

Unclassified

COM/DCD/TAD(2011)3/CHAP5

Organisation de Coopération et de Développement Économiques  
Organisation for Economic Co-operation and Development

30-May-2011

English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE  
TRADE AND AGRICULTURE DIRECTORATE

COM/DCD/TAD(2011)3/CHAP5  
Unclassified

**AID FOR TRADE JOINT MEETING OF THE DEVELOPMENT ASSISTANCE COMMITTEE AND  
THE WORKING PARTY OF THE TRADE COMMITTEE**

**AID FOR TRADE AT A GLANCE: SHOWING RESULTS**

**Chapter 5. Is Aid for Trade Working? Expectations and Achievements**

**17 June 2011, OECD Conference Centre, Paris**

*This document is submitted FOR COMMENT to the joint meeting of the Development Assistance Committee and the Working Party of the Trade Committee under Item 3 of the draft agenda [COM/DCD/TAD/A(2011)1/PROV].*

*The document contains Chapter 5 of the joint OECD-WTO publication on "Aid for Trade at a Glance 2011: Showing Results". The publication will be presented by the Secretary-General Gurría during the 3rd Global Aid for Trade Review on 18 July 2011 in Geneva.*

*Members are requested to provide their comments in writing by Friday 24 June COB Paris time.*

*The chapter will be edited before publishing.*

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**JT03302635**

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## TABLE OF CONTENTS

CHAPTER 5. IS AID FOR TRADE WORKING? EXPECTATIONS AND ACHIEVEMENTS .....	3
Executive Summary .....	3
Introduction .....	4
SECTION I – Expected Results .....	4
1. What do partners expect from the Aid for Trade Initiative? .....	4
a. What is the “most important” objective? .....	4
b. Exports are partner countries number one priority .....	5
c. The definition of success differs across income groups .....	8
2. What do donors expect from the Aid for Trade Initiative? .....	10
a. Donors give the highest priority to long term objectives .....	11
b. Donors and partners agree on the limited importance of gender and environmental sustainability .....	11
c. Money matters but effectiveness even more .....	12
d. Do bilateral and multilateral donors have different objectives? .....	12
e. Priorities of South-South providers differ from both partner countries and other donors .....	14
SECTION II – What has been achieved so far? .....	16
1. Partner countries perceptions of achievements .....	16
a. More awareness and better delivery, but little trade outcomes .....	16
2. Why do partner countries not (yet) get what they want? .....	18
a. A time lag effect? .....	18
b. A measurement problem? .....	19
c. Or a structural problem? .....	20
CONCLUSION .....	20
REFERENCES .....	22

### Tables

Table 5.1. Results of selected studies linking exports and economic growth .....	7
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### Figures

Figure 5.1. Main goals partner countries want to achieve through Aid for Trade .....	5
Figure 5.2. Importance of increasing exports by income group .....	9
Figure 5.3. Importance of export diversification by income group .....	9
Figure 5.4. Ultimate objectives are the main priority of donors .....	10
Figure 5.5. Priorities differ among donors .....	13
Figure 5.6. Priorities of South-South providers .....	15
Figure 5.7. Mainstreaming trade in development strategy .....	16
Figure 5.8. Main results achieved in developing countries .....	17

## CHAPTER 5.

### IS AID FOR TRADE WORKING? EXPECTATIONS AND ACHIEVEMENTS

#### EXECUTIVE SUMMARY

This chapter is the first of the three chapters focusing on the results of Aid for Trade. It is based on self assessment from donors, providers of South-South co-operation and partner countries. It analyses what they expect in terms of results from the Aid for Trade Initiative and what has been achieved so far.

Answers suggest that partner countries expect Aid for Trade to deliver exports, growth and diversification. They pay less attention to the important role of imports for economic growth. The impact of Aid for Trade on economic growth and poverty reduction are ranked second. This suggests that partner countries perceive more trade as an objective in and of itself, rather than as an engine for growth. While the availability of aid-for-trade resources and more effective Aid for Trade in relative terms are not part of the main goals targeted by partner countries, the social and environmental dimensions of the Aid for Trade Initiative are clearly the least of their expectations.

Donors accord the highest priority to long term or ultimate objectives of the Initiative, namely boosting growth and reducing poverty. They seem to perceive trade as a means rather than an end. Increased trade (including imports) and increased exports are ranked as the second most important objectives. Thus, not do only donors appear to consider trade as a tool rather than a means, they also consider the role of imports in the economic development. Regarding exports, donors give more priority to exports expansion than to export diversification. Aspects other than those related to ultimate objectives and trade, with the exception of export diversification, are considered far less important. Again, the social and environmental dimension of Aid for Trade does not appear to be important metric for success. Regarding South-South providers, their priorities differ very much from other donors (and partner countries) as they mainly focus on Aid for Trade delivery process: enhanced awareness and increased mainstreaming.

The Paris Declaration on Aid Effectiveness commits donors to align their efforts around partner countries' national development strategy. Given differences between donors and partner countries on the objective of the Initiative, strengthened dialogue to enhance mutual understanding seemed to be called for. Moreover, continued coordination between bilateral and multilateral donors also seems required as their priorities do not exactly match. However, this is also reflect the differences in their respective mandates and approaches to promoting economic development.

In terms of what Aid for Trade has achieved, the survey highlights a gap between expectations and results. While partner countries expect Aid for Trade to boost trade, they report that achievements so far are more related to the better understanding of the role trade can play in development, improved aid delivery, and more resources. This gap likely reflects a time lag between aid delivery and impacts, which is rather long for some programmes and projects such as those aiming at enhancing competitiveness. Moreover, there are well documented methodological and practical difficulties in assigning economic and

trade results directly to Aid for Trade. This implies that improvements in economic and trade performance which is noticeable in many partner countries cannot be linked directly to aid for trade programmes and projects.

## Introduction

1. This chapter is the first of the three chapters focusing on the results of Aid for Trade. It is based on the answers provided to the donor, the providers of South-South co-operation and the partner country questionnaires.<sup>1</sup> It describes and compares the expected results from the Aid for Trade expressed by partner countries and by donors before reviewing what partner countries report as the main achievements in Aid for Trade so far. The next chapter analyses the main themes emerging from the case studies. Chapter 7 focuses on what is needed to increase the impact on trade and economic growth of reforms supported by Aid for Trade *i.e.* compatible and complementary policies. It will report the views of the partner countries on the role of these policies.

2. The chapter is organised as follows: Section I shows that while partner countries consider exports as the most important result of Aid for Trade, donors are focused on the growth and poverty alleviation. Possible reasons for that difference are then discussed. Section II reports what partner countries perceived to be the achievements of Aid for Trade. While their expectations focus on exports, they report that the results so far are mainly related to increased awareness and understanding of the role trade can play in development.

## SECTION I – Expected Results

### 1. What do partners expect from the Aid for Trade Initiative?

#### *a. What is the “most important” objective?*

3. 84 partner countries reported what they define as success in Aid for Trade. For partner countries Aid for Trade would be a success if it results in an increase and a diversification of exports. Profiling trade in national strategies, increased aid-for-trade flows and improving aid-for-trade delivery are also considered important. Aid for trade mainstreaming and enhancing the understanding of trade are considered a slightly less important metric of success. In fact, only environmental sustainability and gender issues are seen as relatively less important, although 70% – 80% of the partner countries still consider these objectives as important goals of the Initiative (Figure 5.1).

4. Partner countries appear to focus more on the outcomes of Aid for Trade than on the impacts<sup>2</sup>. They rank second after exports the ultimate objectives of Aid for Trade (economic growth and poverty reduction). While 45 countries, *i.e.* less than 55% of the sample, perceive increased economic growth as “very important” the score for poverty reduction is slightly lower with 43 countries (around 51% of them).

5. Resource availability and improvements in the delivery of aid-for-trade projects are, in relative terms, not part of the main expectations of partner countries. The partner gives them less importance than to the trade and economic goals. Nevertheless, given that the rate of “most important” answers for these targets is somewhat positive (between 45% and 50%) countries do pay attention to them. Going further

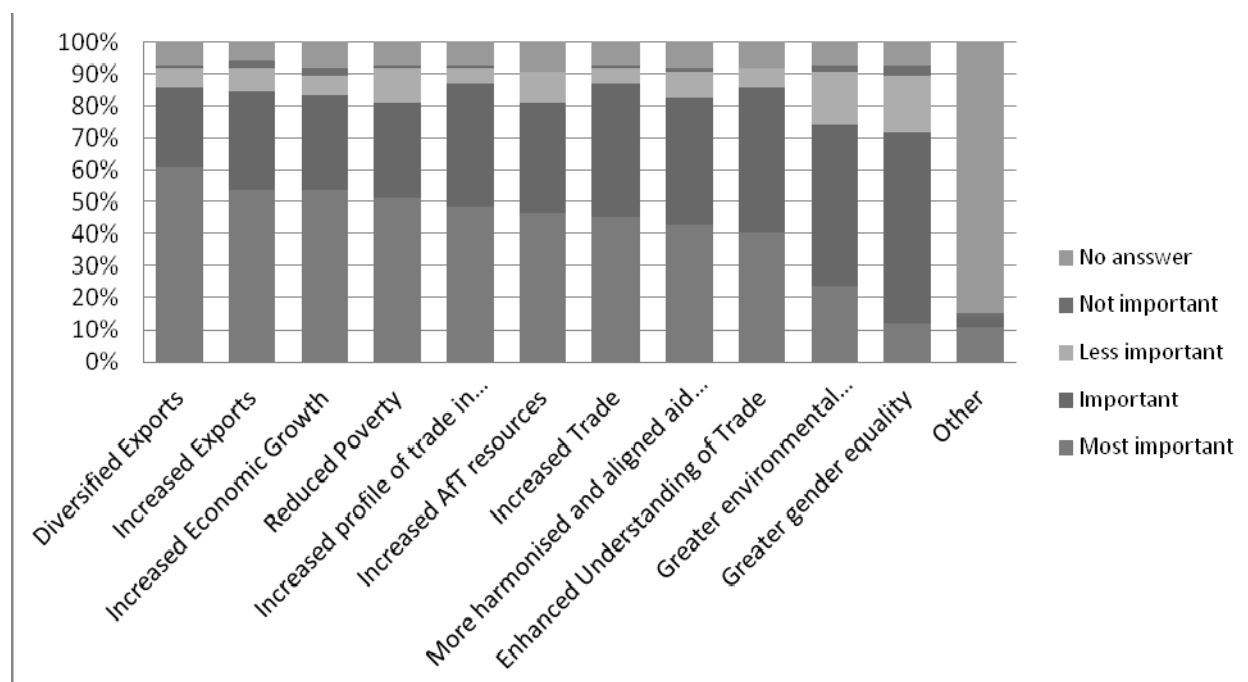
<sup>1</sup> This chapter is based on questions 16 to 18 of partner country questionnaires, questions 14 and 18 of donor questionnaires and on question 9 of South-South questionnaires.

<sup>2</sup> See section 2 of Chapter 1 for an explanation of the distinction between “outcome” and “impact”.

into the description of the answers shows that awareness, through enhanced understanding of trade, is one of the less desired goals.

6. Clearly, partner countries do not measure the success of Aid for Trade by its social and environmental results. These aspects are ranked at the bottom with only 20 countries, (roughly 25% of the sample) perceiving environmental sustainability as “most important” and only 10 countries (less than 15%) ranking gender equality as the “most important” goal.

**Figure 5.1. Main goals partner countries want to achieve through Aid for Trade**



#### ***b. Exports are partner countries number one priority***

7. Export diversification is what partner countries expect most from the Aid for Trade Initiative. More than 60% of them consider that it is “most important” to define the success of the initiative, followed by increased exports (slightly more than 50% of the “most important” answers). This result is consistent with identifying competitiveness as the main objective of Aid for Trade (see Chapter 2). The emphasis of partner countries on export promotion and diversification, and not on economic growth and poverty reduction, indicates that they tend to consider trade as an objective in its own right rather than an engine for growth and development. This conception may reflect a pragmatic approach in which exports are seen as a crucial means to address a number of problems simultaneously. Partner countries report that exports not only increase foreign receipts that can be used for investment, but also promote private sector development and employment, and finally help to equilibrate the trade balance. For instance, Lebanon and Gambia mention trade balance equilibrium as an objective of Aid for Trade and focus on export promotion to achieve it. Trinidad and Tobago as well as Ecuador aim at using Aid for Trade to promote private sector development and increased investments in the economy. Finally, Cameroon and Zambia, mention respectively employment promotion and trade-related infrastructure as their expectation from Aid for Trade.

8. The contribution of exports to economic growth has been well documented (Table 5.1) notably by its spillover effects on the rest of the economy (Hallaert and Munro, 2009; OECD, 2011a).



Table 5.1. Results of selected studies linking exports and economic growth\*

Number of countries	Period	Impact on economic growth	Source
50	1953-63	Positive	Emery (1967)
41	1950-73	Positive	Michaely (1977)
41	1950-73	Positive	Heller and Porter (1978)
10	1956-73	Positive	Balassa (1978)
11	1960-73	Positive	Balassa (1982)
31	1964-73	Positive	Feder (1983)
4	1955-78	Positive	Nishimizu and Robinson (1984)
73	1960-78	Positive	Kavoussi (1984)
41	1960-81	Ambiguous: positive for 1960-70; positive but often insignificant in the more recent period	Kohli and Singh (1989)
17	1950-80	Positive	Nishimizu and Page (1990)
4	1976-88	Positive	Tybout (1992)
104	1960-88	Positive	Greenaway and Sapsford (1994)
74	Post 1985	Positive	Greenaway <i>et al.</i> (1997)
69	1975-93	Positive	Greenaway <i>et al.</i> (1999)
79	1970-98	Positive	Wang <i>et al.</i> (2004)

\* Depending on the studies, growth in exports or growth in the share of exports in GDP were considered.  
Source: Greenaway *et al.* (1999) and Hallaert (2006)

9. Partner countries pay less attention to imports. This is illustrated by their lower ranking of “increased trade” compared to “increased exports”. However, the trade literature emphasises the key role imports play in achieving competitiveness which is one of the main objectives of partner countries. This export focus probably reflects the political economy of trade reforms and trade negotiations which tend to overlook the benefits of imports. In that sense Aid for Trade is not different. While the Hong Kong declaration (WTO, 2005) stated in its paragraph 57 that the objective of the Aid for Trade Initiative is to “*expand trade,*” the Task Force on Aid for Trade focused on increasing exports. “*Aid for trade is about assisting 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*” (WTO, 2006).

10. Unfortunately, the importance of imports for economic growth is often overlooked. These benefits are succinctly argued by Krugman (1993, p.24): “*Imports, not exports, are the purpose of trade. That is, what a country gains from trade is the ability to import things it wants. Exports are not an objective in and of themselves: the need to export is a burden that a country must bear because its import suppliers are crass enough to demand payment.*” In addition to the political economy arguments, the role of imports is also often underestimated because robust empirical evidence has only relatively recently appeared.

11. Consistent with the new growth theory argument, that trade promotes growth through technology transfers incorporated in imported goods, Wang *et al.* (2004) found that imports have a positive and significant impact on growth in both low- and middle-income countries.<sup>3</sup> Rodrik (2007) identified the

<sup>3</sup> Yanikkaya (2003) also found support for this hypothesis: the more a country (especially a developing one) trades with the United States (one of the most highly innovative countries), the faster it is likely to grow. Coe *et al.* (1997) showed that openness to imports of capital goods (to incorporate trading partners’ stock of knowledge) enhances total factor productivity growth which is a key determinant of economic growth in the long run.

process of acquiring/importing and adapting advanced foreign technologies as perhaps the most compelling mechanism linking trade with growth in developing countries. Furthermore, as the experience of newly industrialised Asian economies from the 1960s to the 1990s demonstrate latecomers, with the right preconditions, can take advantage of the newest technological developments by simply buying these at relatively lower cost and with less risk (Lin, 2007; UNIDO, 2007). Hallaert *et al.* (2011), found that in landlocked countries, small and vulnerable economies, and commodities exporters, imports foster economic growth, albeit with substantial variation in impacts across the different country groupings.

12. Recent firm- and plant-level data provide additional and more robust evidence of the role of imports on economic growth than cross-country regressions. This highlights the importance of the various transmission channels such as (i) pro-competitive impact which leads to an improved allocation of resources and better management practices, (ii) improvements in domestic manufacturing by lowering the cost of inputs and of capital goods, and (iii) allowing access to foreign technologies embedded in inputs. Most of these gains from trade are dynamic *i.e.* imports increase productivity, which is a key determinant of economic growth and in *per capita* income.<sup>4</sup>

13. Through a multi-country analysis at firm-level, Stone and Shepherd (2011) show that these findings are not country-specific or dependent on a specific liberalisation event but have broad applicability. They also find that imports of intermediate inputs have a significant and positive impact on firm total factor productivity, while imports of capital goods have the same impact although more limited: “Assuming constant returns, a firm that imports 100% of its inputs is around 30% more productive than a firm that uses domestic inputs only; and a firm that uses imported capital goods is around 20% more productive than one that uses domestically sourced capital goods only.” Importantly for Aid for Trade, they also find that the links between imported intermediate goods, productivity gains, and innovation are stronger in non-OECD countries.

### ***c. The definition of success differs across income groups***

14. The higher the *per capita* income, the more a partner country seeks to promote and diversify its exports (see figure 5.2 and 5.3). 65% of the Upper Middle Income Countries (UMICs) rank increased exports as their ‘most important’ objective, while only 46% of LDCs do so. A gap also exists – albeit much smaller – between the UMICs and the LDCs regarding export diversification: 65% of the UMICs consider this the ‘most important’ objective versus 60% for LDCs. The importance of the Initiative in raising awareness about the role trade can play in development is also larger in the richer partner countries.

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<sup>4</sup> This evidence is surveyed in Hallaert *et al.* (2011) and covers Brazil (Muendler, 2004), Chile (Pavcnik, 2002), India (Topalova and Khandelwal (2010), Indonesia (Amity and Konings, 2007), Mexico (Tybout and Westbrook, 1995), and Korea and Taiwan (Aw *et al.*, 2000).



Figure 5.2. Importance of increasing exports by income group

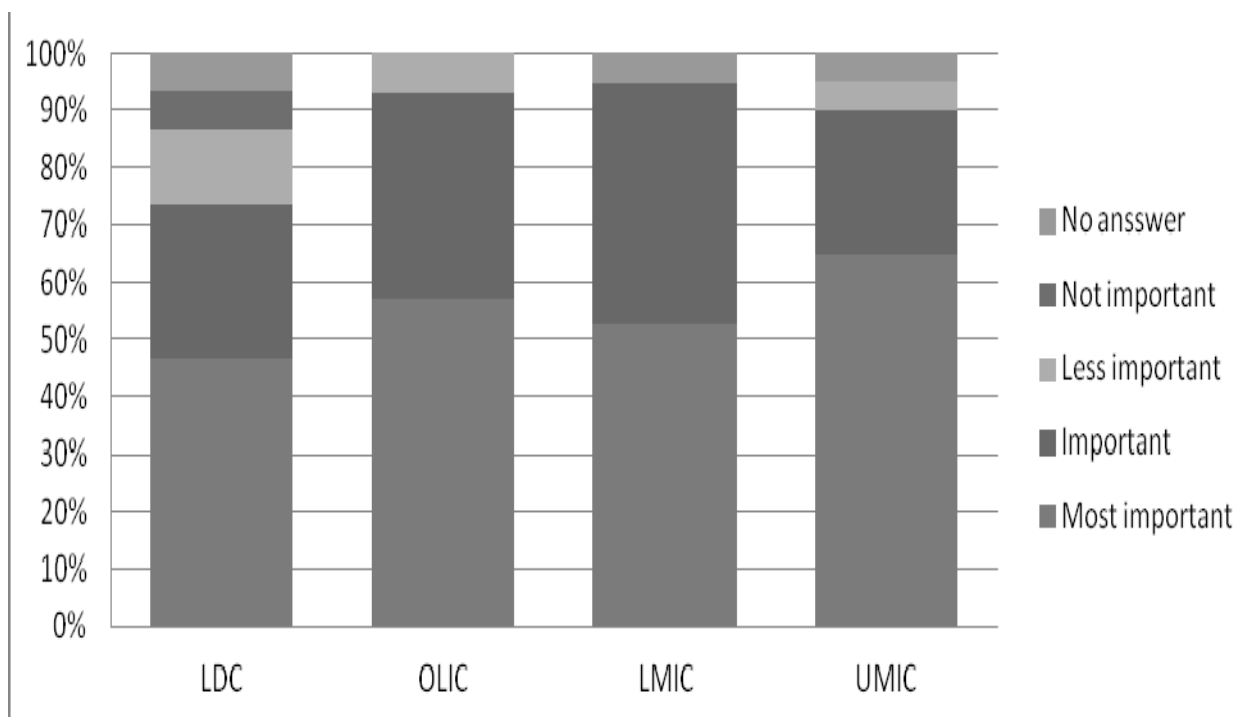
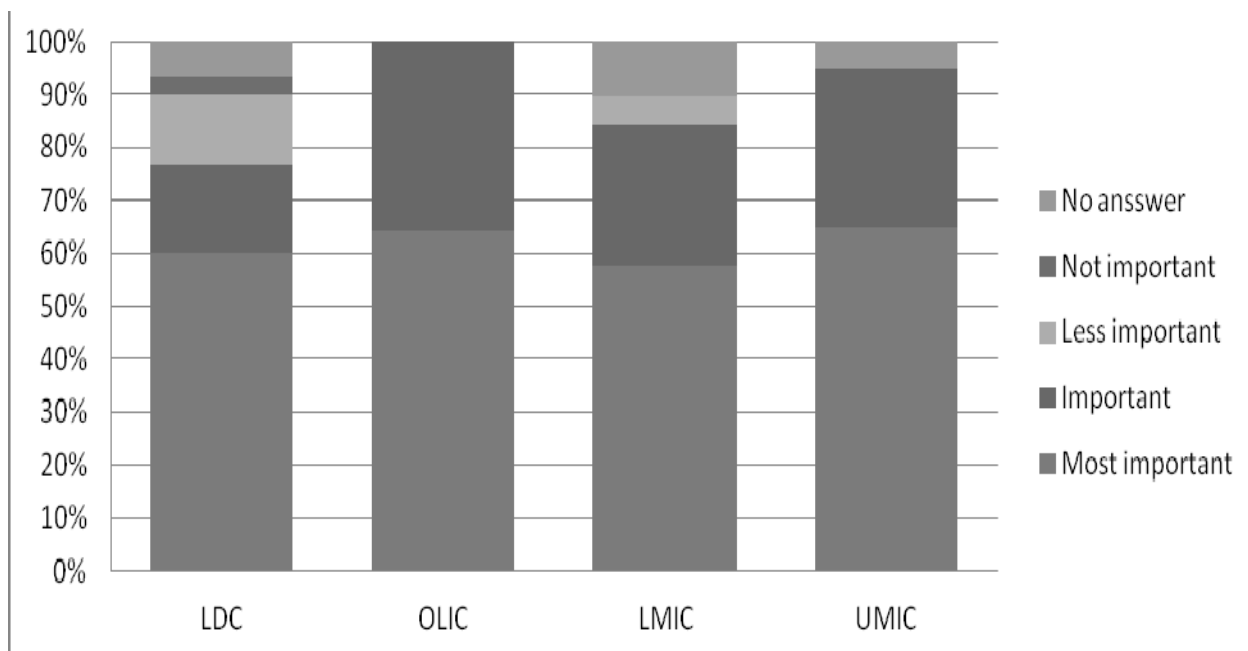


Figure 5.3. Importance of export diversification by income group



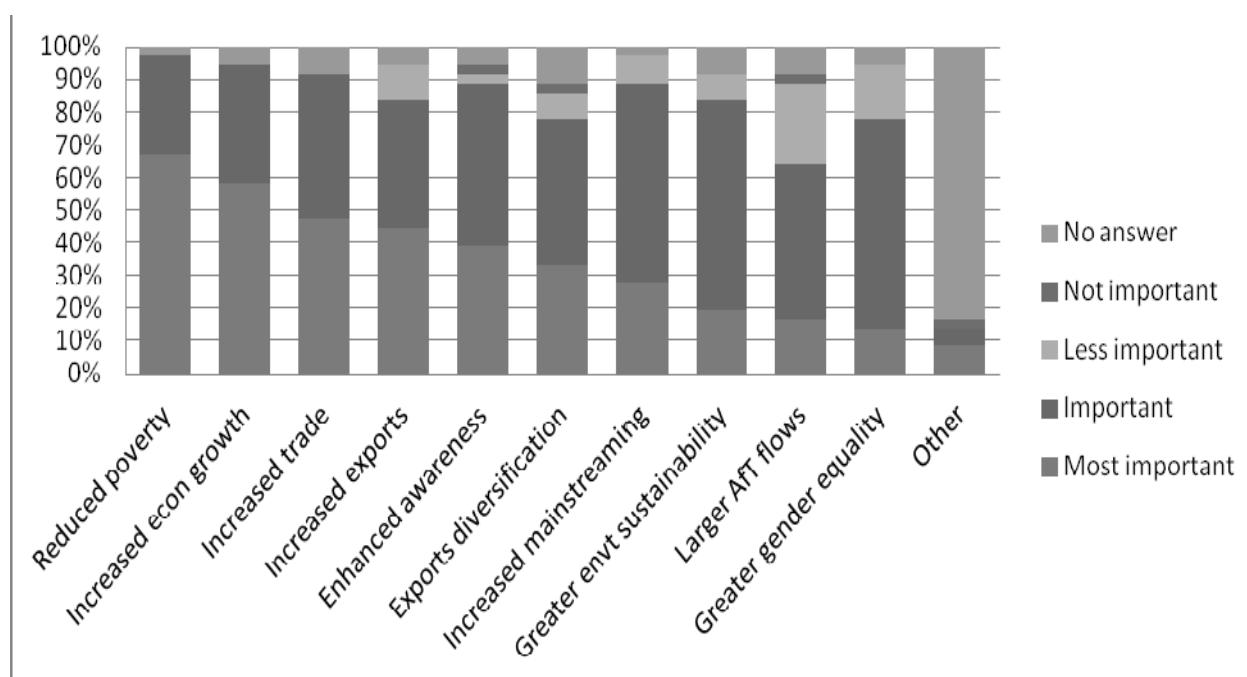
## 2. What do donors expect from the Aid for Trade Initiative?

15. This section is based on responses and comments received from 43 donors. It analyses the main goals donors target through their aid-for-trade projects and programmes.

16. Most donors, 34 out of 43 (*i.e.* nearly 80%), report that they have defined goals in their aid-for-trade strategies. However, nine of them, including the EBRD and the IMF, provided no clear answer.

17. Donors give the highest priority to long-term objectives of the Initiative such as poverty reduction and economic growth (Figure 5.4). Shorter-term objectives such as increased trade or increased exports come second. Diversification of exports, a major expectation of partner countries, is only the sixth highest priority of donors. Following this group of economic- and trade-related goals comes a group composed of aspects related to the aid delivery process: enhanced awareness and increased mainstreaming. Next, with a much lower ranking are environment sustainability, larger aid-for-trade flows, and gender equality.<sup>5</sup>

Figure 5.4. Ultimate objectives are the main priority of donors



<sup>5</sup> The assessment of donors' priorities made so far is based on what donors indicate as "most important" objective. Combining this category with the category "important" makes it difficult to draw any significant conclusions since all objectives are seen as 'important' or 'most important' by 80% to 90% of the donors.

***a. Donors give the highest priority to long term objectives***

18. The ranking of the priorities by donors<sup>6</sup> show that they consider Aid for Trade first and foremost as a means for fostering economic growth and reducing poverty. Given their mandates, this should not come as a great surprise.

19. Increased trade and exports are the second most important objectives of Aid for Trade for donors. Almost 50% of them answer that these are “very important”. Export diversification receives less attention as only 12 countries (33% of the sample) score it as a “most important” objective. Only Norway considers this as an unimportant objective. Thus, concerning exports, donors give more priority to increasing partner country’s export level than to changing its composition. This may be explained by the fact that the former is much easier to attain than the latter. The analysis of export development programs undertaken by Brenton and von Uexhull (2009) supports this interpretation. They found that product specific export development programs are more effective (effectiveness is measured by export growth of the partner countries) where there is already significant export activity. The authors conclude that it may be that the constraints to the growth of existing exports are easier to identify and alleviate in technical assistance projects than are the constraints to new exports.

20. The survey also suggests that donors take a broader view on the role of trade (i.e. beyond exports) can play in economic development. Indeed, donors appear to pay more attention to trade (i.e. including imports) than to increased exports. For instance, four donors (Belgium, Japan, Ireland, and Spain) rank increased exports as “less important” whereas no one does this for increased trade. This distribution lends support to the possibility that donors view the role of trade in development somewhat differently than partner countries. Main difference appears regarding export diversification as donors give it a lower priority. This can be problematic as answers to the questionnaire show that partner countries consider it an important metrics of the success of aid for trade (see also OECD, 2011a) and suggest an area where there is room for improvement in alignment.

21. In short, donors and partner countries seem to differ somewhat about the importance of Aid for Trade to trade, economic growth and development. While partner countries tend to focus more on the short-term trade outcomes of Aid for Trade, donors tend to concentrate more on long-term impacts on economic growth and poverty reduction. They seem to conceive trade as a major determinant for promoting growth and reducing poverty.

***b. Donors and partners agree on the limited importance of gender and environmental sustainability***

22. As mentioned above, aspects other than those related to ultimate objectives and trade, except diversification of exports, are seen as being far less important by donors. Among these secondary goals “enhanced awareness” and “increased mainstreaming” are the most often mentioned with respectively 40% and 28% of donors considering them as “most important”. The contrasts with the partner countries are noteworthy: the level of “most important” answers for “mainstreaming” is 50% (Figure 5.1).<sup>7</sup>

23. The social and environmental dimension of Aid for Trade does not appear to be an important metric of success of Aid for Trade for donors. Only a minority of donors – seven for environment sustainability and five for gender equality (between 14 and 20% of the all donors) – conceive them as

<sup>6</sup> When taking into account only “most important” answers, the scores of economic growth and reducing poverty range from 58% to 67% which is far above the level of others aspects, even the most important of them: increased trade which is the third most desired objective records a 47% level of most important answers (Figure 5.5).

<sup>7</sup> For partner countries, “increased profile of trade in development strategy” is assimilated as “mainstreaming”

“most important.” Interestingly, this is in line with the results of partner countries who rate these aspects as the less important ones while giving more consideration to the environment. Indeed, 20 countries (*i.e.* 24% of them) rank this aspect as “most important” against only 10 for gender (12%).

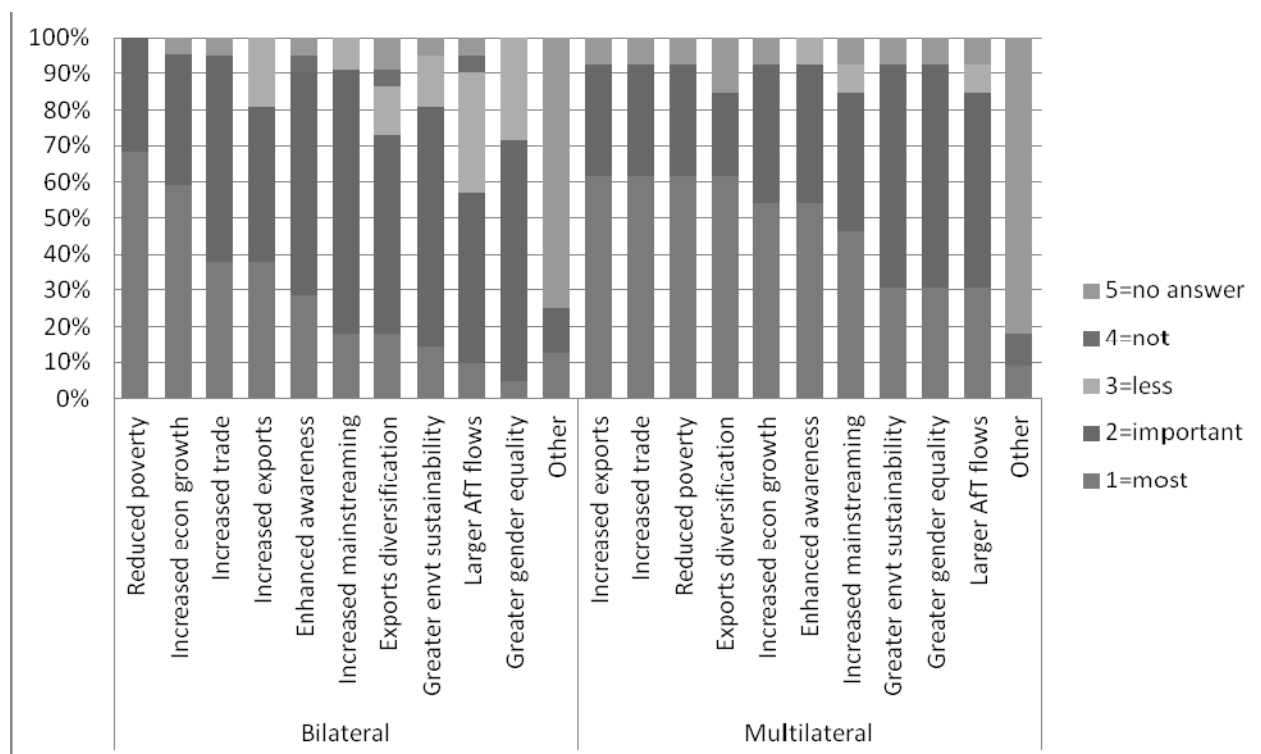
***c. Money matters but effectiveness even more***

24. Finally, donors pay very low attention to increasing aid-for-trade flows. Indeed, only six donors (or 16% of them) conceive it at ‘most important’. While this is slightly better than the score registered for gender equality, the total rate of positive answers (‘important’ and ‘most important’) is still lower than for ‘gender quality’: 63% against 78% respectively. Mobilisation of additional resources is an important success of Aid for Trade (see Chapter 3) but in contrast to partner countries for which additional financial support seem important to achieve trade and exports objectives, donors do not consider additional flows as essential for promoting growth and reducing poverty. They rather seem to stress the effectiveness of existing flows.

***d. Do bilateral and multilateral donors have different objectives?***

25. Bilateral and multilateral donors do not attach identical weight to the different aid-for-trade objectives (Figure 5.5). The overall ranking of donors’ priorities (Figure 5.4) mirrors the bilateral donors’ preferences because 28 of them answered the questionnaire compared to 15 multilaterals. Interestingly, multilaterals stated priorities are somewhat closer to partner countries’ priorities. For instance, they pay relatively more attention to export diversification (one of partner countries’ top priorities) than bilaterals. More broadly, multilateral donors put equal emphasis on increased exports, increase trade, reduced poverty, and export diversification, with eight of them ranking each of these aspects as “most important”. While the score of increased economic growth is slightly lower with seven donors ranking it as “most important,” this ultimate objective remains the key priority for multilaterals. Thus, even if the relative ranking of aid-for-trade goals differs between bilaterals and multilaterals, both agree on the ultimate objectives as their main priority.

Figure 5.5. Priorities differ among donors



26. Multilaterals seem to have a more global and multidimensional perspective to Aid for Trade than bilateral donor agencies. Indeed, when focusing on “most important” answers, their ranking of the different goals is much more balanced for multilaterals than bilaterals. The rate of “most important answers” for the bilaterals is only superior or equal to 50% for the ultimate objectives and strongly decreases subsequently. This may reflect the fact that bilaterals are very focused on a few specific goals. On the other hand, multilaterals register a rate of “most important” answers for each goal which is globally higher than that of bilaterals, with at least six goals recording a rate superior to 50%. Moreover, the rate of the other goals ranges between 50% and 30% while that of bilaterals is frequently under the 30% level and sometime inferior or equal to 10%.

27. Analysing comments of bilateral and multilateral donors regarding successful aid-for-trade projects provides further details about how they consider trade. Bilateral donors note the useful contribution of building projects to help partner countries negotiate trade agreements, facilitate freight traffic, access markets, and promote their exports. Indeed, the great majority of their comments highlighted capacity building projects to illustrate the positive results they achieved. Consequently, it seems that for those bilateral donors the causality chain of Aid for Trade is as follows:

1) *Capacity building* → 2) *trade* → 3) *economic growth & poverty reduction*

28. Multilateral donors also consider capacity building as an efficient tool to promote trade. For instance, six multilateral donors (IsDB, UNECA, ITC, IADB, World Bank, and EBRD) list capacity building projects (especially technical assistance to develop the border area<sup>8</sup> and improve border procedures) to illustrate successful aid-for-trade programmes. However, multilateral donors seem to take a

<sup>8</sup> Usually, the main objective of border area development programmes is to meet the developmental needs of the people living near international borders through adequate provision of infrastructural facilities.

broader approach by combining their capacity building efforts more often with infrastructure projects (*i.e.* soft and hard infrastructure). Four of them (UNECA, World Bank, IsDB, and IADB) mention both their capacity building and infrastructure projects as examples of aid-for-trade project, while five (AfDB, IsDB, UNECA, IADB, and the World Bank) explicitly mention infrastructure projects, particularly in the road and electricity sectors. This assumption of a broader approach to Aid for Trade is supported by the fact that multilateral donors – due to their broader mandate – also pay more attention to complementary policies (see Chapter 7). Thus, for multilateral donors causality chain of aid for trade appears as follows:

1) *Capacity building + infrastructure* → 2) *trade* → 3) *economic growth & poverty reduction*

29. While the approaches of bilateral and multilateral donors on the range of aid-for-trade activities might appear to be diverging,<sup>9</sup> it is more likely they are the results of a division of labour between bilateral and multilateral agencies. This division of labour is also supported by the aid-for-trade data (see Chapter 3) which shows that most bilateral donors focus on capacity building, while the largest among them and multilateral agencies also support infrastructure projects.

30. These results and observations suggest that there is scope for better coordination between donor agencies. This is supported by a recent report from the European Commission (2011) which reveals that 83% (*i.e.* 73 out of 89) of the European Union delegations and Member States embassies<sup>10</sup> state that, since 2008, progress towards better coordinate with other European donors' Aid for Trade sectors have been essentially moderate (42 out of 89, *i.e.* 47%) or nonexistent (30 out of 89, *i.e.* 34%). Regarding the coordination between European and non-European donors, the message is very similar. Indeed, while only 15 (*i.e.* 17%) European Union delegations and embassies record significant progress in coordination since 2008, 34 report no improvements or are not sure.

31. The scope for better coordination is further evidenced by the case stories (see Chapter 6). Some of these, especially corridor projects, highlight the need for the combined expertise of several donors. For instance, the success of the Azerbaijan Silk Road Rehabilitation Project, where 503 km of Silk Road were divided into 8 sections, depended very much on the involvement and coordination of numerous development partners and the existence a single development partner being the leader of the coordination process. Moreover, Nigeria pointed out that regarding their trade facilitation strategy: *“the key factor for success is the integrated partnership approach with the inclusion of most stakeholders and also including the organised private sector and the close interaction with the Development Partners which permitted closer alignment of their program support”*.

#### ***e. Priorities of South-South providers differ from both partner countries and other donors***

32. Evidence from providers of South-South co-operation shows that most of them (7 out of 10) target clear objectives through their Aid for Trade interventions. In comparison, this proportion is slightly lower than that of other donors (80%). This is due to the fact that Colombia and Ecuador report no precise definition of Aid for Trade and Oman is not sure about that.

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<sup>9</sup> If each type of donor pays attention to capacity building efforts, bilateral donors conceive them as a predominant aspect of their strategy which needs to focus on firm level issues, while multilateral donors, put less emphasis, in relative terms, on these projects and also target different issues, giving priority to those related to customs.

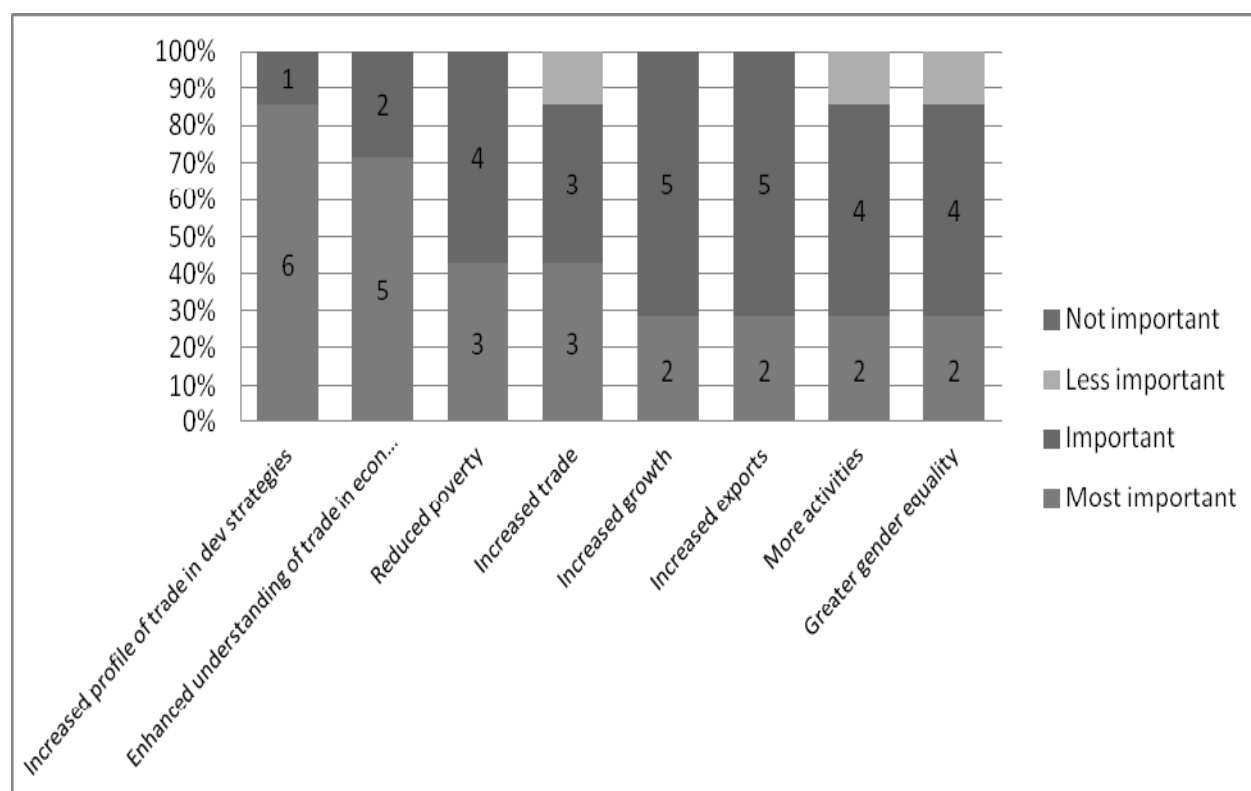
<sup>10</sup> European Union delegations and European Union Member States embassies in 89 partner countries across the developing world completed a questionnaire on how the Aid for Trade agenda is progressing at country and regional level.

33. As Figure 5.8 shows, priorities of South-South providers differ very much from both partner countries and donors. Indeed, while ‘mainstreaming’ and ‘awareness’ are their main objectives, these targets are part of the less important ones of both partner countries and donors. The gap with partner countries is even larger as South-South providers pay very little attention to ‘increased exports’ whereas it is the most important target of partner countries.

34. Despite these divergences, South-South providers share with other donors and countries the importance of their secondary targets, *i.e.* poverty reduction and increased trade. Like all providers of ODA, South-South donors consider poverty reduction as an objective. In addition, the emphasis on “increased trade” is another aspect South-South providers share with other donors.

35. Examples provided by South-South donors to illustrate the success of their trade-related cooperation are very similar to those submitted by other donors and focus on capacity building and infrastructure projects. Indeed, while Chile and Mexico show that projects aimed at strengthening and developing institutional capacities have registered satisfactory results, China argues that its USD 30 million investment in the Laotian part (86 km of road out of 240 km) of the Kunming-Bangkok Expressway has greatly promoted the economic development and trade activities in greater Mekong sub-region.

Figure 5.6. Priorities of South-South providers



## SECTION II – What has been achieved so far?

### 1. Partner countries' perceptions of achievements

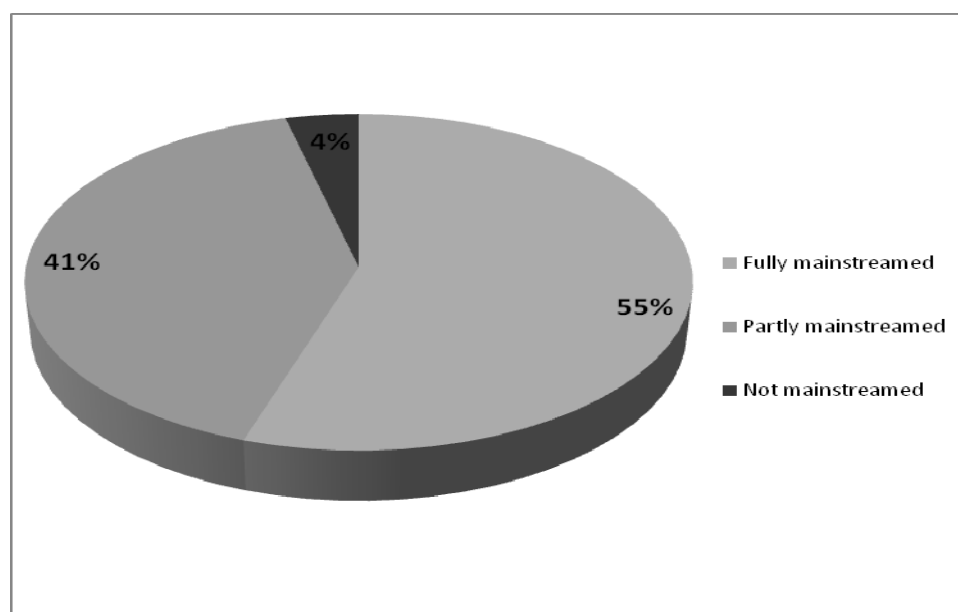
#### *a. More awareness and better delivery, but few trade outcomes*

36. Most of the achievements perceived by the 84 partner countries who answered question 17 of the questionnaire relate to awareness of the role trade can play in development which is evidenced by mainstreaming of trade in development strategy, and to the process of delivering Aid for Trade. According to partner countries the main achievements of Aid for Trade are: (i) increased profile of trade in development strategy, (ii) enhanced understanding of trade; (iii) more harmonised and aligned aid-for-trade projects and programmes; and (iv) increased aid-for-trade resources (Figure 5.7).

37. As detailed in the previous Aid for Trade at a Glance report (OECD/WTO, 2009), Aid for Trade was successful in mobilising resources (which continued, see Chapter 3) and in increasing awareness of the role trade can play in development. As reported in Figure 5.7, at the global level, 96% of the partner countries who answered the questionnaire either fully mainstreamed trade in their development strategy (55%)<sup>11</sup> or partially did so (41%).<sup>12</sup> This increased awareness was translated into the mainstreaming of trade in the development strategies.

38. As described here and even further in Chapter 8, there is evidence from questionnaire responses that since 2009, trade has been even more mainstreamed. Trade now features prominently in policy dialogue and mainstreaming has been particularly helped thanks to Enhanced Integrated Framework (EIF).

**Figure 5.7. Mainstreaming trade in development strategy**



Source: OECD/WTO (2009).

<sup>11</sup> Compare to 51% in 2009.

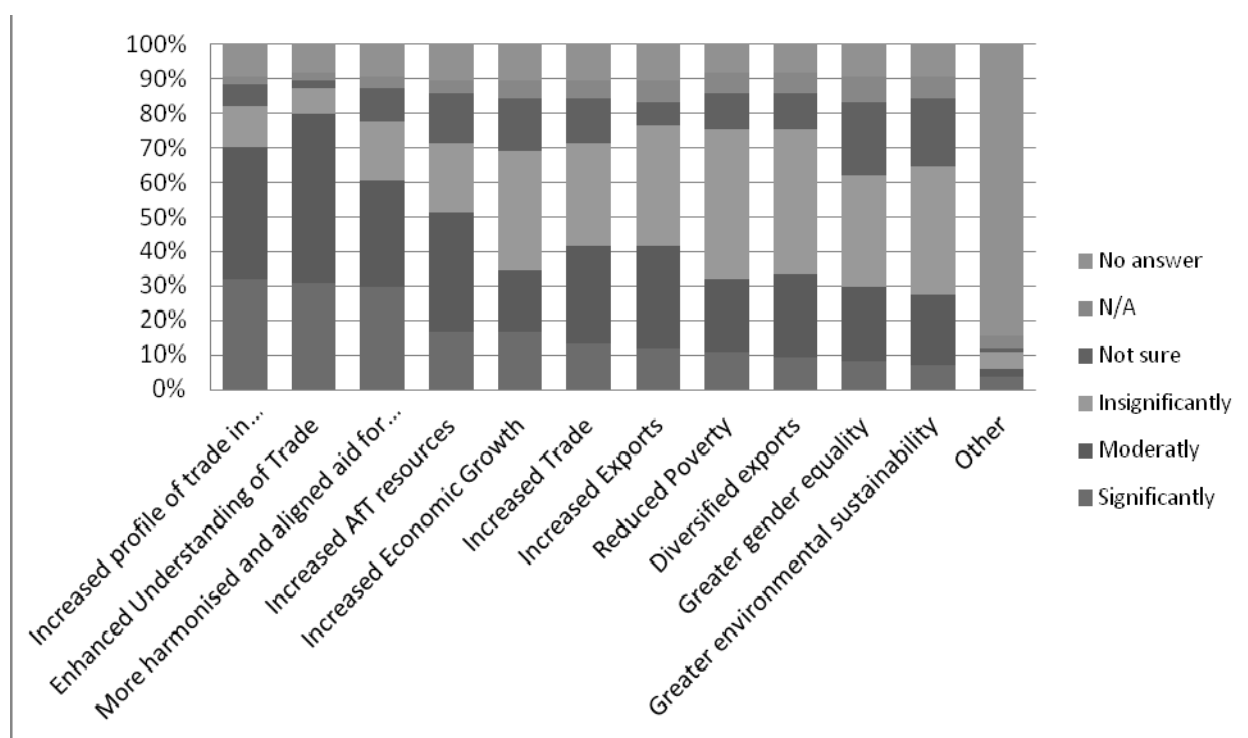
<sup>12</sup> There are however substantial differences across regions. For example, while all Asian countries have either fully (67%) or partially (33%) mainstreamed trade in their development strategy, in Africa 7% of countries have not mainstreamed trade at all.



39. In 2011, much less has been achieved in terms of improved economic and trade performance (*i.e.* increased economic growth; increased trade; increased exports; poverty reduction; and exports diversification). Half of the partner countries report that they did not achieve the desired trade outcomes. When considering the answers “important” and “very important” together, the positive answers for ‘increased trade’ and ‘increased exports’ are below 50%. The rate drops to 35% for countries reporting that the objective of export diversification was achieved. Moreover, when considering only ‘significant’ achievements, rates fall to 15%, 14% and 10% of countries for these three objectives.

40. Achievements are the lowest for the gender and environmental dimensions. While they are considered at least as “important” objectives by roughly 70% of partner countries (Figure 5.1), only 30% of the sample now sees achievements, and if so mainly moderate achievements (Figure 5.6). While 20 countries target environment sustainability as a most important objective, only 6 perceive significant improvement in this area. Regarding gender quality, the gap is smaller but exists, as among the 10 countries who wanted to achieve it, only 7 have perceived improvements. Against this background it is noteworthy that gender is one of the most evaluated impacts of aid-for-trade evaluations. The meta-evaluation conducted by Delpuech *et al.* (2011) concludes that in sharp contrast with the low emphasis on trade-related issues<sup>13</sup>, the evaluations referred extensively to broad, development-related concepts, such as gender or poverty reduction. However this is done without clearly defining these terms.

Figure 5.8. Main results achieved in developing countries



<sup>13</sup> In a meta-evaluation of Aid for Trade commissioned by the OECD, Delpuech *et al.* (2011) conclude that: i) “evaluations of aid-for-trade operations do not say much about trade. “Trade” and “exports” were not among the most frequently mentioned words, while “imports” was almost completely ignored”. Moreover, “the evaluations usually did not clarify the policy linkages which matter most to policy makers;” ii) “in sharp contrast with the surprising silence on trade-related issues, the evaluations referred extensively to broad, development-related concepts, such as gender or poverty reduction, but without clearly defining these terms;” iii) “Indeed, evaluators were rarely able to identify causal links between operations and performance.”

41. Consequently, there is a gap between the expectations and the achieved results. While countries target trade and economic outcomes, Aid for Trade has delivered a better mainstreaming of trade in development strategy, a better understanding of the role of trade in development, a better delivery of aid and more financial resources. Consequently, these findings leave much room for improvement. First because the results are not those that are considered most important and second because the reported outcomes are mostly moderate.

42. In a different exercise, the European Commission (2011) reached a similar conclusion: moderate progress in the delivery process of Aid for Trade. This conclusion is the result of both a field questionnaire on Aid for Trade on the partner country side and responses of Member States to the OECD/WTO questionnaire.<sup>14</sup> The European Commission states: “*reports from the EU field offices point to moderate improvement in the processes that underpin both the volumes and the effectiveness of Aid for Trade. (...) The replies of the Member States to this year’s questionnaire on financing for development show that, although some improvements have been made, enhanced efforts are needed to maximise the impact of aid*”.

43. This is also supported by the findings of Chapter 4 revealing that while the consultative processes and aid delivery practices continue to improve both donors and partner countries need to make further efforts to ensure that Aid for Trade is more effective. There is still room for improvement in the harmonisation of donor procedures, alignment of donors around partner countries’ priorities, and consultation and coordination within partner countries themselves.

## **2. Why do partner countries not (yet) get what they want?**

### ***a. A time lag effect?***

44. The gap between partner countries’ objectives and the achieved results could reflect a lag effect. Due to the short time which has elapsed between 2006 and 2011, it seems normal that efforts have, for a large number of countries, not yet achieved the economic-trade impact countries expect. In this context, the gap between expectations and achieved results, outlined above, may reflect that achieving countries’ goals is a matter of time. Aid for Trade has contributed to increased awareness but also to better alignment. These are preconditions for Aid for Trade to have a trade impact. 60% of countries indicated the donors’ alignment on national strategies has improved significantly or moderately since 2008.<sup>15</sup>

45. There is evidence that donors have responded to partner countries’ recommendations to focus on capacity building.<sup>16</sup> First, most of the case stories (see Chapter 6 for details) provided, *i.e.* nearly 25% of them (64 out of 269), appear in the building capacity category. They mainly deal with technical assistance to improve build capacity and skills within client countries’ governments. Second, partner countries’ comments suggest that (i) most of the positive results registered relate to better understanding of trade and the attention paid by countries to trade, and (ii) these results have been achieved by national capacities building projects in both the public and private sector. In 2011, among the 39 positive comments provided by partner countries, 33 contain illustrations related to capacity building:

<sup>14</sup> 16 Member States and the European Commission responded to the OECD/WTO Aid for Trade questionnaire which is intended to acquire information on the progress by individual donors with a particular focus on f Aid for Trade strategies and programmes.

<sup>15</sup> See section 3 of Chapter 4 for more details. Comments provided by countries stress this has been permitted through: new or more regular dialogue and concertations with donors; joint production (*i.e.* donors and government) of national trade strategies; common agreements between governments and donors to respect and enforce the Paris declaration; and the stability of national trade strategies over time

<sup>16</sup> In 2008, this was the opinion of almost two-thirds of partner countries.

Thirteen countries (Angola, Comores, Costa Rica, Côte d'Ivoire, Fiji, Kenya, Madagascar, Paraguay, Peru, Senegal, St Vincent and the Grenadines, and Zimbabwe) mention a reinforcement of the national administrative capacities.

- 4 others (Afghanistan, Chile, El Salvador, and Uganda) indicate supports to the public sector were aimed at facilitating negotiation of trade agreements at both regional and international levels and/or building national trade-related institutions.
- 11 countries (Azerbaijan, Burkina Faso, Comores, Costa Rica, Madagascar, Niger, Peru, Senegal, Suriname, Uruguay, Ecuador, and Mali) indicate they have benefited from efforts to further involve the private sector in regional and international trade through incentives and upgrading programs to improve competitiveness and export capacity.
- 5 countries (Lao PDR, Nepal, Nigeria [alignment only], Sierra Leone, and Botswana) registered important improvements in trade mainstreaming, ownership, and alignment thanks to the implementation of different mechanisms.
- Finally, 6 comments do not make any reference to capacity building but to increased access to trade resources (Dominican Republic and Pakistan) and, 4 others indicate improvements related to the development of infrastructure (Kenya, Paraguay, Suriname, and Cameroon).

46. Improvements in capacity building may result in future improvements in economic and trade performances. This is what several comments suggest. Bangladesh indicated that without adapted skills and policies at the national level achieving economic and trade performances is difficult: "*However, given its narrow focus on policies, regulation and building skills, it is yet to achieve the intended results*". After having benefited from multiple-year upgrading programmes in the agricultural sector, Senegal and Mali mention that they have not only noticed increased export performance but have also been able to measure them in detail. As an illustration, Senegal asserts that a project has increased horticultural exports from 17.821 tons to 32.032 tons between 2005 and 2009. Mali reports that various upgrading and trade capacity building projects have had a direct and significant impact on mango exports which increased from 8.056 to 10.410 tons between 2008 and 2010. These comments suggest that well-designed capacity building projects can improve trade performance. The cases stories give credence to this assumption. However, associating the trade performances exclusively to capacity building projects might be excessive as argued in Chapter 6 (Box 1) which claims that authors of questionnaires and case stories may have omitted variables that turn out to be critical in explaining outcomes.

47. Donors share this positive assessment of the benefits of capacity building programmes. For instance, 2 of the 13 bilateral comments (Australia, Canada, Finland, France, Germany, Hungary, Ireland, Japan, Korea, Lithuania, Singapore, and the United Kingdom) mention this type of project, especially at the firm-level, to illustrate the good results that have been obtained in the context of their aid-for-trade activities. Among the 12 multilateral donors who provided comments, six of them (IsDB, UNECA, ITC, IADB, World Bank, and EBRD) mention capacity building projects as an effective means to promote trade.

#### ***b. A measurement problem?***

48. Economic and trade results may have been achieved but countries have not been able to identify and measure them. This is due to the difficulty of the exercise, which is further increased by a lack of capacities and tools on the countries' side. Croatia, Angola, Gambia, Solomon Islands and Uganda stressed in their comments the difficulty in measuring the economic and trade results of Aid for Trade given (i) a lack of capacities and tools and (ii) the difficulty of identifying and dissociating results directly linked to

Aid for Trade. Determining the contribution of Aid for Trade to trade development is a problem well known by evaluators (see Hynes, 2010 and OECD, 2011b for the proceedings of the OECD Experts Workshop) and that were already outlined by countries in 2008.<sup>17</sup>

49. Nonetheless many partner countries aim at doing so as evidenced by the *Communiqué* issued at the end of the Expert Group Meeting and Workshop on “Aid for Trade and Africa’s Trading Capacity: Supply, Demand and Performance” organised in 2010 by the Economic Commission for Africa. This calls for a collaborative approach between donors and partner countries and more capacity building support from donors in order to enable countries to measure by themselves the results of aid-for-trade projects.

### *c. Or a structural problem?*

50. Although the existence of a time-lag effect appears plausible, one cannot exclude that partner expectations were not met because donors did not align enough on partner countries’ priorities. This Chapter and Chapter 4 provide ample evidence that donors made progress in aligning their Aid-for-Trade activities on national strategies since 2008 although there is ample scope for further progress. However some partner countries in their comments stress problems with donor alignment. Ethiopia mentions that the EIF has not been implemented. Haiti states that some aid-for-trade projects were not actually promoting trade. Lao expressed regrets about the lack of alignment on its national strategies. Sierra Leone and St Lucia note that donors’ actions are not sufficiently visible to them and emphasise the lack of trade financing. Despite the improvements in alignment registered since 2008, it thus seems that in some countries donors still have progress to make in the implementation of the Paris Declaration principles. Lao comments hint that in some cases donors continue to at least partially design their projects according to their preferences and priorities without systematically taking in to account countries’ strategies and priorities: “Overall, the EIF has provided a mechanism to increase national ownership and begin to more effectively coordinate donors efforts in trade, which by its nature has traditionally consisted of a number of disparate projects with limited national strategy and guidance. There is still, however, a reluctance by some donors to subscribe to the EIF/TDF approach, or to integrate activities with the National Integrated Framework Governance Structure (NIFGS)”.

## CONCLUSION

51. Through the Aid for Trade Initiative, partner countries especially look for exports targets such as diversifying and increasing exports. They consider economic growth and poverty reduction only as secondary goals and pay the least attention to other aspects such trade awareness, the aid process and the social and environmental dimensions. This global ranking reflects an approach of trade in which exports are central to countries not because they help them foster economic growth and reduce poverty but rather because they can solve some of the immediate problems partner countries face. Indeed, as previously mentioned, partner countries report that exports not only increase foreign receipts that can be used for investment, but also promote private sector development and employment, and finally help to equilibrate the trade balance.

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<sup>17</sup> Indeed, in 2008 a number of partner countries faced important challenges in recognising Aid for Trade flows in their monitoring systems, often due to a lack of capacity to centrally track aid flows and to disaggregate the various trade-related components.

52. What partner countries expect from the Aid for Trade initiative tends to differ from the donors' expectations. In contrast to partner countries, donors expect Aid for Trade to foster economic growth and poverty reduction and pay more attention to increase the level of the existing exports than to change their nature and structure by trying to help countries modifying their trade specialisations. This reflects a different approach to Aid for Trade where trade is conceived as a tool for promoting growth and reducing poverty.

53. The gap between donors and countries' approaches and expectations call for more dialogue and efforts to enhance their understanding and improve the design of projects. To this aim, and because multilateral donors' priorities are much closer to partner countries' ranking of priorities than bilateral donors', there is a need for more dialogue and coordination between donors.

54. By improving the design of aid-for-trade programmes and projects, these efforts could also help fill the existing gap between the countries' expectations and the achieved results. Indeed, while partner countries target trade and economic outcomes, so far, the impact of Aid for Trade is more related to the understanding of trade, the aid process, and the availability of resources.

55. However, evidence suggests that the gap between countries' expectations and achieved results is more likely to reflect a time lag issue than a problem of donor alignment.

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