CHAPTER 4
WHAT ARE **EXPECTATIONS** AND **RESULTS**?

This chapter focuses on the results of aid for trade, based on the views of partner countries, donors and providers of South-South co-operation expressed in the self-assessment questionnaires. It analyses what each stakeholder expects from aid-for-trade interventions, what policies best support these results and what has been achieved so far. This analysis is complemented by references to the broader trade and economic literature.

While all stakeholders realise the importance of trade and development objectives, partner countries emphasise specific trade results, especially export growth and diversification. Broader development objectives such as economic growth and poverty reduction seem to be of secondary importance. In contrast, donors focus more on broad development objectives, and tend to see trade as a means to an end. Donors also tend to give more consideration to the positive role of imports – not just exports - than do partner countries. South-South partners tend to see aid-for-trade results more in terms of enhancing awareness and mainstreaming. This makes sense given their focus, for the most part, on technical assistance.

There is a consensus among partner countries about the importance of complementary policies - especially fiscal, regulatory, and governance policies - for the success of aid for trade. Discussing these macroeconomic and structural issues during the design phase of aid-for-trade projects and programmes can increase their impact on economic growth.

In terms of aid for trade's achievements, the survey highlights a gap between expectations and results. While partner countries expect aid for trade to boost trade, they report that its main achievements so far are limited to strengthening countries' understanding of trade's role in development, improving aid delivery, and increasing resources. This gap likely reflects a time lag between aid delivery and impacts, which can be long for some programmes and projects, such as those aimed at enhancing competitiveness. More broadly, there are well-documented methodological and practical difficulties in drawing a direct link between aid-for-trade interventions and economic and trade results - including the problem of accounting for the influence of complementary policies. This suggests that improvements in the economic and trade performance of many partner countries cannot be attributed directly or solely to specific aid-for-trade programmes and projects.

INTRODUCTION

The focus of this report is on showing results in aid for trade. To do this, it is first necessary to determine how successful aid-for-trade results are defined and to understand how policies influence these results. Only then can progress be assessed. This chapter, the first of two chapters focusing on the results of aid for trade, is based on the questionnaire responses of partner countries, donors and the providers of South-South co-operation. It enables comparison of their expected results from aid for trade, their perceptions about the role of complementary policies, and their views on the main achievements of aid for trade so far. This analysis of the questionnaire results is complemented by a review both of relevant empirical findings and of the broader trade and development literature. The following chapter analyses the main themes emerging from the case stories.

The chapter is organised as follows. The first part shows that while partner countries consider exports the most important goal of aid for trade, donors are more focused on growth and poverty alleviation. Possible reasons for their different definitions of successes are then discussed. The next section focuses on partner countries' perceptions of the importance of complementary policies, and describes their experience with the policy dialogues on these issues with donors and the private sector. Finally, the chapter reports on what partner countries see as the main achievements of aid for trade to date. While increased exports remain the goal, partner countries report that the main achievements so far are increased awareness and understanding of trade's role in development.

What do partners expect from aid for trade?

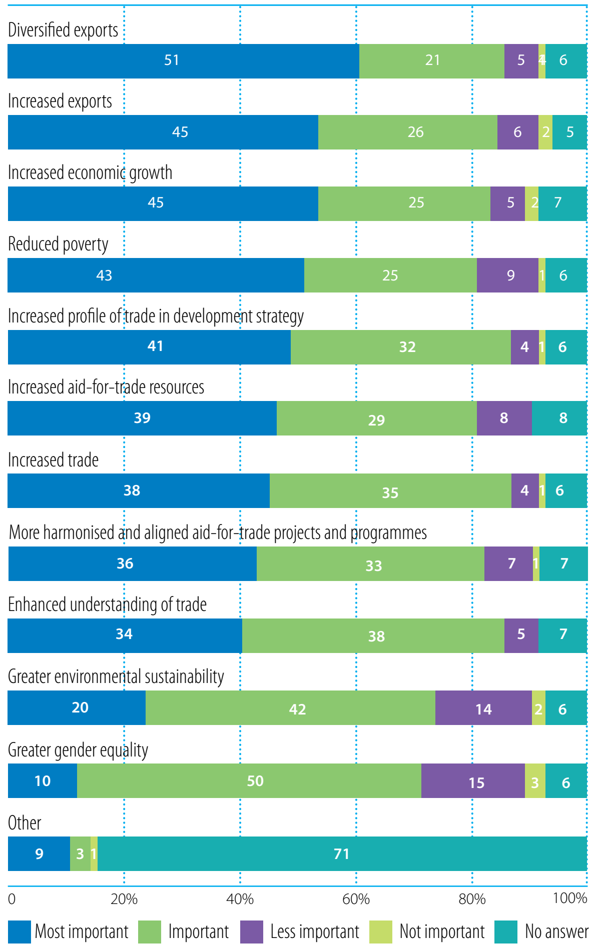
This section is based on responses and comments received from 84 partner countries, and analyses the results that partners seek from aid-for-trade projects and programmes.

Partner countries put an emphasis on increasing and diversifying exports…

Export diversification is what partner countries expect most from aid for trade. Some 60% of respondents consider export diversification "most important", while less than 50% consider increased exports "most important". This result is consistent with identifying competitiveness as the main objective of aid for trade (see Chapter 1). Profiling trade in national strategies, increasing aid-for-trade flows, and improving aid-for-trade delivery are also considered important. Mainstreaming trade in development strategies and improving countries' understanding of trade's role in development are viewed as slightly less important, while environmental sustainability and gender issues are seen as less important still. Less than 55% (45 countries) consider increased economic growth as "very important", and just 43 (51%) see poverty reduction as "very important" (Figure 4.1). In essence, partner countries tend to see exports as an end in themselves, rather than as a means to an end, such as economic growth and development.

This perception may be based on a pragmatic assessment that exports are crucial to addressing a number of immediate problems simultaneously. Partner countries report that exports increase foreign receipts that can be used, not only for needed investment, but also to promote employment and private-sector development, and to help to equalise the trade balance. For instance, Lebanon and Gambia mention a balance-of-payments equilibrium as an objective of aid for trade, and

Figure 4.1 Main goals partner countries want to achieve through aid for trade



Source: OECD/WTO questionnaire (2011)

they focus on export promotion to achieve it. Ecuador and Trinidad and Tobago use aid for trade to promote private-sector development and to increase investment. Finally, Cameroon and Zambia mention employment promotion and trade-related infrastructure as important objectives of aid for trade. The contribution of exports to economic growth has been well documented in the economic literature (Table 4.1).

…but pay less attention to imports…

Partner countries appear to pay more attention to exports than imports, as illustrated by more countries ranking "increased exports" higher than "increased trade". Their export focus probably reflects the political economy of trade negotiations which tend to emphasise "market access" over "import reform". This bias is also reflected in the Aid-for-Trade Initiative itself. While the Hong Kong declaration (WTO, 2005) stated that the objective of the Initiative was to *"expand trade,"* the Task Force

Table 4.1. 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 *et al.* (1997)
69	1975-93	Positive	Greenaway *et al.* (1999)
79	1970-98	Positive	Wang *et al.* (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)*

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). Beyond the political economy arguments, the role of imports is also often underestimated by countries, and robust empirical evidence supporting their importance has only recently appeared.

Overlooking the importance of imports is unfortunate, especially since the trade literature consistently emphasises the key role that imports play in achieving competitiveness - one of the main objectives of partner countries. These benefits are succinctly noted 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."*

…which are recognised as important in the literature.

The new growth theory also argues persuasively for focussing on the technology transfers embedded 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.[1] Rodrik (2007) identified the process of importing, acquiring and adapting advanced foreign technologies as perhaps the most compelling mechanism linking trade with growth in developing countries. Highlighting the experience of newly-industrialised Asian economies since the 1960s, Lin and others (Lin, 2007; UNIDO, 2007) argued that industrial latecomers can take advantage of the newest technological developments by simply buying them at relatively lower cost and with less risk. Hallaert *et al.* (2011) found that even in landlocked, small and vulnerable economies, imports foster economic growth, albeit with impacts varying substantially across different country groupings.

Recent firm- and plant-level data provide even more robust evidence than cross-country regressions about the positive impact of imports on economic growth. This data highlights the various ways in which imports affect growth, including by (*i*) encouraging greater competition, leading to better resource allocation and improved management practices, (*ii*) lowering input and capital goods costs, and (*iii*) improving access to foreign technologies. Most of these gains from trade are dynamic - *i.e.* imports improve productivity which in turn increases economic growth and income.[2]

Through a multi-country analysis at the 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 than in OECD countries.

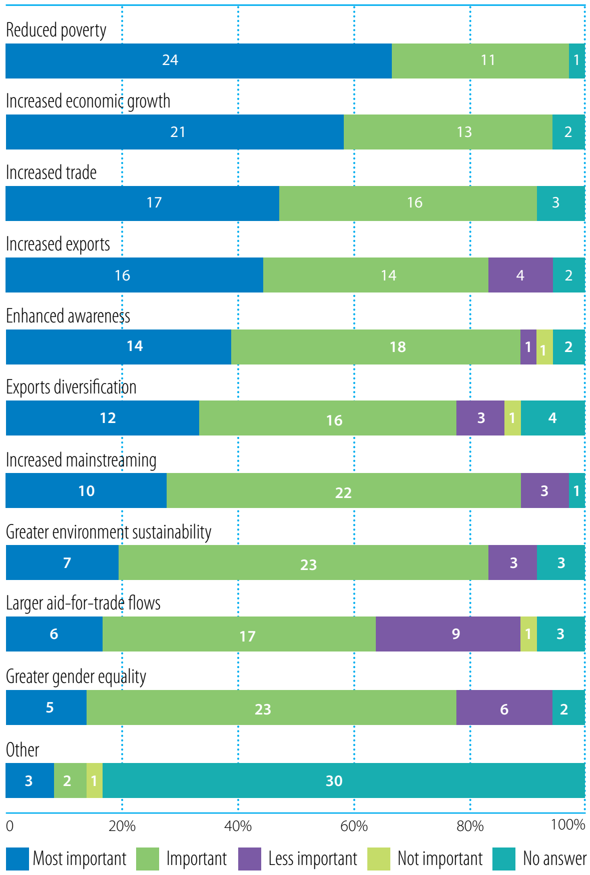
WHAT DO DONORS EXPECT FROM AID FOR TRADE?

This section is based on responses and comments received from 43 donors. It analyses donor's main goals in their aid-for-trade projects and programmes. 34 out of 43 donors (80%) report having defined goals in their aid-for-trade strategies, while nine, including the EBRD and the IMF, provide no clear answer.

Donors see trade as a means to an end…

Donors give the highest priority to long-term objectives such as poverty reduction and economic growth (Figure 4.2). Shorter-term objectives such as increased exports or trade are ranked second. Export diversification, a major objective for partner countries, is only the sixth highest priority for donors. Ranking behind these economic- and trade-related goals are objectives related to the aid delivery processes – enhanced awareness and increased mainstreaming. Lower long-term objectives include environment sustainability, larger aid-for-trade flows, and gender equality.[3]

Figure 4.2 Ultimate objectives are the main priorities of donors



Source: OECD/WTO questionnaire (2011)

...giving a high priority to economic growth and poverty reduction.

This ranking of donors' priorities[4] shows that most consider aid for trade first and foremost as a means of fostering economic growth and reducing poverty. Given their mandates, this should come as no surprise.

Increased trade and exports are their second most important objectives, with 17 donors (almost 50%) rating them as "very important". Export diversification is lower, with only 12 donors (33%) considering it the "most important" objective – although only Norway considers export diversification an unimportant objective. Overall, donors give more priority to increasing partner countries' level of exports than to broadening or changing its composition. One explanation may be that the former is easier to achieve than the latter. An analysis of export-development programmes undertaken by Brenton and von Uexhull (2009) found that product-specific programmes were most effective where there was already significant export activity (with effectiveness measured by partner countries' export growth).

The authors conclude that the constraints to growing existing exports may be more easily identified and overcome through technical assistance than the constraints to developing new exports.

The responses also suggest that donors take a broader view than partner countries of trade's role in economic development – and in particular that they pay more attention to increasing trade in general (including imports) rather than just exports. For instance, four donors (Belgium, Japan, Ireland, and Spain) rank increased exports as "less important"; no donor ranks increased trade as "less important". Donors also see export diversification as a much lower priority. This can be problematic since partner countries generally see export diversification as an important objective of aid for trade (see also OECD, 2011a), as well as an area where alignment needs to improve.

In short, donors and partners seem to view the importance of aid for trade to trade, growth and development somewhat differently. While partner countries tend to focus more on the short-term trade outcomes from aid for trade, donors tend to concentrate more on its longer-term impacts on economic growth and poverty reduction. Donors seem to view trade, not as an end in itself, but as means of achieving broader ends such as economic growth and poverty reduction.

With the exception of export diversification, donors tend to rank objectives other than those related to over-arching economic objectives as far less important. Among the secondary goals, "enhanced awareness" and "increased mainstreaming" are most often mentioned, with 40% and 28% of donors respectively considering them "most important". This is in marked contrast to partner countries, 50% of which rate "mainstreaming" as the most important objective (Figure 4.1).[5]

The social and environmental dimensions of aid for trade do not appear to be an important priority for donors. Only seven donors (20%) rate environment sustainability as "most important", and just five (14%) see gender equality as "most important". This is in line with the views of partner countries, only a minority of which rate environmental sustainability and gender as the "most important" objectives (24% and 12% respectively).

Money matters for donors but effectiveness matters even more...

Finally, donors consider increasing aid-for-trade flows a lower priority. Indeed, only six donors (16%) see increasing flows as the "most important" objective - just slightly more than those which rate gender equality the highest priority. While the Aid-for-Trade Initiative has clearly succeeded in mobilising additional resources (see Chapter 2), it seems that donors view improving the effectiveness of aid flows – rather than increasing these flows - as more essential to economic growth and poverty reduction.

...better co-ordination between donors is needed.

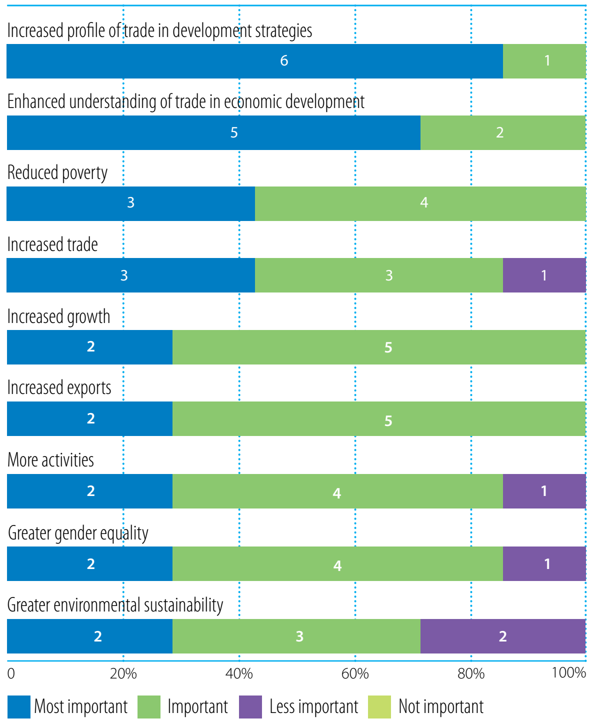
There are significant differences in objectives among donors, suggesting that there is scope for better co-ordination among donor agencies. This is supported by a recent European Commission (2011) survey of EU and Member-States delegations[6] that suggests that since 2008 progress towards better European aid-for-trade coordination has been moderate (42 out of 89 respondents) or non-existent (30 out of 89). Regarding coordination between European and non-European donors, only 15 report significant progress, while 34 see no improvements or are not sure.

The scope for better donor coordination is also highlighted in the case stories (see Chapter 5). For instance, the success of the Azerbaijan Silk Road Rehabilitation Project depended critically on coordination among numerous development partners, and on assigning a single development partner to lead the coordination process. Regarding its trade facilitation strategy, Nigeria also noted that *"the key factor for success [was] 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 programme support"*.

South-South providers have differing perspectives in defining results.

As Figure 4.3 shows, the priorities of South-South providers differ considerably from the priorities of both partner countries and donors. For example, "mainstreaming" and "awareness" are the main objectives for South-South providers, but much less important for partner countries and donors. The gap is even larger for "increased exports" which is the main objective of partner countries, but a much lower priority for South-South

Figure 4.3 Priorities of South-South providers



Source: OECD/WTO questionnaire (2011)

providers. These differences can largely be explained by the South-South co-operation providers' focus on technical assistance and training activities.

The examples offered by South-South providers illustrating the success of trade-related co-operation are similar to ones offered by donors. Chile and Mexico report that projects aimed at strengthening and developing institutional capacities produced satisfactory results, while China suggests that its USD 30 million investment in the Laotian segment of the Kunming-Bangkok Expressway greatly promoted trade and economic development in the greater Mekong sub-region.

DO COMPLEMENTARY POLICIES MATTER IN ACHIEVING RESULTS?

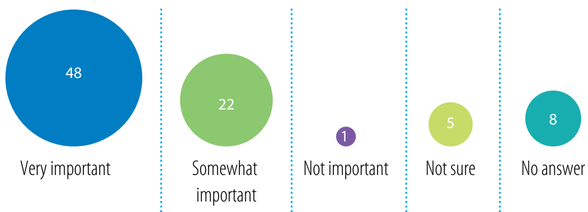
Many of the aid-for-trade objectives identified by donors and partner countries require supportive or complementary policies. In order to maximise the positive impact of aid for trade on trade, growth and development, these policies and their proper sequencing need to be considered in the design phase of interventions and discussed in detail by partner countries and donors.

Harnessing the power of trade can be difficult for developing countries, and trade reforms alone are often insufficient to ensure growth. Partner countries are very aware of the importance of complementary policies to ensure that their trade reforms are sustainable and to maximise trade's positive economic impact.

Partner countries acknowledge the important role complementary policies play…

As illustrated in Figure 4.4, more than 83% of partner countries (70 out of 84) report that complementary policies are important to the success of aid for trade, and more than half (48) consider these policies "very important".[7] Only five countries (Dominica, Ethiopia, Mauritius, Solomon Islands, and Trinidad and Tobago) are not sure about their importance, and only one (Serbia) reports that complementary policies are unimportant. Results from the questionnaires show a large consensus across every region and income group about the crucial role that complementary policies play in the succes of aid for trade.

Figure 4.4 Importance of complementary policies in the success of aid for trade



Source: OECD/WTO questionnaire (2011) *Number of responses are shown in white*

When all significant answers are combined (*i.e.* "very important" plus "somewhat important"), almost 80% of all income groups and more than 73% of all regions agree that complementary policies are important to the success of aid for trade. The high level of positive answers reveals that countries are well aware of the crucial role that complementary policies play in ensuring that trade contributes to economic growth and poverty reduction.

Moreover, the feedback provided by partner countries suggests that in the design of aid-for-trade projects and programmes greater attention needs to be given to complementary policies.

...supportive macroeconomic policies are necessary to make trade reforms sustainable…

Drawing on the experience of past trade reforms, Hallaert (2010) argues that the success of aid for trade crucially depends on supportive macroeconomic policies that make reforms sustainable.[8] Such policies may be needed to prevent policy reversals. This section focuses on fiscal and balance-of-payments problems, as well as on exchange-rate misalignments, that can often make trade reforms unsustainable.

...trade-related adjustment can play an important fiscal role…

Trade reforms can be unsustainable because of fiscal difficulties. Such problems may arise, for example, when trade reform results in declining tariff revenues – problems that are especially acute when such revenues account for a relatively large share of government income (Ebrill *et al.* 1999).[9] Aid for trade can help to address these problems, for example, by providing technical assistance in the design of trade reforms, by helping to shift the tax system away from trade duties towards domestic taxes, and by providing financial support to mitigate adjustment costs. Redirecting the tax system away from trade duties is at the core of the recommendations and technical assistance provided by international organisations, such as the OECD and IMF. This strategy has merit – irrespective of its role in assisting trade reform - since tariffs are a relatively inefficient and distortive way of raising revenue.[10]

Moreover, offsetting the revenue losses from trade reform with domestic revenues helps countries to meet the challenges of globalisation while retaining the resources required to meet their development needs. Furthermore, revenues from domestic taxes tend to be less volatile than revenues from tariffs – which depend on trade flows - or from other external sources, such as aid, remittances, or FDI (Bulír and Hamann, 2007). They provide governments with more fiscal stability, and can help to pay for the recurring maintenance cost of projects financed by aid, including infrastructure projects (Gupta and Tareq, 2008).

In addition, assisting countries to shift towards domestic taxes helps to ensure consistency between various forms of aid, notably aid for trade and budget support. The development needs of partner countries are large and require a scaling up of spending. To finance this spending in a sustainable manner, it is important that donors live up to their commitments; but it is also important that countries generate resources internally. Beyond the sustainability question, there is the issue of coherence between the various forms of aid. Aid for trade and trade-related adjustment should ensure that revenue losses stemming from trade reform are offset by new revenue sources. Otherwise aid for trade risks undermining the capacity of recipient countries to finance their development needs - a capacity that budget aid and debt relief are trying to shore up.

However, past experience with tax rebalancing in developing countries calls for caution. In practice, rebalancing has been only partially successful in low- and middle-income countries. Examining the expericence of 125 counties between 1975 and 2000, Baunsgaard and Keen (2005) conclude that those which relied most on trade taxes were unable to recover from other revenue sources what they lost through lower tariffs and other charges. On average, low-income countries have *"recovered, at best, no more than about 30 cents of each lost dollar"* and for middle-income countries the recovery rate was in the range of 45 to 65 cents. As a result, the decline in the ratio of trade tax to GDP in low-income countries was accompanied by a decline in the ratio of total tax revenue to GDP. However, this disappointing average performance masks the fact that a few low-income countries were able to fully recover the revenue losses stemming from trade liberalisation.

…and can help address balance of payment problems.

Trade reform can be also unsustainable because of balance of payments problems, especially those resulting from an inappropriate or uncertain exchange rate policy.[11] If a currency is overvalued, trade liberalisation can trigger rising imports and declining exports - because of the damage to cost competitiveness – with the excess demand for foreign exchange resulting in balance-of-payments problems. In addition, domestic economic activity usually declines and unemployment rises because the contraction in import competing sectors is not offset by an expansion of the export sector. Governments then face the choice of either adjusting the exchange rate or reversing trade reform. Shatz and Tarr (2002), among many others, showed that this has been the experience of many countries, especially in the wake of the trade reforms of the 1980s and 1990s.

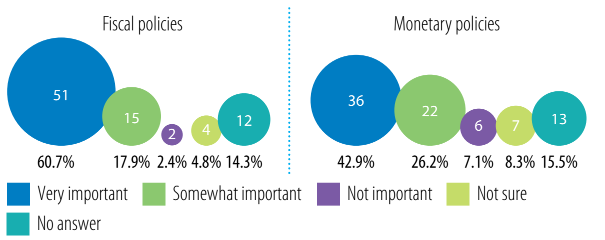
Aid for trade has a major role to play in preventing these problems, especially by supporting an early export response to trade reforms, and thus heading-off any balance of payments, employment, or fiscal problems that may arise. Such problems are exacerbated by the fact that trade reform tends to lead to an early import surge - adversely affecting the import competing sector - while the corresponding expansion of the export sector appears only after a time lag. For this reason, a rapid export response helps achieve another objective of aid for trade, namely smoothing the adjustment costs of trade reform. In addition, when people experience the immediate benefits of reform, they are more likely to support the reform process.

The importance of supportive macroeconomic policies is highlighted in an econometric study by Hallaert *et al.* (2011) which attempts to quantify the severity of various partner-country constraints to trade expansion. The authors show that both fiscal and exchange rate policies have a large and statistically significant impact on partner countries' trade performances. An increase of 1% of GDP in government spending is associated with a lower exports ratio of 1.8% of GDP. Moreover, a 10% appreciation of the real effective exchange rate is associated with a reduction of the openness ratio by almost 7% of GDP. The same study shows that the impact on trade performance of government spending and exchange-rate overvaluation differs for country groupings (*i.e.* landlocked economies, small and vulnerable economies, and commodity exporters). The study also shows that the impact of supportive macroeconomic policies is often larger than the impact of reducing binding export constraints through aid for trade.

Partners rank fiscal policies higher than monetary policies.

Consistent with the empirical evidence, 51 out of 84 of partner countries (61%) rank fiscal policies, along with the regulatory environment and improved governance, as the three most important complementary policies (Figure 4.5). Although respondents could not identify precisely in the questionnaire which aspect of fiscal policy they felt were most important, their comments suggest that tax revenues were the critical issue. Gabon and The Gambia highlight the importance of tax reforms conducive to the development of small- and medium-sized enterprises (SMEs). Guatemala and Saint Vincent and the Grenadines stress the need to increase domestic tax sources (such as VAT and income taxes) and to ensure their collection. These comments are supported by the economic literature which also underscores how tax policies can create an environment in which trade and investment flourish (OECD, 2009).

Figure 4.5 Importance of macroeconomic policies



Source: OECD/WTO questionnaire (2011) *Number of responses are shown in white*

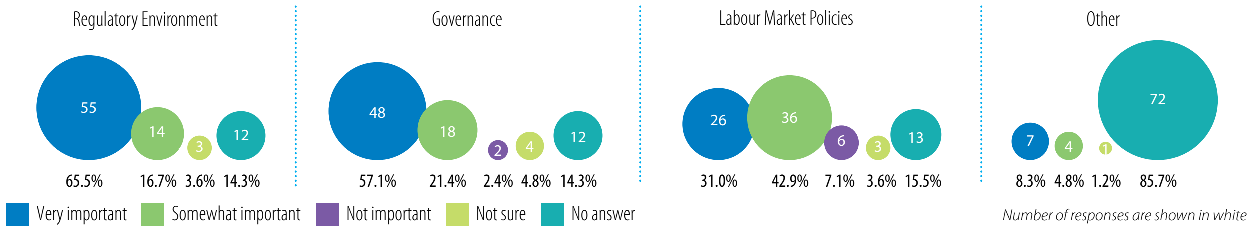
Turning to monetary and exchange rate policies, partner countries view these policies as relatively less important to the success of aid for trade than fiscal policies. Of the 84 respondents, only 36 feel that monetary policies are "very important", while a further 22 say they are "somewhat important" (Figure 4.5). Comments related to monetary policy were provided by The Gambia, which argues that lowering interest rates can boost investment. Panama highlights the important role that monetary policies play in eliminating or diminishing the main obstacles to competitiveness.

Structural policies are important for trade expansion.

The importance of structural policies is underlined in a recent study by Dufrénot *et al.* (2010) who show that while there is little evidence of a statistically significant correlation between trade openness (measured as the ratio of the sum of exports and imports to GDP) and economic growth from 1980 to 1995, there was a strong and robust correlation between 1996 and 2000. The authors conclude that the main difference was that trade liberalisation was complemented by other supportive policies during the second period but not during the first. During the second period *"trade policies were complemented by reforms putting a stronger focus on other macroeconomic and social policies including productivity boosting reforms, spending on social programmes, improving the investment climate, and the strengthening of institutions"* (Dufrénot *et al.*, 2010, p. 742). Supporting this argument, Hallaert *et al.* (2011) show that structural policies are very important for trade expansion and economic growth, as they affect factors such as investment, labour productivity and participation that have a large impact on trade performance.

Complementary policies – such as labour market, education, and regulatory policies - are also crucial to reducing poverty and facilitating structural adjustment, key objectives of aid for trade (OECD, 2011). A recent OECD study (2005, p. 16) argues that *"the combined effect of complementary policies will be greater than the sum of the parts [. . .]. The key to successful structural adjustment lays*

Figure 4.6 Importance of structural policies



Source: OECD/WTO questionnaire (2011)

less in individual policies than in their interaction". It also points to the need to ensure the proper sequencing and coordination of complementary policies, because the gains from trade and the adjustment costs occur at different times.[12] Moreover, although there is empirical evidence that increased trade helps to reduce poverty on average, it also involves economic adjustment which in turn has distributional implications. Trade liberalisation impacts socio-economic groups differently – creating winners and losers – which requires complementary policies to distribute better the benefits and costs of greater market openness.[13]

The regulatory framework affects the impact of trade on growth...

Partner countries view the regulatory environment as the structural policy most important to the success of aid for trade, followed by governance and, to a much lesser extent, labour-market policies (Figure 4.6). The trade and growth literature provides ample evidence that regulatory reform increases the positive impact of trade on growth. For example, Chang *et al.* (2009) found that this impact is larger if accompanied by education, infrastructure, and financial, institutional and regulatory reforms. Bolaky and Freund (2008) also found that the impact of trade liberalisation is increased if it is accompanied by regulatory reform. They showed that in highly-regulated economies trade increases fail to affect growth positively. But once the effects of domestic regulation are controlled, they found an even greater impact of trade on growth than other studies.

Partner countries rank the regulatory environment as the most important complementary policy. Out of 84 respondents, 55 reports that it is "very important" and another 14 say that it is "somewhat important", revealing a broad consensus regarding its role in the success and effectiveness of aid for trade (Figure 4.6). This consensus may reflect the fact that the regulatory environment is a key concern of the private sector and that 64% of partner countries report discussing such issues with the private sector. In fact, the private sector, along with multilateral donors, was the most frequent interlocutors on complementary policies (Figure 4.7).

Regarding the relative importance that income groups attach to the regulatory environment, LDCs gave the lowest rating, with just 57% of respondents seeing it as "very important". This is surprising given the extent to which regulatory constraints affect the enabling environment in LDCs. Most of the comments provided by partner countries on complementary policies are related to the regulatory environment. More specifically, partner countries view trade policies and regulations aimed at improving the overall business climate – especially those related to customs, sectoral, and financial regulations - as pivotal to the success of aid for trade.

In terms of policies that affect the business environment, Uganda and Zimbabwe mention that trade facilitation programmes, such as the creation of one-stop border posts, have reduced cargo delays and transport costs. Lao People's Democratic Republic (PDR) and Lebanon, both in the process of acceding to the WTO, highlight the need to implement competition laws and to create competition enforcement authorities (such as a competition council).

Partner countries reported that they sometimes discuss the regulatory environment on a sectoral basis. For example, Chad, the Union of the Comores, and the Republic of Congo (Congo-Brazzaville) focus on better regulations in their agricultural sectors. Belize is implementing SPS measures, as well as TBT regulations, to ensure that only safe and certified products are sold on the market. These measures also complement efforts to mobilise aid-for-trade funding to expand production and exports. Lebanon emphasises the need to implement food safety laws in order to increase food exports. Ecuador, the Republic of Congo, and the Union of the Comoros stress the importance of domestic regulations for industrial development in the fisheries and tourism sectors. Fiji and The Gambia highlight the role of financial sector regulations – especially those aimed at improving access to credit – in strengthening investment. Zambia reports that its floricultural and horticultural export sectors declined because of restricted access to credit.

...while good governance is a pre-requisite for both trade and growth.

Governance is another complementary policy that partner countries view as crucial to the success of aid for trade. According to Rodrik (2000), political institutions are critical for economic development because of the key role they play in reducing social conflict and brokering compromises. The evidence from cross-country analysis is also clear: governance is an important determinant of trade performance.[14]

Governance also matters for aid effectiveness. The problem of corruption was discussed at the 2005 High-Level Forum on Aid Effectiveness in Paris where commitments were made to improve transparency and "mutual accountability", underlining the growing recognition among donors that the quality of governance matters for development performance and aid effectiveness.[15] The Commision for Africa (2005, p. 25) was even more pointed, noting that *"the issue of good governance and capacity-building is what lies at the core of all of Africa's problems."*

Partner countries rank improved governance as the most important complementary structural policy, along with the regulatory environment (Figure 4.5), with 48 out of 84 describing governance as "very important", and 18 describing it as "somewhat important" (18 out of 84). UMICs have the lowest number of "very important" responses perhaps because these countries generally rank better in terms of governance quality, and can thus pay more attention to other complementary policies.

Nepal mentions that good governance is key to aid-for-trade effectiveness. Conversely, Burundi and Kenya identify governance as the root cause of unsuccessful aid-for-trade processes. According to Kenya, corruption can be one of the biggest obstacles to aid for trade. The Gambia points out that the adoption of best practices can attract more assistance from bilateral and multilateral donors.

Partner countries agree that strengthened governance is a prerequisite for improving trade performance and economic growth. Especially in the aftermath of the recent financial crisis, partner countries need to implement governance reforms, while the donor community needs to maintain its funding pledges and ensure better management of aid delivery (Kaufmann, 2009).

Labour Market policies crucially affect labour productivity and competitiveness…

Hallaert *et al.* (2011) argue that policies aimed at improving labour productivity such as education, training and labour market reforms can also contribute significantly to trade expansion. They conclude that a 10% increase in labour productivity increases a country's export ratio by 3% of GDP.

However, labour market policies do not seem to be a priority for partner countries. Among the five complementary policies set out in the questionnaire, labour market policies received the lowest number of "very important" answers (26 out of 84, or 31%) (Figure 4.5). The importance of labour market policies was highlighted most by OLICs (13 out of 14, or 93%), followed by LDCs (25 out of 30, or 83%), LMICs (15 out of 19, or 79%), and UMICs (9 out of 20, or 45%). The significantly lower rate of positive answers among UMICs may reflect their relatively better labour markets.

Countries also provided relatively few comments on this issue. Exceptions include Fiji, The Gambia, and Cameroon which stress the importance of investing in human capital formation, especially training unskilled labour, and encouraging labour mobility, through, for example, the establishment of the National Employment Centres. The Gambia and Cameroon also stress the importance of policies to promote employment, particularly in the industrial sector.

...though there are also other policies that should be taken account of…

Partner countries see two additional complementary policies – investment and education - as critical to the success of aid for trade. For instance, the Union of the Comoros, Honduras, and Niger emphasise the need to improve the investment climate. Their observations are supported by research which shows that investment – by introducing new technologies, increasing productivity and linking countries to global value chains - is the main transmission channel between both trade and growth and aid and growth.[16]

In many partner countries, FDI is a major source of investment, so non-discriminatory investment policies are crucial for development. Malaysia reports that creating an FDI-friendly environment can contribute to achieving some of the main objectives of aid for trade (OECD, 2011) - namely export expansion and diversification, and economic growth (Dogan *et al.*, 2011).

...including education.

The ability to attract FDI is often dependent on the availability of a skilled labour force, a point made by Fiji when emphasising the importance of education policies. Krueger (2011) notes that *"as with the other prerequisites of an outer oriented trade strategy, appropriate attention to education and training is vital not only for success with an outer-oriented trade strategy, but also for domestic economic activity"*. In their cross-country analysis, Chang *et al.* (2009) found that trade's positive impact on economic growth is larger if it is accompanied by higher education levels.

Although aid for trade has no direct role in education, private sector capacity-building activities or training programmes can contribute to the development of human capital in partner countries. However, several countries express concern that some education projects and programmes do not always have a strong and clear link with trade, yet donors report these as aid for trade.

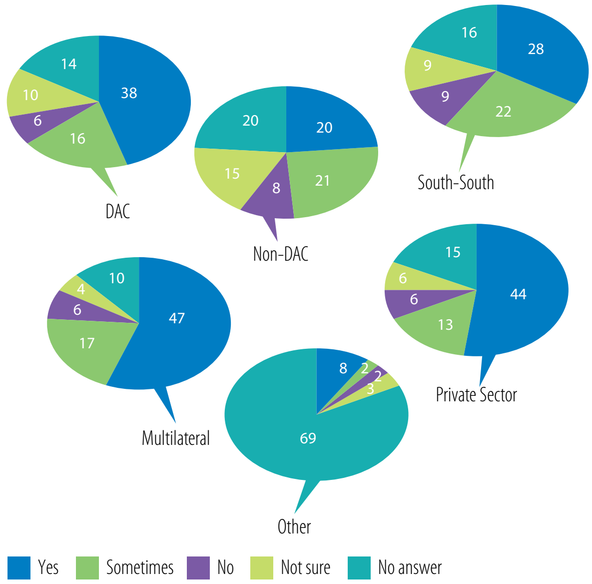
Despite the broad consensus about the importance of complementary policies, there remains some confusion about how they relate to aid for trade. For example, trade policy training and education clearly falls within the scope of aid for trade, although some partner countries consider them complementary policies. Other countries consider regional trade agreements (RTAs) complementary policies, when these are part of the aid-for-trade agenda.

Complementary policies are sometimes discussed with donors…

Complementary policies should be considered in the design and the sequencing of trade reforms which, if supported by foreign aid, require dialogue between partner countries and donors. According to partner countries, the intensity of the dialogue on complementary policies varies across donors, although the frequency is generally increasing. Regular dialogue on complementary policies is taking place with multilateral donors (56%), with the private sector (52%), and with the Development Assistance Committee (DAC) (45%). Partner countries discuss complementary policies less often with non-DAC donors (24%)[17] and with providers of South-South co-operation (33%) (Figure 4.7).

The survey shows that the dialogue on complementary policies takes place most often with multilateral donors and the private sector. This should come as no surprise. Complementary policies

Figure 4.7 Discussions on complementary policies



Source: OECD/WTO questionnaire (2011)

Number of responses are shown in white

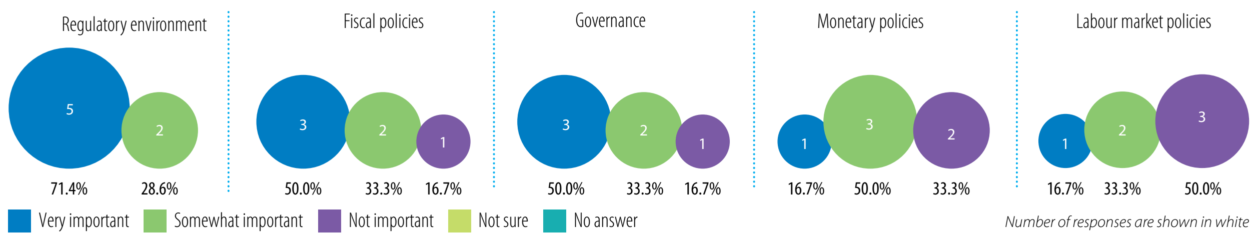
are likely to be included in the dialogue with multilateral donors because their programmes are large and multifacted. Likewise, private sector programmes and projects are directly affected by complementary policies, such as the regulatory environment. As mentioned above, the frenquency of the dialogue with the private sector may explain why partner countries percieve the regulatory environment as the most important complementary policy. This is also highlighted in the comments provided by partner countries such as the Gambia (see below).

…but the dialogue needs to be more inclusive…

The frequency with which complementary policies are included in dialogues differs between DAC and non-DAC donors. While 45% of partner countries report that complementary policies are part of their dialogue with DAC members, the rate is much lower with non-DAC members (24%). Out of 84 respondents, 16 report (25%) either no dialogue (or that they are not sure that there is any dialogue on complementary policies), and further 16 (25%) report only discussing complementary policies occasionally.

The reason for the limited discussion of complementary policies with non-DAC donors might be the high transaction costs involved. According to Davies (2008) *"building institutional and human capacities for providing development assistance is one of the key challenges for non-DAC donors. (…) In this context, implementing the Paris Declaration can involve significant transaction costs which may be perceived as too large relative to the scale of their development co-operation with a parner country"*.

Figure 4.8 Importance of complementary policies for South-South providers



Source: OECD/WTO questionnaire (2011)

...and involve South-South providers of assistance.

Providers of South-South co-operation do not seem to be best placed to lead the dialogue on complementary policies with partner countries. As part of the 2011 survey, 10 providers of South-South co-operation responded to a specially tailored South-South co-operation questionnaire. Although ranked higher than non-DAC donors, only 28 partner countries out of 84 (33%) report having regular dialogue on complementary policies with South-South co-operation providers. Yet, interestingly, Argentina, Chile, China, Colombia, Ecuador, India, Indonesia and Mexico (8 out of 10) view complementary poilcies as important to the success of aid for trade (See figure 4.8.) Only Brazil and Oman do not see these policies as important, and Brazil notes that South-South co-operation should promote partnerships and solidarity among developing countries and not be regarded as traditional ODA.

South-South co-operation providers share partner countries' view that the regulatory environment, fiscal policies and governance issues are the three most important complementary policies.[18] Despite this consensus, the lack of dialogue sometimes leads to the failure of aid-for-trade projects and programmes to incorporate these policies. For example, India reports that some LDCs have demanded larger product coverage in India's Duty Free Tariff Preferences (DFTP) Scheme, even though India's trade data shows that LDCs are not even exporting the products currently covered by the scheme. Despite this discrepancy between perception and reality, the DFTP Scheme is being reviewed, based on feedback received from LDCs and the results of studies to determine if coverage needs to expand, and Rules of Origin need to be modified. India's comment clearly underlines the need to promote more dialogue between partner countries and providers of South-South co-operation if aid for trade is to be successful and effective.

The main reason for the lack of dialogue with South-South providers may be that these donors differ from traditional donors. South-South providers tend to focus on human and institutional capacity development and on specific projects. Moreover, they often prefer not to interfere in the internal affairs of partner countries. However, dialogue on complementary policies does not necessarily mean interference in the internal affairs of another country, and promoting dialogue can better ensure the success of aid for trade.

The dialogue between partner countries and other stakeholders seems less frequent with 63% of countries reporting no dialogue (or no precise information on dialogues). While the "other" category is vague and no details are provided, comments suggest that dialogue on complementary policies is taking place internally. Indeed, several countries report that such discussions take place in the context of meetings organised at local level with different stakeholders, such as in the Povery Reduction Strategy (PRS) sector-group meetings (Burundi), in inter-ministrial committees (the Union of the Comores), in civil society roundtables (the Republic of Congo), in specialised trade promotion institutions (Guinea), and in regional organisations, such as the Economic Community of West African States (ECOWAS) as mentioned by Nigeria.

Complementary policies must be integrated into national aid-for-trade discussions.

Others report that while discussions on complementary policies with various donors take place, they are not integrated in a particular aid-for-trade framework, but rather occur during annual roundtables or conferences with donors. For example, although The Gambia *"does not have Aid for Trade Dialogue necessarily,… dialogue with DAC and Multilateral donors comes in a package where trade-related assistance and complementary policies are discussed simultaneously for example, during donor roundtables"*. Tonga also reports that complementary policies are discussed during *"Annual Dialogue through Donor Missions and MOUs signed"*. Similarily, Saint Vincent and the Grenadines stresses that complementary policies are not discussed in the particular context of aid for trade but rather during each financing agreement: *"Any funding negotiated with international donors is usually dependent on an analysis of the country's economic situation, including its fiscal and monetary policies, governance issues and the regulatory environment."*

On the other hand, Solomon Islands reports on the efforts of some donors to enter into dialogue on complementary policies within the context of aid for trade, even if these initiatives are rare: *"There is little specific aid-for-trade dialogue with donors. There may be some isolated discussions with donors with regard to certain trade-related projects. The private sector occasionally raises concerns with regard to fiscal policies and the regulatory environment during consultation on aid-for-trade initiatives. In aid dialogue more generally, most donors discuss complementary policies to some extent. The DAC donors tend to discuss complementary policies more than other donors".*

The evidence suggests that the main problem is not that complementary policies are not being discussed with donors. The problem is more that these discussions take place during general and unspecific events, such as regular donor consultations, and not during the design stage of aid-for-trade projects. The risk is that the dialogue is not focussing on the specific challenge of tailoring complementary policies to trade reform and trade-related capacity building.

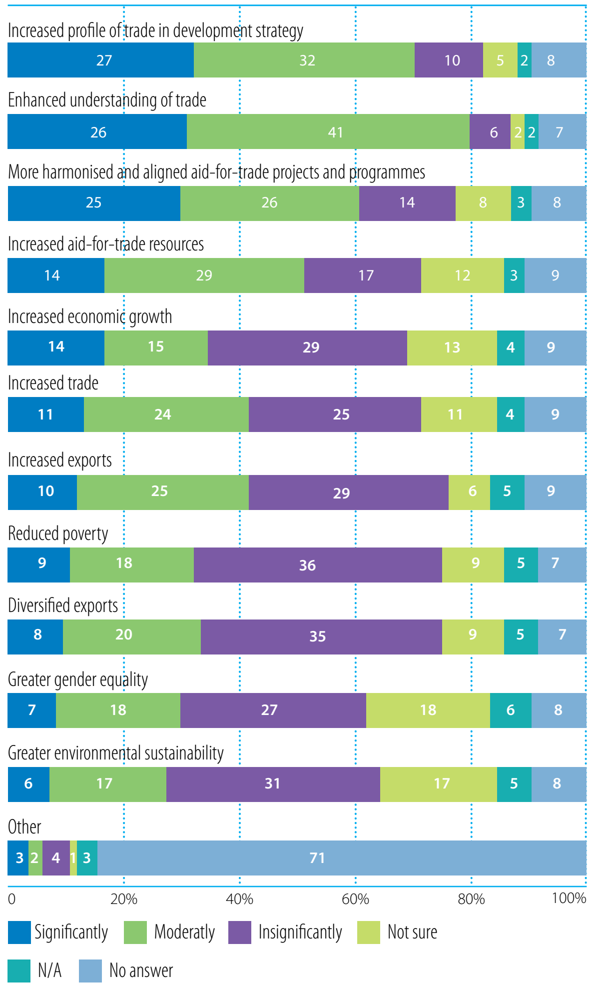
Responses to the questionnaires suggest that more dialogue on complementary policies is needed. This dialogue should focus specifically on partner countries' trade capacities and should take place before and during the design phase of capacity-building programmes.

WHAT HAS BEEN ACHIEVED SO FAR?

More awareness and better delivery, but few trade outcomes…

Aid for trade's main achievements so far relate to raising awareness about trade's role in development – as demonstrated by the increased mainstreaming of trade in development strategies - and to improving the delivery of aid for trade. Specifically, partner countries highlight: (*i*) the increased profile of trade in development strategies, (*ii*) an enhanced understanding of trade; (*iii*) more harmonised and aligned projects and programmes; and (*iv*) increased aid-for-trade resources (Figure 4.9).

Figure 4.9 Main results achieved in developing countries



Source: OECD/WTO questionnaire (2011)

As explained in the last *Aid for Trade at a Glance* report (OECD/WTO, 2009), aid for trade has been successful in mobilising resources (see Chapter 2) and in increasing awareness about the role of trade in development. At the global level, partner countries report either fully (55%)[19] or partially (41%)[20] mainstreaming trade in their development strategies – a clear indication that countries are increasingly aware of the importance of trade. The fact that trade now features more prominently in policy dialogues and development strategies of LDCs in particular is also a testament to the success of the EIF.

...as trade and economic performance are long-term objectives.

However, partner countries report having achieved less in terms of improved economic and trade performance. Half report that they did not achieve the desired trade outcomes. When taking the answers "important" and "very important" together, the positive answers for "increased trade" and 'increased exports' are below 50%. Even fewer countries (35%) report having achieved export diversification. Moreover, when considering only "significant" achievements, rates fall to 15%, 14% and 10% of countries for these three objectives.

Reported achievements are lowest for environmental sustainability and gender equality. While they are considered as "important" objectives by roughly 70% of partner countries, only 30% report achieving results, and of these most report moderate achievements. While 20 countries rank environmental sustainability as a most important objective, only 6 see significant improvement in this area. Regarding gender equality, the gap is smaller - among the 10 countries that ranked it as an important objective, 7 see improvements. Against this background, it is noteworthy that gender is one of the most evaluated subjects in aid-for-trade impact evaluations (see conclusions).[21]

There is some variance between what is expected and what is achieved...

Clearly, there is a gap between expectations and achieved results. While partner countries are looking for clear trade and economic outcomes, aid for trade has delivered better trade mainstreaming in development strategies, a better understanding of trade's role in development, better aid delivery, and more financial resources. There is obviously room for improvement, first because the reported results are moderate, and second because the results do not match the priorities of partner countries.

In a different exercise, the European Commission (2011) also concludes that there has been moderate progress in the delivery of aid for trade. This conclusion was drawn from both a partner-country field questionnaire on aid for trade and from Member States' responses to the OECD/WTO questionnaire.[22] The Commission notes that *"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".*

This is also supported by the findings of Chapter 3, which show that while consultative processes and aid-delivery practices continue to improve, both donors and partner countries need to make additional 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-country priorities, and consultation and coordination among partner countries themselves.

…partly due to the timing of results for specific parts of the aid-for-trade agenda…

The gap between partner countries' objectives and the results achieved could also reflect a time-lag effect. The period between 2006 and 2011 is relatively short, and many aid-for-trade programmes and projects have not had sufficient time to produce the trade and economic impacts expected. In other words, the gap between expectations and outcomes may simply reflect the reality that results takes time.

Moroever, aid for trade has already contributed to increased awareness and better alignment - both preconditions for achieving positive long-term trade impacts. In fact, 60% of countries indicate that donors' alignment on national strategies has improved significantly or moderately since 2008.[23] For example, there is evidence that donors have responded to partner countries' recommendations to focus on capacity building.[24] A quarter of the case stories (64 out of 269) fall in the building capacity category, and mainly describe technical assistance programmes aimed at improving skills and capacities within governments (see Chapter 5 for details). Partner countries also report that (*i*) most of the positive results so far relate to better understanding trade, and that (*ii*) these results flow from public- and private-sector capacities building projects. Of partner countries' 39 positive comments, 33 relate to capacity building projects.

...with some immediate results being realised in building capacities.

- 13 countries (Angola, Comoros, Costa Rica, Côte d'Ivoire, Fiji, Kenya, Madagascar, Paraguay, Peru, Senegal, Saint Vincent and the Grenadines and Zimbabwe) report that national administrative capacities have been strengthened.
- 4 others (Afghanistan, Chile, El Salvador and Uganda) report that capacity building was aimed at facilitating trade negotiations, both regional and multilateral, and/or strengthening national trade-related institutions.
- 11 countries (Azerbaijan, Burkina Faso, Comoros, Costa Rica, Madagascar, Niger, Peru, Senegal, Suriname, Uruguay, Ecuador and Mali) report benefitting from programmes aimed at improving private sector competitiveness and export capacity.
- 5 countries (Lao PDR, Nepal, Nigeria [alignment only], Sierra Leone and Botswana) reported significant improvements in trade mainstreaming, ownership, and alignement thanks to the implementation of different mechanisms.
- While not refering to capacity building, 2 countries report increased access to trade resources (Dominican Republic and Pakistan) and 4 others note improvements related to infrastructure development (Kenya, Paraguay, Suriname and Cameroon).

Several countries suggests that improvements in capacity building should result in better economic and trade performance in the future. Bangladesh notes that without relevant skills and policies at the national level improving trade performance is difficult, although it also argues that because of *"the narrow focus [of existing programmes] on policies, regulation and building skills, [they have] yet to achieve the intended results"*. After receiving agriculture upgrading programmes over several years, Senegal and Mali report that exports have increased measurably. Senegal claims that one project has increased horticultural exports from 17.8 tons in 2005 to 32 tons in 2009. Mali reports that upgrading and capacity-building projects have had a direct impact on mango exports which increased from 8.1 tons in 2008 to 10.4 tons in 2010. These examples suggest that well-designed capacity-building projects can help to improve trade performance. However, there is also a risk of linking trade performance too directly with specific capacity-building projects, as argued in Chapter 5 (Box 1), given that so many other variables also influence trade outcomes.

Donors share partner countries' generally positive assessment of capacity-building programmes. For instance, 12 of 13 bilateral donors (Australia, Canada, Finland, France, Germany, Hungary, Ireland, Japan, Korea, Lithuania, Singapore and the United Kingdom) highlight these types of projects, especially those at the firm-level, as examples of successful aid-for-trade activities. Six of 12 multilateral donors (IsDB, UNECA, ITC, IADB, World Bank and EBRD) also single out capacity building projects as an effective means of promoting trade.

There is a measurement problem in assessing trade-related outcomes.

Although aid for trade may have achieved important economic and trade results, countries have had difficulty clearly identifying and measuring them. Croatia, Angola, Gambia, Solomon Islands and Uganda stressed the challenge of measuring the economic and trade impacts of aid for trade given (i) the lack of capacities and tools, and (ii) the difficulty of isolating those results that are directly attributable to specific aid-for-trade programmes or projects. These practical and methodological problems are well recognised by evaluators (see OECD, 2011b for the proceedings of the OECD Experts Workshop), and have already been raised by countries in the 2008 survey.[25]

Nonetheless many partner countries are committed to addressing this challenge. The Expert Group Meeting and Workshop on "Aid for Trade and Africa's Trading Capacity: Supply, Demand and Performance" organised by the ECA in 2010, called for a collaborative approach among donors and partner countries – and in particular more capacity-building support from donors to enable countries to measure the results of aid-for-trade projects.

Better delivery and more dialogue are needed.

Another possible explanation for the gap between expectations and the achieved results is that donors' activities are not sufficiently aligned with partner countries' priorities. Although this chapter, as well as the preceeding chapter, provide ample evidence that donors have made progress in aligning their aid-for-trade activities with countries' national strategies since 2008, there is scope for further improvements. Several partner countries report continued problems with donor alignment. Ethiopia, for example, mentions that the EIF has not yet been implemented. Haiti suggests that several aid-for-trade projects did not actually promote trade. Lao PDR expresss regret about the lack of alignment with its national strategies. Sierra Leone and Saint Lucia note that donors' actions are not sufficiently transparent, and that trade financing is lacking. Despite the improvements in alignement since 2008, it seems that some donors have yet to implement fully the Paris Declaration principles. Lao PDR suggests that in some cases donors continue to at least partially design projects in accordance with their preferences and goals, not the countries' strategies and priorities: *"Overall, the EIF has provided a mechanism to increase national ownership and 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 approach, or to integrate activities with the National Integrated Framework Governance Structure (NIFGS)".*

CONCLUSION

Partner countries mainly want aid for trade to help them diversify and increase exports. They consider economic growth and poverty reduction to be of secondary importance, and pay less attention to trade awareness, aid processes, and the social and environmental dimensions of trade. Exports are the top priority for most partner countries, not so much to further long-term economic growth and poverty reduction, but to solve the immediate problems these countries face – such as a shortfall of foreign receipts which limits investment, employment, private-sector development, and efforts to equalise the trade balance.

What partner countries expect from aid for trade differs slightly from what donors expect. Donors expect aid for trade to foster economic growth and poverty reduction. They pay more attention to increasing the level of existing exports rather than to developing new exports, by helping countries to diversify production, modify their comparative advantages, and branch out into new and more value-added sectors. However, both donors and partners assign importance to trade promotion and overall development objectives.

The partner-country responses reveal a large consensus across every income group and region about the crucial role that complementary policies play in the success of aid for trade – and the need for a more supportive policy environment if overall trade and economic growth objective are to be met. Although partner countries acknowledge the role of supportive macroeconomic policies overall, they view monetary policy as relatively less important than fiscal policy. Structural policies are also considered critical to maximising trade's impact on economic growth. Partner countries identify the regulatory environment and governance issues – more than labour-market policies - as the structural policies that are most central to the success of aid for trade.

The gap between donors' and countries' expectations, as well as the need for more focus on complementary policies, underlines the importance of increased dialogue to enhance mutual understanding of aid-for-trade's objectives and to improve project design. Results also show that multilateral donors and the private sector are more likely to engage in a dialogue with partner countries about complementary policies – and that much more dialogue is needed with non-DAC donors and with providers of South-South co-operation.

More dialogue and better designed complementary policies will help to bridge the existing gap between expectations and the achieved results – as will the broader understanding that trade and economic results take time to achieve. ■

NOTES

1 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.

2 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 Chinese Taipei (Aw *et al.*, 2000).

3 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.

4 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.

5 For partner countries, "increased profile of trade in development strategy" is assimilated as "mainstreaming".

6 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.

7 The Bahamas, Republic of Congo, India, Kyrgyz Republic, Morocco, Sri Lanka, Saint Lucia and Republic of Yemen have not responded to the question. If only countries that have responded to the question are considered, over 92% consider complementary polices as important.

8 Many case studies, including Ebrill *et al.* (1989), Edwards (1993), Foroutan (1993), Rodrik (1989) and Thomas and Nash (1991), analyse specific policy reversals due to macroeconomic imbalances, be they fiscal or related to balance of payments problems.

9 Ebrill *et al.* (1999) as well as the World Bank Independent Evaluation Group (2006) documented cases where trade liberalisation was reversed because of a lack of accompanying fiscal revenue reform.

10 Trade taxes have a narrow base and distort both consumption and production decisions. For details, see Whalley and ab Iowerth (2002) and Farhadian-Lorie and Katz (1988).

11 For more details on the importance of an adequate and predictable exchange rate and its link with balance of payments problem during trade reform, see Edwards (1993), Hallaert (2010), Krueger (1997; 1998; 2011), Panagariya (2004), Wacziarg and Welch (2003), and World Bank Independent Evaluation Group (2006).

12 The role of complementary policies is even clearer when one considers, following Banks and Tumlir (1986), that adjustment costs are not so much the result from the need to adjust but the results of market imperfections that appropriate complementary policies can address.

13 For more details in the role complementary policies in increasing the impact of trade on poverty reduction, see OECD (2011), and Winters *et al.* (2004).

14 Hallaert *et al.* (2011) and the literature on trade and economic growth Chang *et al.* (2009) as well as Bolaky and Freund (2008).

15 For details, see Kaufmann (2009).

16 For more details, see Gomanee *et al.* (2002).

17 Non-DAC providers of development assistance include non-DAC OECD members, major emerging and transition economies, Middle Eastern donors, non-OECD EU members, and other countries from Southeast Asia and Latin America. Source: *Working Party on Aid Effectiveness Special Session with Non-DAC Providers of Development Assistance* OECD, Paris 27 November 2007.

18 Brazil, Oman and Argentina have not responded to the question.

19 Compared to 51% in 2009.

20 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.

21 See OECD (2011). A meta-evaluation on aid for trade commissioned by the OECD, 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."*

22 Six 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 aid-for-trade strategies and programmes.

23 See Chapter 3 for more details. Comments provided by countries stress that this has been permitted through: new or more regular dialogue and consultations 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.

24 In 2008, this was the opinion of almost two-thirds of partner countries.

25 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.

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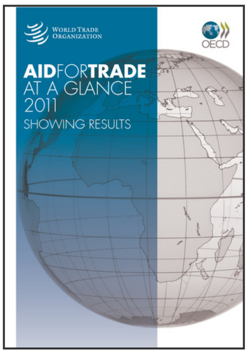

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