

Aid Effectiveness and the Private Sector: Innovative Initiatives for Asia-Pacific's Entrepreneurial Development

Rukmani Gounder,
School of Economics and Finance
Massey University, Palmerston North,
New Zealand

Australasian Aid Conference,
Crawford School of Public Policy, Australian National University,
February 15-16, 2017

Introduction

- Aid donors have emphasized on the role of private sector development as a main sectoral impetus through aid for trade (AfT) initiatives.
- Developing countries face some of the problems such as lack of capability in managing SMEs, access to finance, poor infrastructure, government policy and bureaucracy, access to modern technology, competition and marketing.
- Trade-related development priorities: make developing countries more resilient and responsive for private sector development.
 - This paper assesses the efficacy of Australia and New Zealand's AfT categories in the case of Asia-Pacific countries.

Aid for Trade Literature

- Focus of aid after the Doha round meeting include AfT activities to improve business environment, and become responsive towards private sector development (OECD, 2006).
 - support recipient countries' regional and global integration, create economies of scale, address trade constraints, increase export diversification, and promote economic growth.
- AfT agenda aims to benefit trade as developing countries' commodity sectors constitute of key economic activities that make up a sizable share of their economies (see Cali, & te Velde, 2008; Prowse, 2010; Brazys, 2013; Hühne, Meyer & Nunnenkamp, 2014; Gounder (2016); Hühne, et al. 2016; Lee & Ries 2016).

Aid for Trade Literature

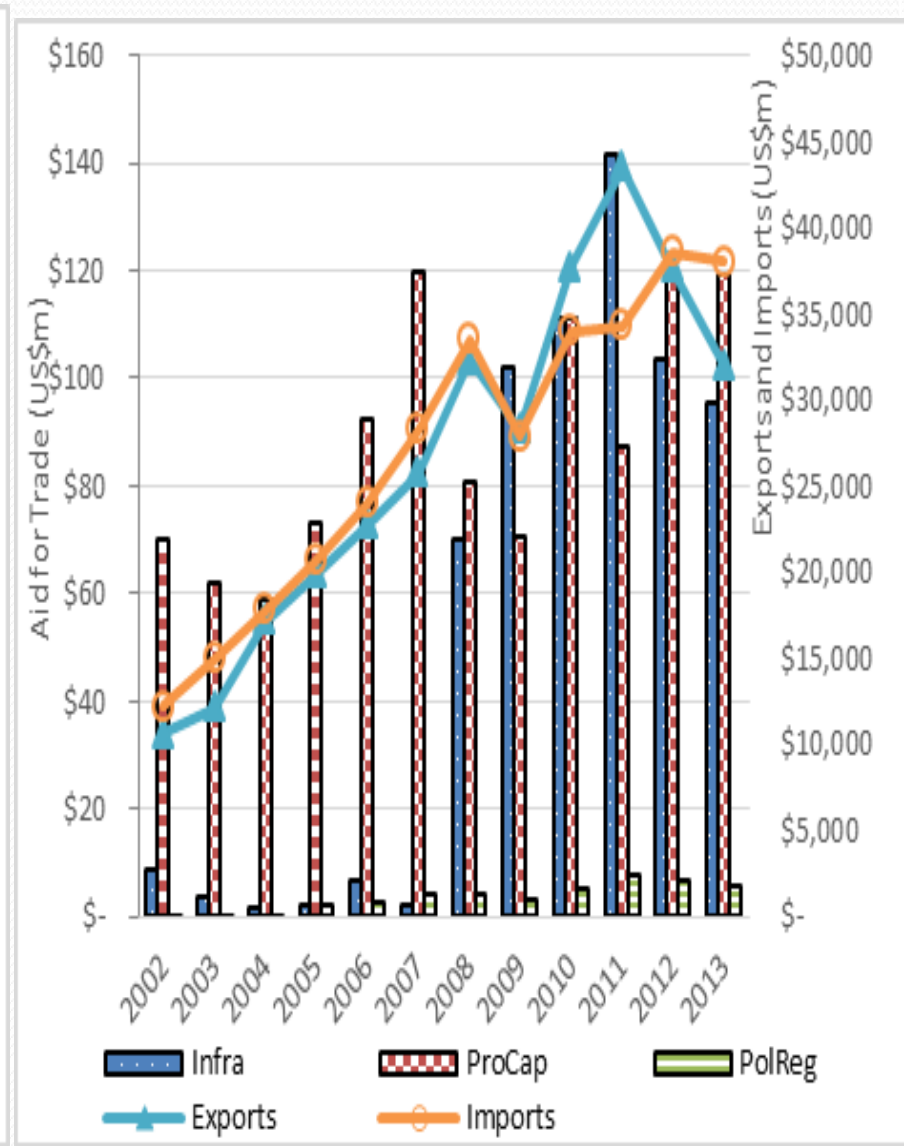
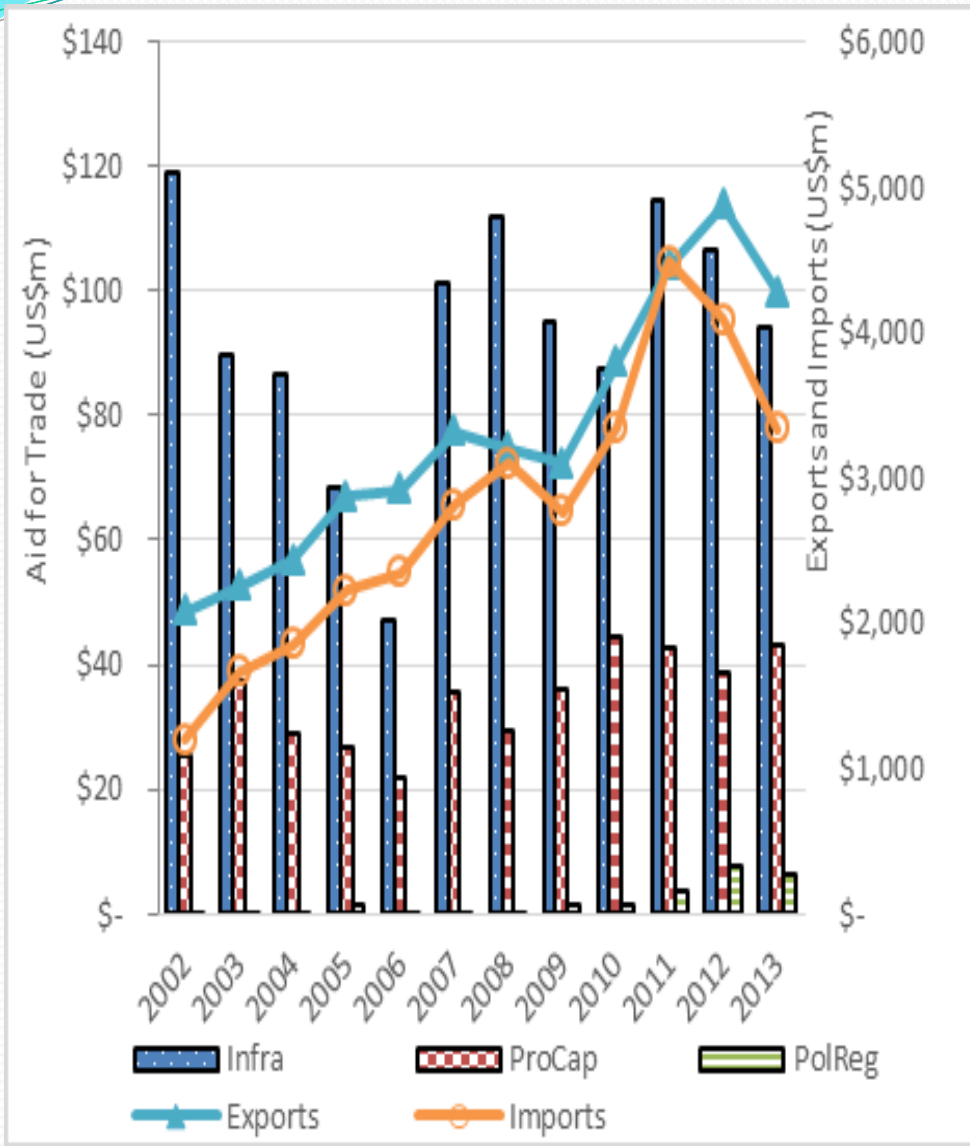
- Various components of aid has been classified
 - To highlight whether AfT has assisted recipient countries to improve **economic infrastructure, productive capacity building and trade policy regulation**.
- Giving aid to assist in the development of recipient countries is also seen to promote donors' commercial interests (Gounder, 1994, Bandyopadhyay & Vermann, 2012).
- Stiglitz and Charlton (2006, 2013) note **the right to trade** and **the right to development** by rethinking the aid for trade agenda as trade has been a significant part of nations' economic activities.

Trade and Aid for Trade

- Trade has been an important factor for growth:
- Exports from Asia-Pacific comprise of agricultural, manufacturing and services, and also include a narrow range of primary commodities.
 - So diversification of export commodities and reduction in cost have been the main focus of AfT in building the supply-side capacity and trade related infrastructure.
 - To facilitate trade in developing countries donors have targeted assistance to assist in removing of trade constraints and promote economic growth.

Fig. 1 Australia and New Zealand's AfT, Exports and Imports to Asia-Pacific (constant prices, US\$m)

Part 1 AfT by categories, exports and imports, Asia, 2002-2013 **Part 2 AfT by categories, exports and imports, Pacific, 2002-2013**



Source: OECD Creditor Reporting System (2015).

Exports-Aid Linkage

Effectiveness of Australian and New Zealand aid and trade to Asia-Pacific developing countries tests the linkage between aid and export expansion to 40 Asia-Pacific developing countries for the period 2002 to 2013.

$$\ln(T_{ij}) = \beta_0 + \beta_1 \ln(\text{GDP}_{ij}/\text{GDP}_{AP}) + \beta_2 \ln(\text{GDPpc}_i) + \beta_3 \ln(\text{GDPpc}_j) + \beta_4 \ln(\text{Dist}_{ij}) + \beta_5 \text{LnRem}_i + \beta_6 \text{LnRem}_j + \beta_7 \text{Lang}_{ij} + \beta_8 \ln(\max\{1, A_{ij}\}) + \beta_9 \text{NAD}_{ij} + \varepsilon_{ij} \quad (1)$$

where T_{ij} is exports between donor i to recipient country j ; GDP is Gross Domestic Product of donor i , recipient country j and AP Asia-Pacific nations; GDP_{pci} is GDP per capita of donor i , and GDPpc_j is per capita GDP of recipient country j ; Dist_i , Dist_j is distance in nautical miles between donor country i and country j ; Rem_i is remoteness of donor i and Rem_j is remoteness of recipient country j ; Lang_{ij} is the common language factor between donor country i and recipient country j ; A_{ij} is total net official development assistance (ODA) disbursements and disaggregated AfT infrastructure, productive capacity building, trade policy and regulation from donor i to recipient country j ; NAD_{ij} is dummy variable with the value 1 if aid by donor $i=0$, and value of 0 if $A_{ij}>0$; ε_{ij} is error term that affects dependent variable and is time variant.

Aid coefficient (β_8) is further estimated by AfT categories:

- Aid for trade infrastructure (AfTInf_{ij}),
- Aid for trade productive capacity building (AfTPCD_{ij}), and
- Aid for trade policy regulation (AfTTPR_{ij}).

Table 1 Regional Impact for Each Component of Aid for Trade Results**Dependent Variable: Exports**

	Stage 1	Stage 2	Stage 3				
	Total Aid Impact ^a	Import residuals ^a	Effect of AfTInfra ^b	AfTProCapBuilding ^b	AfTPolicy & Regulation ^b		
$\ln(\max\{1, A_{ij}\})$	0.27 (2.41) ^{***}	0.28 (2.14) ^{***}	AfTInf _{ij} 0.001 (0.09)	$\ln AfTPCB_{ij}$ 0.28 (1.67) [*]	$\ln AfTPR_i$ 1.49 (1.96) ^{**}		
NAD _{ij}	0.80 (3.86) ^{***}	0.81 (3.84) ^{***}	NADInf _i -0.30 (2.61) ^{***}	NADPCB _{ij} -0.02 (0.13)	NADTPR _{ij} -0.24 (1.89) [*]		
$\ln GDP_{Share}$	1.71 (6.27) ^{***}	0.24 (0.31)	$\ln GDP_{Share}$ 0.45 (0.63)	$\ln GDP_{Share}$ 1.85 (9.02)	$\ln GDP_{Share}$ 1.88 (9.85) ^{***}		
$\ln(DIST_{ij})$	-5.45 (12.78) ^{***}	3.72 (0.72)	$\ln(DIST_{ij})$ 7.97 (4.41) ^{***}	$\ln(DIST_{ij})$ 5.99 (5.39) ^{***}	$\ln(DIST_{ij})$ 7.29 (1.65) [*]		
$\ln Rem_i$	0.59 (3.91) ^{***}	1.28 (4.29) ^{***}	$\ln Rem_i$ 1.71 (5.99) ^{***}	$\ln Rem_i$ 0.55 (3.63) ^{***}	$\ln Rem_i$ 1.65 (5.79) ^{***}		
$\ln Rem_j$	1.43 (11.15) ^{***}	-0.68 (0.62)	$\ln Rem_j$ 1.73 (1.64) [*]	$\ln Rem_j$ -1.62 (2.78) ^{***}	$\ln Rem_j$ -1.55 (1.48)		
$\ln(Lang_{ij})$	2.07 (4.01) ^{***}	0.84 (1.37)	$\ln(Lang_{ij})$ 0.14 (0.59)	$\ln(Lang_{ij})$ 1.84 (3.58) ^{***}	$\ln(Lang_{ij})$ 1.81 (3.55) ^{***}		
Import residual		0.96 (1.86) [*]	Import residual 1.52 (3.12) ^{***}	Import residual 2.17 (0.65)	Import residual 0.17 (0.65)		
No. of observations	880	880	880	880	880		
Adj R-square	0.55	0.56	0.55	0.56	0.54		
Root MSE	1.38	0.56	1.40	1.38	1.39		

Stage 4 Results for the Implied Return on Export by Region

Implied Returns of exports on aid (Panel estimation)	\$0.96
Implied returns of exports on aid (Import residual)	\$0.97
Implied returns of exports on aid to Asia (Import residual)	\$1.32
Implied returns of exports on aid to Pacific (Import residual)	\$0.08

Notes: The value in bracket is *t* ratio. ^a Each estimated equation include other control variables, i.e., $\ln(GDP_{pci})$, $\ln(GDP_{pcj})$, mills ratio in the estimation of each equation. ^b Estimated aid for trade coefficients are for each category, i.e., infrastructure (AfTInf), productive capacity building (AfTPCB), trade policy and regulation (AfTPR). GDP share is $\ln(GDP_{ij}/GDP_{AP})$. Significance levels: ***, **, * at the 1, 5 and 10% level, respectively.

AfT innovative activities: AfT Infrastructure - provision of key infrastructure needed to promote private sector participation and development

- To overcome challenges on the performance of SMEs, development finance is needed to tackle trade-related binding constraints:
- Build transport capacity (i.e., road, port and airport infrastructure), storage, communication, energy generation and supply in the rural-urban areas to assist in the delivery of goods to domestic markets and access to international destinations.
- Support infrastructure for energy generation and non-renewable resources, oil and gas-fired power plants, and energy supply to reduce energy cost and rural energy supply.
- Address the supply problems exacerbated by post-harvest losses, poor packaging, and lack of suitable warehousing/cold storage facilities.
- Establish quarantine infrastructure and services to remove export constraints, and improve the quality and standards of agricultural and manufacturing goods, packaging, marketing, food safety, and export logistics.
- Provide incentives for public-private partnerships in planning and developing quality infrastructure and facilitate access to grants where there is the case of low financial returns for specific private sector projects but high economic return to the nation from the projects.

AfT productive capacity building: emphasis is for AfT to build SMEs' productive capacity building which includes the following:

- Enhance agricultural output, and support diversification to increase manufacturing-based industries for a vibrant private sector.
- Support SMEs through the provision of high quality technical training that is linked to labour market requirements, and aligned with the goals of a dynamic private sector.
- Monitor the business performance of SMEs and improve ease of doing business by addressing the following: red tape, regulations, and lack of business infrastructure.
- Reduce high cost of doing business through enhancing the efficiency of systems and processes – permits, licenses, customs, quarantine, property rights, and wages/salary.
- Develop institutional capacity in export marketing; promote sharing and efficient flow of information between public-private sectors.
- Accelerate the capacity of export-oriented SMEs to access and utilize technologies, knowledge and information of standards.
- Implement targeted projects and programmes designed in a way that promotes job creation initiatives for youth which also include women and upskills workers.

AfT-trade policy and regulation – For an effective trade strategy it is important to have the following:

- Provide effective trade adjustment assistance to implement trade liberalization (tariff reductions, preference erosion, terms of trade).
- Develop and implement targeted trade policies to reduce tariff and non-tariff trade barriers affecting private sector enterprises.
- Support recipient governments through several categories of technical assistance for trade agreement negotiations, support trade policy, regulatory reforms, trade education and training.
- Facilitate technical assistance to review trade legislations and regulations.
- Institute regular monitoring, evaluation, and reporting of progress and performance of trade policy initiatives and programmes.
- Ensure that trade agreements between donors and recipient countries focus on addressing trade imbalances in goods through the removal of protectionist policies, barriers, and constraints.

Conclusion

- AfT is crucial to improve growth for socio-economic development.
- Impact of aid and trade shows significant increase in exports from Australia and New Zealand to Asian countries.
- Asian nations also trade out of obligations to maintain goodwill and to secure aid in the future.
- Implied Returns: donors' exports on aid is much larger on exports. Additional dollar increase in aid increases exports at a much higher rate to that of tied donors' aid.
- Further trade would not have happened if aid was not forthcoming, and also aid would not have increased without additional trade.
- Innovative initiatives are vital to improve the performance of the private sector through small and medium enterprises for economic growth and development.
- With the concerted efforts of key partners, these initiatives can strategically position the SMEs in the region to improve income per capita, and sustain their potentials to drive private sector-led economic growth.