (Basnett et al., 2012: p.49). The weakness of the evidence base should be kept in mind when reviewing the literature’s empirical findings. It explains why relatively little can be said on what AfT interventions have worked where and why.

## Empirical findings

The econometric evidence generally finds a positive relationship between AfT interventions and trade performance indicators (Basnett et al., 2012: p.ix; Basnett et al., 2015: p.11). However, the significance and magnitude of AfT’s impact “tends to vary considerably depending on the type of intervention, the income level and geographical region of the recipient country and the sector to which Aid for Trade flows are directed” (Basnett et al., 2012: p.ix). Table 1 summarises how these contextual factors have been found to correlate with AfT impact in the econometric literature.

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<sup>7</sup> In 2017, seven regional organisations (e.g. regional economic communities) and three providers of South-South related support (i.e. Brazil, China and Indonesia) submitted self-assessments in addition to 63 developing countries and 25 donors

**Table 1: Overview of econometric evidence on trade intervention effectiveness**

| AfT effectiveness by...              |  |
|--------------------------------------|--|
| ... type of intervention             | <p>Evidence on the effectiveness of different types of AfT is mixed, partly because results are not always comparable as different definitions of specific categories of AfT are used. However, there is some evidence that AfT that is <i>targeted at reducing the cost of trading</i> is most effective. This includes investment in infrastructure, trade facilitation and strengthening value chains. Evidence on the effectiveness of aid to trade policy and regulations in improving trade-related performance is more mixed (Basnett et al., 2012: pp.22-4)</p> <p>The empirical evidence on different types of trade facilitation reform suggests that interventions to improve infrastructure are the most effective in increasing trade volumes and reducing trade costs, followed by reforms to improve customs efficiency and then reforms to improve trade regulations (Basnett &amp; Massa, 2015: p.14)</p> |
| ... recipient country's income level | <p>There is some evidence that certain types of AfT flows (e.g. aid to infrastructure such as transportation) are more effective in lower income countries, whereas other aid flows, such as those directed to the business sector, are more effective in higher-income countries. However, much more evidence is needed on the different impacts of different types of AfT across different categories of developing country (Basnett et al., 2012: pp.22-4).</p>   |
| ... sector                           | <p>The impact of AfT is found to vary among sectors. Evidence is still mixed and the different sector classifications used in the studies prevents comparability of results. (Basnett et al., 2012: pp.22-4).</p>  |
| ... geographical region              | <p>There is evidence that the same types of AfT may have varying effects depending on the geographical regions of recipient countries. Sub-Saharan Africa is the region that is found to benefit the most from AfT (Basnett et al., 2012: pp.22-4).</p>  |

That context is crucial to the impact of trade interventions is unsurprising. Four of the secondary reviews state the truism that the most effective and impactful AfT interventions address “the most binding constraints to trade” (Basnett et al., 2012: p.xi; Basnett & Massa, 2015: p.25; Lammersen & Roberts, 2015: p14; UNECA, 2015: p.25). These constraints differ across regions, countries and sectors. Therefore, AfT interventions “work” when they correctly diagnose and address the key barriers to trade in their particular context.

How is this achieved? Using evidence from the OECD/ WTO AfT monitoring framework, the reviews identify emerging best practices in AfT programming. These are factors that are common to interventions that have worked. Most best practices apply to all interventions to promote trade, but some are specific to regional projects.

### General AfT best practice

1. *Ensure effective coordination with recipient stakeholders/ national ownership.* Three reviews find that better coordination between donors and recipient stakeholders ensures AfT interventions are aligned with national/ regional trade-related needs, improving effectiveness (Basnett et al., 2012: pp.x-xi; OECD, 2014: p.18; UNECA, 2015: p.21). A key finding of the WTO/ OECD Global Review process is that AfT interventions have frequently reflected the priorities of donors. This is seen in the general lack of cross-sector trade support, a proliferation of parallel implementation structures and limited understanding of donor activities by recipient stakeholders (Basnett et al., 2012: p.30). Coordination failures, particularly during the needs assessment stage of AfT programming, are to blame. In most countries, the process of identifying national AfT needs and priorities has been dominated by donors with inputs from

the Ministry of Trade, while other line ministries, the private sector and other non-state actors have not participated (Basnett et al., 2013: p. 2). Since trade constraints tend to be multi-disciplinary, the exclusion of these stakeholders undermines the accuracy of the resulting needs assessment, limiting the effectiveness of the aid response.

Conversely, the establishment of government-led coordination and consultation platforms have supported context-appropriate AfT interventions. A commonly cited example is Cambodia's national sector-wide approach to trade promotion ("SWAp") which integrates national and donor-funded trade reforms under three pillars: (i) cross-cutting reforms (ii) sector-specific reforms and (iii) capacity development. Donor resources are coordinated through a multi-donor trust fund, while line ministries and the private sector are engaged through SWAp working groups and a public-private dialogue forum headed by the Prime Minister. Basnett & Engel (2013) report that Cambodia's SWAp has "helped improve coordination, identified constraints and mobilised action for policy reform" (p.2).

2. *Integrate the private sector.* Relatedly, three reviews find that involving the private sector throughout the AfT programme cycle enhances effectiveness (Basnett et al., 2012: pp 35-6; OECD, 2014: p.18; Lammersen & Roberts, 2015: p.17). This is unsurprising, given that international trade is usually conducted by private actors. At the needs assessment and project design stage, programmers have solicited the private sector's views to successfully identify binding barriers to trade as well as potential solutions (OECD, 2014: p.17). The private sector has also been an important partner and beneficiary during project implementation. For example, numerous case stories in the Global Review highlight the role of multinational corporations in helping developing country firms meet international standards, which is frequently a key barrier to entry in global value chains (Basnett et al., 2012: p.35). Finally, the private sector has often been best placed to monitor whether aid programmes actually remove constraints to trade and provide lessons learned for future programming.
3. *Focus on results.* Four reviews stress the importance of increasing AfT project implementers' focus on results in order to improve effectiveness (Basnett et al., 2012 pp 49-52; OECD, 2014: p.18; Lammersen & Roberts, 2015: p.16; UNECA, 2015: p. 24). Programmes with robust monitoring and evaluation frameworks are better able to introduce improvements in ongoing implementation and generate lessons learned for future projects (Basnett et al, 2012: p.49). Such programmes provide clear, measurable performance indicators (including intermediate outcomes, such as port clearance times) and collect baseline data against these. They also tend to integrate M&E throughout the project cycle and introduce independence in evaluation. Lammersen & Roberts (2015: p.16) suggest introducing results-based financing in AfT interventions to shift implementers' focus from activities to outcomes and impact, though it's unclear whether any AfT donors have successfully done this. They argue that conditioning the availability of AfT on programmes' quantifiable progress towards trade cost reduction could improve effectiveness through a variety of channels, including by appealing to governments' pecuniary interests to shift domestic priorities and encouraging adaptation and problem-solving.

### **Regional AfT best practice**

1. *Offer incentives to national policy-makers to engage with regional programmes.* OECD (2014: p.88) notes that there is an incentive challenge to mainstreaming regional AfT programmes in national development strategies. National policymakers are less likely to devote scarce financial and human resources to programmes where they perceive that many of the benefits will accrue externally. Lammersen & Roberts (2015: p.15) report that donors can tackle this

issue by offering participating countries financial incentives, such as a higher concessionality levels for regional programmes than national ones.

2. *Involve an “honest broker” at each stage of regional programming.* Regional AfT programmes face unique political challenges. Countries may have divergent regional agendas, particularly if they are at different levels of economic development or national capacity (OECD, 2014: p.96). They may also lack mechanisms for effective diplomacy or generally distrust one another. OECD (2014: p.96) and Lammersen & Roberts (2015: p.15) find that inclusion of an “honest broker”, such as a regional development bank, can support negotiations and coordination in these circumstances.
3. *Invest in building the capacity of regional organisations.* Regional institutions are a key partner in transnational interventions to promote trade, playing a co-ordinating and monitoring and evaluation role. However, they are frequently characterised by substantial capacity constraints and legitimacy deficits, as well as limited means of ensuring cooperation from member states (Basnett et al., 2012: p.41). Thus, regional AfT programmes should include technical assistance to regional organisations in areas such as trade policy development, customs reform and management.



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## Suggested citation

Timmis, H. (2017). *Promoting intra-regional trade in North Africa*. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.

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