ICAI Independent Commission for Aid Impact

DFID's Trade Development Work in Southern Africa

Terms of Reference

1. Introduction

1.1 The Independent Commission for Aid Impact (ICAI) is the independent body responsible for scrutinising UK aid. We focus on maximising the effectiveness of the UK aid budget for intended beneficiaries and on delivering value for money for UK taxpayers. We carry out independent reviews of aid programmes and of issues affecting the delivery of UK aid. We publish transparent, impartial and objective reports to provide evidence and clear recommendations to support UK Government decision-making and to strengthen the accountability of the aid programme. Our reports are written to be accessible to a general readership and we use a simple 'traffic light' system to report our judgement on each programme or topic we review.

1.2 We have decided to review the Department for International Development's (DFID's) trade development work in Southern Africa. These Terms of Reference outline the purpose and nature of the review and identify its main themes. A detailed methodology will be developed during an inception phase.

2. Background

2.1 DFID support to trade in Southern Africa is based firmly in the wider Aid for Trade policy. The Aid for Trade initiative was launched at the World Trade Organization (WTO) Ministerial Conference in Hong Kong in 2005. The Ministerial Statement affirmed that 'Aid for Trade should aim to help developing countries, particularly LDCs [Least Developed Countries], to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade'.[1]

2.2 In October 2007, the EU (both the Commission and the 27 Member States) adopted a joint strategy.[2] This aims to help developing countries to integrate better into the rules-based world trading system and to use trade more effectively in promoting the overarching objective of poverty reduction. In this strategy, the EU, including member states, committed to significantly increase their combined spending on trade-related assistance (trade policy and regulation support and trade capacity-building). Specifically, the commitment was to increase trade-related assistance to €2 billion (£1.8 billion)[3] per year by 2010 (€1 billion from Commission institutions and €1 billion from EU member states' bilateral aid).

[1] *WTO Ministerial Declaration WT/MIN(05)/DEC*, World Trade Organization, December 2005, http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm.
[2] *EU Strategy on Aid for Trade: Enhancing EU Support for Trade-Related Needs in Developing Countries*, doc 14470/07, October 2007, http://trade.ec.europa.eu/doclib/docs/2008/november/tradoc_141470.pdf.
[3] HMRC published average annual rates are used throughout the document, http://www.hmrc.gov.uk/exrate/.

2.3 Previously, the UK Government (November 2005) had pledged[4] to increase its trade-related assistance to £100 million by 2010; this pledge was a reallocation of UK aid spending rather than an increase. A second UK commitment (September 2006) pledged to increase total support for Aid for Trade (broader spending to include trade-related infrastructure and private sector development) by 50% to £750 million a year by 2010.

2.4 By 2009, these commitments had been met. Aid for Trade rose from $690 million (£375 million) a year (average 2002-05) to $1.9 billion (£1.2 billion) a year and actual disbursements rose from $389 million (£216 million) a year to $1.3 billion (£820 million) a year (see Figure 1).[5]

Figure 1: UK Aid for Trade spending (2009)[6]

Aid for Trade category	Description	Amount committed	Amount disbursed
Trade policy and regulation	Trade policy and administrative management; trade facilitation; regional trade agreements; multilateral trade negotiations; and trade education and training.	$213 million (£137 million)	$74 million (£47 million)
Building productive capacities	Business development and activities aimed at improving the business climate; privatisation; assistance to banking and financial services; agriculture; forestry; fishing; industry; mineral resources and mining; tourism. Includes trade and non-trade-related capacity-building. Trade capacity sub-set: investment promotion; analysis and institutional support for trade in services; business support services and institutions; public–private sector networking; e-commerce; trade finance; trade promotion; market analysis and development.	$1,154 million (£740 million)	$911 million (£583 million)
Trade-related infrastructure	Physical infrastructure including transport, storage, communications and energy generation and supply.	$483 million (£310 million)	$296 million (£190 million)
TOTAL UK Aid for Trade		$1,850 million (£1,187 million)	$1,281 million (£820 million)

2.5 By region, UK Aid for Trade commitments focus primarily on Africa, with 49% of total UK Aid for Trade, followed by Asia with a further 36%.

2.6 The February 2011 *Trade and Investment for Growth White Paper*[7] sets out how the UK has refined its approach to Aid for Trade, seeking to prioritise progress on trade facilitation, capacity-building (including a special focus on building capacity for negotiations) and country competitiveness (including through stronger engagement with the private sector).

2.7 It is within this broader Aid for Trade policy framework that DFID has supported regional integration programmes in Southern Africa, which focus both on regional

[4] *Aid for Trade – How to Deliver More and Better Aid for Trade*, DFID, 2007, http://webarchive.nationalarchives.gov.uk/+/http://www.dfid.gov.uk/Media-Room/News-Stories/Aid-for-Trade-how-to-deliver-more-and-better-aid-for-trade/.
[5] *Aid for Trade at a Glance 2011*, joint WTO–OECD publication, 2012, http://www.wto.org/english/res_e/publications_e/aid4trade11_e.htm.
[6] *Aid for Trade at a Glance 2011*, joint WTO–OECD publication, 2012, http://www.wto.org/english/res_e/publications_e/aid4trade11_e.htm.
[7] *Trade and Investment for Growth*, Department for Business, Innovation and Skills, 2011, http://www.bis.gov.uk/assets/biscore/international-trade-investment-and-development/docs/t/11-717-trade-investment-for-growth.pdf.

trade and economic development. Its strategy is designed to tackle three major obstacles to trade:

- **Trade facilitation:** cutting red tape – particularly border post bureaucracy – and improving and harmonising regulations and standards. According to the World Bank, red tape causes 75% of delays along Africa's transport corridors;[8]
- **Improving infrastructure:** transport and energy infrastructure to be improved in priority development corridors through accelerating project preparation; leveraging private donor and public sector financing; and trying to ensure that investment in infrastructure by extractive industries (e.g. mining companies) benefits the region. According to the World Bank, poor infrastructure accounts for the remaining 25% of delays;[8] and
- **Better market access:** reducing tariffs and non-tariff barriers through support to the Tripartite 'Cape to Cairo' Free Trade Area negotiations (consisting of three regional economic communities[9]). This aims to eliminate most tariffs and other barriers to trade by 2014. At an average of 8%, with peak tariffs as high as 100% on staples such as sugar and wheat, African tariffs are among the highest in the world.

2.8 DFID takes a regional and programmatic approach, focussing on the development of transport corridors which combine transport infrastructure with energy grids and other public and private interventions and investments essential to regional trade and economic growth. DFID has prioritised the North–South Corridor (from Durban to Dar es Salaam and its spurs) which is the most economically important corridor in Southern Africa. DFID works in partnership with the Tripartite, individual regional economic communities and their 26 member countries, civil society and the private sector and development partners. DFID claims that its programmes are flexible and opportunistic.

2.9 DFID Southern Africa's current core regional integration programmes are designed to cover both key regional policy challenges and constraints to regional trade in specific sectors. These are the TradeMark Southern Africa Programme (TMSA) (2009-14, £100 million) and the Mozambique Regional Gateway Programme (MRGP) (2011-15, £22.35 million). These are complemented by the Making Financial Markets Work for the Poor programme (FinMark) Phase 2 (2010-15, £19.5 million).

2.10 DFID's previous regional integration programmes in Southern Africa were: the Regional Trade Facilitation Programme (2003-09, £16 million) (TMSA follows on from this); the Regional Standards Programme (2006-09, £4.1 million); and the Making Commodity and Services Markets Work for the Poor Programme (2004-09, £10.5 million). Phase 1 of the FinMark Programme (2002-09, £10.5 million) focussed exclusively on South African financial markets.

[8] *De-fragmenting Africa: Deepening Regional Trade Integration in Goods and Services*, World Bank, 2012, http://documents.worldbank.org/curated/en/2012/01/16252822/de-fragmenting-africa-deepening-regional-trade-integration-goods-services.

[9] The three regional economic communities in Eastern and Southern Africa are the Southern African Development Community (SADC), the Community of East and Southern Africa (COMESA) and the East African Community (EAC). There is a degree of membership overlap, with some countries of the region being members of more than one community.

3. Purpose of this review

3.1 To assess the effectiveness of the trade-related elements of DFID's current regional integration programmes in Southern Africa, in order to maximise the impact for the intended beneficiaries and value for money for the UK taxpayer.

3.2 Within the context of this review, the intended beneficiaries are the poor of Southern Africa. It should be noted that, for trade-related work in Southern Africa, the direct beneficiaries will be regional economic communities and governments creating opportunities and benefits for traders, transport companies and producers. This in turn may benefit the intended beneficiary, the poor. In order to assess the impact on the intended beneficiary, the review will, as far as possible, follow the impact along the entire chain.

4. Relationship to other evaluations and studies

4.1 For the Southern Africa regional integration programmes, the following reviews are available from DFID:

- the first Annual Review of TMSA was completed in November 2011. A comprehensive mid-term evaluation has been commissioned and is expected to report in July 2013 (with fieldwork in April and May);
- project completion reports for programmes that have ended;
- the first Annual Review of MRGP is due in March 2013; and
- two Annual Reviews of FinMark are available, with the next one due in March 2013.

4.2 In 2010, DFID published an evaluation[10] of its Southern Africa programme which stated that:

> 'Under the Growth Theme, significant impact in trade and support for regional level growth has been achieved, together with a reduction in transport costs and an opening up of the region for trade. Within South Africa, employment opportunities and the employment promotion policy have seen significant attributable results. Financial markets have also been effectively supported by DFID SA [DFID South Africa].'

4.3 The Overseas Development Institute (ODI) reached similar conclusions regarding trade impact in its 2009 review[11] of DFID's Regional Trade Facilitation Programme but was more critical of the linkages of this trade impact with poverty reduction:

> 'This case study highlights that integrating poverty reduction concerns into regional Aid for Trade programmes may not always be a top priority. The development approach adopted may be to support trade expansion, with the assumption – or hope – that this will trickle down to poorer producers, traders and entrepreneurs. For example, the North–South Corridor does not

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[10] *DFID's Southern Africa Country Programme 2004-2009*, DFID, 2010, http://www.dfid.gov.uk/Documents/publications1/evaluation/cnty-prog-eval-safrica-summ.pdf.

[11] *A Regional Approach to Aid for Trade: The Regional Trade Facilitation Programme (RTFP)*, ODI, 2009, http://www.odi.org.uk/publications/4852-regional-approach-aid-trade-regional-trade-facilitation-programme-rtfp%60.

currently explicitly incorporate the needs of small or informal producers, traders or entrepreneurs into its strategic assessment of investment needs. Instead, the focus has been on the relative economic efficiency gains attributed to different investment alternatives. While this focus on trade expansion in the regional context is absolutely appropriate, some level of *ex ante* disaggregated analysis would improve understanding of the trade-related constraints and opportunities facing the variety of groups engaged with trading processes at the regional level. This analysis may take into account gender, income, trading sector, firm size, employment type and nationality/ethnicity.'

4.4 In July 2012, the International Development Committee (IDC) published a report on DFID's Programme in Zambia. This highlighted many 'public finance inefficiencies', which links into spending on regional infrastructure within the Aid for Trade agenda.

4.5 In 2007, the Organisation for Economic Cooperation and Development (OECD) undertook a review of the evaluations of more than 100 trade-related projects[12] across a range of donors. The review covered evaluations of trade-related assistance undertaken by nine bilateral and multilateral donor organisations.

4.6 This study found a number of weaknesses common to all these projects: incomplete needs assessments; weak project management and project governance structures; weak linkages to poverty reduction; limited relationships with other programmes; and insufficient donor co-ordination. It was observed that, although most donors' strategies highlight trade-related assistance as a means to promote economic development and reduce poverty, few programmes had direct links to poverty reduction (or defined them), whether at the micro-level (i.e. households, individuals) or at the macro-level (i.e. UN Millennium Development Goals and national poverty reduction goals).

4.7 This evaluation will examine the relevant findings of these and other previous evaluations and see whether lessons from these have informed DFID's current assistance in Southern Africa.

5. Analytical approach

5.1 This evaluation will examine DFID's trade development work within its regional integration programmes in Southern Africa over the past five years. While covering the full ICAI evaluation framework, the evaluation will focus in particular on four broad themes.

5.2 First, we will evaluate how well the projects have been designed and implemented to deliver a sustainable impact for the region's poor. The first step is to examine whether the projects are designed to improve trade and are having positive impacts. Recent literature indicates that trade is an essential tool for boosting growth and reducing poverty. Few countries have generated long-term economic growth

[12] *TRA – What Do Recent Evaluations Tell Us?*, OECD, 2007, http://www.oecd.org/dac/aidfortrade/37326353.pdf.

without first experiencing a large expansion in trade and most developing countries with rapid poverty reduction have sustained high economic growth.[13]

5.3 It is now widely agreed, however, that the linkages between trade expansion and poverty alleviation are not automatic. The poverty impact depends on a range of factors and changes in trade will directly and indirectly affect households. A framework developed by *McCulloch et al.*[14] illustrates how changes in trade (trade expansion and/or trade liberalisation) pass to households by means of three channels: the distribution channel (lower price, greater choice), the enterprise channel (higher wages, employment and profits) and the government channel (increased taxes spent on social programmes).

5.4 This evaluation will include an assessment of whether:

- DFID's trade development work in Southern Africa is based on a sound analysis of the linkages between project activities and impact for the intended beneficiaries;
- the programmes seek to mitigate and compensate for the adverse impacts of trade changes, particularly when these changes affect poor people; and
- programme design takes into account the lessons learned from earlier phases of DFID trade development programming in the region.

5.5 Secondly, the evaluation will investigate the way in which DFID prioritises its support in addressing the three key obstacles to trade expansion described in section 2, namely: high levels of red tape, poor infrastructure and high tariff and non-tariff barriers. We will assess the impact and value for money of interventions undertaken in each of these areas and seek to understand whether the balance in DFID's regional programming accurately reflects the relative priority which regional economic communities and national governments themselves attach to each obstacle.

5.6 Thirdly, the evaluation will examine the efficiency and value for money of the different delivery channels used by DFID. We will examine the adequacy of financial management, procurement, fiduciary risk mitigation, project management and monitoring and evaluation undertaken by the implementing partners and their contractors.

5.7 By comparing the different delivery channels and partners used in DFID's trade development portfolio and the strategies DFID employs for managing its programmes across Southern Africa, we will seek to draw lessons on effective trade development delivery in a regional context. A detailed methodology for conducting this assessment will be developed during the inception phase.

5.8 Finally, the evaluation will consider the relationships and integration between DFID's Southern Africa trade development work and the wider assistance which DFID provides across the Tripartite 'Cape to Cairo' Free Trade Area. The linkages and co-ordination with Tripartite partners and programmes outside the Southern African region will be examined, in particular DFID's trade work in East Africa (for

[13] *Trading out of Poverty: How Aid for Trade Can Help*, OECD, 2009, http://www.oecd.org/dac/aidfortrade/43242586.pdf.
[14] McCulloch, N., Winters, L. A. and Cirera. X., *Trade Liberalisation and Poverty: A Handbook*, 2001, http://www.ids.ac.uk/files/tlpov.pdf.

example, TradeMark East Africa, TMEA[15]) and its contribution to African infrastructure funds.[16]

5.9 It can take a long time for the costs and benefits of trade development work to become apparent. We will, nonetheless, compile and analyse the results data that are available, assessing the strategies used by DFID to measure impact. We will also meet with intended beneficiaries or, where that is not possible, representative groups to get their views on impact.

6. Indicative questions

6.1 This review will use as its basis the standard ICAI guiding criteria and evaluation framework, which are focussed on four areas: objectives, delivery, impact and learning. The questions outlined below comprise those questions in our standard evaluation framework which are of particular interest in this review, as well as other pertinent questions we want to investigate. The full, finalised list of questions that we will consider in this review will be set out in the inception report.

6.2 Objectives

6.2.1 Has DFID's funding been allocated effectively across the three strategic goals of trade facilitation, improved infrastructure and better market access?

6.2.2 Has wider poverty analysis been explicitly incorporated into programme strategies? Is this analysis rigorous? How certain are the linkages between trade impact and poverty (assumed or estimated)? Have potential advantages and disadvantages to the poor been taken into account?

6.2.3 Do the initiatives complement other DFID trade work in Africa (particularly TMEA and infrastructure funds)?

6.2.4 Were the specific programme interventions selected on the basis of evidence? Was the experience from similar, earlier programmes integrated into the design of these interventions?

6.2.5 Do these interventions complement the political and business agenda of the region (regional economic communities, national governments and businesses)? Do the blockages to regional trade being addressed by the programmes reflect the specific concerns of business?

6.3 Delivery

6.3.1 Is the choice of funding and delivery options appropriate, including delivery through other agencies (e.g. the Tripartite Trust Account for infrastructure programmes)? What is the cost of delivery/management?

6.3.2 Is there good governance at all levels, with sound financial management and adequate steps being taken to avoid corruption, including in procurement?

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[15] TMEA is a not-for-profit organisation funded by DFID and the governments of Belgium, Denmark, Netherlands and Sweden. It is also supported by the East African Community (EAC) and its member governments.

[16] DFID's contribution to multi-donor regional infrastructure funds include the EU-Africa Infrastructure Trust Fund; the Infrastructure Consortium for Africa and NEPAD's Infrastructure Project Preparation Facility.

6.3.3 Do the managers of the different delivery channels understand and specifically target pro-poor activities?

6.3.4 Are the needs of direct beneficiaries (regional economic communities, national governments and businesses in each country) taken into account in programme management?

6.3.5 What evidence is there of the longer-term intended beneficiaries (the poor) being involved in programme delivery?

6.3.6 Are the programmes delivering against their objectives?

6.3.7 Is DFID acting as a catalyst for other resources from international agencies or the public and private sectors? Are resources being leveraged so as to work best with others and maximise impact?

6.3.8 Are the needs of all the regional economic communities (particularly SADC, COMESA and EAC) taken into account in programme delivery?

6.4 Impact

6.4.1 Are the specific trade objectives (lower trade transaction costs, greater regional integration and market access and improved infrastructure) being measured?

6.4.2 Are DFID interventions leading to trade expansion?

6.4.3 Are the programmes having (or are they likely to have) an impact on the poor? If so, by how much? How is this being measured?

6.5 Learning

6.5.1 Are there appropriate arrangements for monitoring inputs, processes, outputs, results and impacts? Are there feedback mechanisms in place to adjust programme plans and actions in light of monitoring and review processes?

6.5.2 Is there evidence of innovation and use of global best practice? What lessons were taken from previous trade programmes in Southern Africa? What account was taken of previous evaluations (such as that by the OECD) and has this been incorporated into these programmes?

6.5.3 Is there lesson learning between DFID's East and Southern Africa trade development work and are these lessons taken into account in the development of new programmes?

6.5.4 To what extent are the different target beneficiaries a part of the learning process within each programme?

7. Outline methodology

7.1 The review will involve a number of elements, including:

- a literature review, focussing on past evaluations and assessments of regional trade integration and expansion;
- a review of evidence from DFID's files and information systems, including financial information;
- meetings with stakeholders in Southern Africa; and

- interviews with UK and international experts.

7.2 There are a number of challenges in assessing impact and, therefore, value for money in trade-related assistance. For example, regarding trade expansion, there is the issue of the timescales involved in delivering impact and obtaining data relating to impact. The simplified trade goal for all of these interventions is an increase in trade flows – however, the business response to improved market access or lower trade transaction costs takes time to feed into business planning. In addition, there is a considerable time lag between impact and the availability of reported trade data that could be used for an overall impact assessment.

7.3 In order to assess the effectiveness and value for money of the current trade development work in Southern Africa, discussions with a broad range of stakeholders in the countries of the region will be held.

7.4 The stakeholders will fall into several categories (see Figure 2 on page 10): programme strategy and management (DFID); programme implementation (delivery agents) and direct beneficiaries (market access negotiators, trade facilitation service providers, businesses and employees).

7.5 During the inception phase, the precise scope of stakeholders to be interviewed will be detailed depending on an analysis of the specific objectives of each programme component (for example, regional horticultural exporters have been targeted by TMSA so they could provide a focus for discussions on impact).

7.6 These programmes have a large number of direct beneficiaries across the region who should be interviewed during the field mission. Constraints on time and resources necessarily dictate a pragmatic approach that restricts field research to direct beneficiaries in a few countries only. It is suggested that, to develop an impression of impact, representative stakeholders be interviewed in three countries. It is also suggested that the following focus is adopted:

- **South Africa:** DFID South Africa (DFID SA), programme management units for all three programmes (TMSA, MRGP and FinMark) plus direct beneficiaries in national government negotiators and business;
- **Botswana:** Southern African Development Community Secretariat office for a Tripartite view (it is the Chair of the Tripartite until April) and a regional economic community negotiation view; and trade facilitation providers and businesses from a landlocked perspective; and
- **Mozambique:** DFID office regarding the joint DFID SA and DFID Mozambique MRGP interaction as well as key trade facilitation providers for transit out of other countries in the region.

7.7 It is likely that South Africa will be the main focus of our visit with shorter, targeted visits to Botswana and Mozambique.

Figure 2: Trade development stakeholders

Type of stakeholder	Tentative list of stakeholders
Programme strategy and management	DFID Southern Africa DFID Trade Policy Unit DFID offices in countries of Southern Africa
Delivery agents	Project management units Trust funds Contracted firms Governments (Sector Budget Support), if appropriate
Direct beneficiaries:	
Market access	Tripartite chairperson (currently SADC Secretary General) Tripartite units within each regional economic community National government negotiators Regional and national business representatives
Trade facilitation	National and regional government policy makers (regional integration, trade, transport) National trade facilitation service providers (public and private, e.g. freight companies) Regional transport and freight forwarding associations (including FESARTA and FCFASA) Business representatives engaged in export or regional trade
Business/employees	Business representatives (especially in land-locked countries which are a specific target) Labour representatives (such as trade unions) Non-governmental organisations working with business, smallholders and workers aiming for regional trade or exports
Other donors	Multilateral organisations (including the EU, World Bank, African Development Bank and the Development Bank of Southern Africa) Key bilateral donors (including USAID and JICA)

7.8 A further option is to include a landlocked least developed country, as this category of country is a specific target for DFID's strategy in these programmes. The fieldwork may also include Kenya, in order to explore the relationships and interactions between the Southern and East Africa regional trade work as two major components of the wider "Cape to Cairo" free trade area initiative.

8. Timing and deliverables

8.1 The review will be overseen by the Commissioners and implemented by a small team from ICAI's consortium. The review will take place during the first quarter of 2013, with a final report available during the third quarter of 2013.