

SPECIAL DAC MEETING ON AID FOR TRADE

BACKGROUND NOTE

Organised by the OECD Development Co-operation Directorate

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Thursday 27 October 2005

**ROOM 7
09:30-18:00**

**OECD Headquarters,
19, rue de Franqueville, 75016
Paris, France**

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1. Introduction

1. The deliberations that surrounded the launch of a new round of multilateral trade negotiations in late 2001 showed that development concerns, particularly regarding the need to enhance developing countries' supply side response to trade opportunities, have now moved to the centre stage of the multilateral trading system. In response, commitments to help developing countries overcome their trade-related institutional and human resource capacity gaps became an integral part of the WTO Doha Ministerial Declaration.¹ To assess progress made in implementing the Doha Development Agenda (DDA), including regarding trade related technical assistance and capacity development (TRTA/CB), trade ministers will meet in December 2005 in Hong Kong.

2. In order to contribute to a favourable environment for a successful outcome of the Hong Kong WTO Ministerial Conference, the DAC will discuss aid for trade issues on 27 October 2005. The discussion will focus on two main issues (i) how to improve the effectiveness of aid for trade and the mechanisms to deliver it, in particular the current proposals for further enhancing the Integrated Framework (IF) and (ii) how to leverage resources to support TRTA/CB?²

3. The remainder of this background note is structured as follows:

- *Section 2* provides the context of the aid for trade discussions, in particular, current levels of support (section 2.1) and the rationale for providing aid for trade (section 2.2).
- *Section 3* highlights some of the key elements for a coordinated delivery of TRTA/CB and the operational framework for providing TRTA/CB effectively.
- *Section 4* sets out the challenges in making concrete progress towards assisting developing countries in realising the potential of improved market access.
- *Section 5* lists the key items for discussion and the next steps.
- *Section 6* provides some links to related background information.

2. Context

4. International trade, when coupled with domestic reform, has a key role to play in fostering sustainable economic development, employment opportunities and poverty reduction. This has been illustrated in a number of developing countries that achieved impressive economic growth rates and substantial reductions in poverty. In many other developing countries, however, governments, institutions and enterprises in developing countries often lack the capacities, e.g. information, policies, procedures,

1. WTO/MIN(01)/DEC1 in particular, paragraphs 38 - 41.

2. DCD/DAC/M(2005)8/PROV

institutions and/or infrastructure, to compete effectively in global markets and take full advantage of the opportunities that are provided through international trade. If these developing countries are to maximise the benefits from trade, domestic policy reform and trade related technical assistance and capacity building will be required alongside ambitious international trade reforms.

2.1 Support for trade related technical assistance and capacity development³

5. Since the Doha Ministerial Declaration, the total volume of TRTA/CB has increased steadily to reach USD 3 billion in 2004.

- The volume of aid committed to *trade development*⁴ rose USD200 million, to reach USD2.2 billion in 2004. However, commitments to assist beneficiary countries in the area of *trade policy and regulations*⁵ decreased from USD 935 million to USD 807 million.
- Least Developed Countries represented only 16% of total commitments for support to *trade policy and regulations* and 21% for support to *trade development*, less than their 25% share, in 2003, in both categories, and also much less than their 40% share of total aid.⁶
- Contributions to the TRTA/CB *Trust Funds* (e.g. Joint Integrated Technical Assistance Programme, Integrated Framework Trust Fund, the ITC and the WTO) increased from USD 26 million in 2001 to USD 45 million in 2003 and remained stable at that level in 2004.
- Support for economic infrastructure – particularly transport, energy and telecommunications – which is essential for international trade, increased USD 800 million to reach USD 9.3 billion in 2003.
- In 2003, the respective shares of TRTA/CB and infrastructure in total aid commitments were 4.4% and 25%.⁷

6. Total ODA is projected by the DAC to increase from USD 80 billion in 2004 to USD 130 billion in 2010. An important question is whether the volume of assistance to help developing countries participate more, and more effectively, in international trade can also be reasonably expected to rise in the coming years.

2.2 The rationale to provide aid for trade

7. Aid for trade is increasingly considered as a critical element to successfully complete the DDA. For instance, the need for further increases has been reiterated in the 2004 WTO July Framework

3. 2005 Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building (forthcoming).

4. Defined as support to enterprises that are engaged in trade, to business support structures and to the general business climate

5. Defined as support to help countries negotiate, reform and prepare for closer integration in the multilateral trading system

6. This decrease is largely due to the programming cycle of the main donors – many new multi-year commitments to LDCs were recorded in 2003. It will however be important to continue to review how donors focus their TRTA/CB on the poorest countries in future years.

7. OECD estimate, calculated on sector-allocable ODA. 2004 data are not yet available.

Agreement, with specific references to existing and new commitments.⁸ Although, as shown above, the overall volume has increased in recent years and may continue to do so, there are strong calls for the DDA to be supplemented by a substantial aid for trade package to support developing countries' integration into the global economy.⁹

8. The basic argument to increase the volume of aid for trade and to deliver it more effectively is that strengthening developing countries' abilities to trade constitutes a potentially powerful mechanism to achieve the MDGs. By providing new trading opportunities for competitive suppliers and reducing prices for consumers everywhere, global development prospects will be enhanced, which, in turn, will boost progress towards the Millennium Development Goals.

9. Realising the potential benefits of trade liberalisation requires, however, complementary instruments and additional financing to assist developing countries in:

- Adopting and implementing existing and new WTO obligations.
- Addressing supply side constraints that impede their capacity to take advantage of more open markets. In particular, aid for trade related infrastructure would constitute a major factor in improving the supply-side conditions in developing countries. These issues are, *inter alia*, addressed by the DAC's Poverty Reduction network (POVNET). Its 2005 – 2006 programme of work covers, *inter alia*, infrastructure, agriculture, and private sector development, and their interlinkages.
- In some specific cases assistance may be required to help adjust to revenue losses suffered through cuts in tariff revenues and preference margins, or, more generally, to permit adjustment to increased international competition.

3. A coordinated international response

10. In general, discussions on aid for trade focus on four issues: (i) which activities merit support, (ii) what operational framework would deliver the support most effectively, (iii) what should be the magnitude of support, and (iv) how should support be mobilised?

11. At the September 2005 meeting of the Development Committee, Ministers discussed an IMF/WB staff paper on the Doha Development Round and Aid for Trade.¹⁰ They endorsed the proposal for an enhanced Integrated Framework for Trade-related Technical Assistance [IF],¹¹ including expanding its resources and scope and making it more effective.¹² In addition, they agreed that the enhanced IF will organise the diagnostics on countries' needs for trade capacity building and infrastructure, and the impact

8. WT/L 579

9. See for instance: the G8 Gleneagles summit statement, the UN Millennium Project Task Force on Trade, the UNDP temporary Aid for Trade Fund.

10. DC2005-0016

11. The IF brings together the key multilateral agencies working on trade development issues, e.g. the IMF, ITC, UNCTAD, UNDP, WTO and the World Bank seventeen bilateral donors and LDC governments. The DAC has observer status. The basic purpose of the IF is to integrate trade policy into a country's overall development strategy (the PRSP or equivalent). The current IF Work Plan will terminate on 31 December 2005.

12. Development Committee Communiqué, 25 September 2005.

of preference erosion following multilateral trade liberalisation. Finally, they asked the Bank and the Fund to examine further the adequacy of existing mechanisms to address regional or cross-country aid for trade needs and explore new mechanisms as appropriate.¹³

4. The challenges

12. Despite considerable progress, several challenges remain. Real progress in effectively assisting governments, institutions and enterprises is needed if developing countries are to take full advantage of the opportunities that are provided through improved market access.

i. At the country level, trade needs to be integrated better into national development strategies around which donors can align their support

13. A consultative national policy-making process that ensures a coherent approach to trade policies and its integration in comprehensive development strategies, such as the Poverty Reduction Strategy, is essential.¹⁴ The 2001 DAC Guidelines on Strengthening Trade Capacity for Development emphasis this consultative process as the key requirement to foster an ongoing inclusive trade policy dialogue in which the government, the private sector, academia and civil society identify the supply side and the negotiating agenda that, evidently, should be closely linked. Some examples of best practices are emerging, but the reality is often complex.

14. Consequently, the challenge remains how to meet these conditions. In reality, local capacity and ownership continue to be rather weak in many developing countries. In most cases, the formulation of trade policy is led by the Ministry of Trade, but its capacity is often insufficient to play a leading role in successfully implementing the diagnostics and priority actions resulting from the IF diagnostic process. The limited capacity and prominence of Trade Ministries vis-à-vis more traditional planning ministries often explains the poor reflection of trade and related issues in government development strategies, such as the PRSPs. Wider and stronger local ownership, with forceful political leadership, is essential.

15. A national trade policy process can benefit from involvement of the IF to help with the diagnostics and to provide support for strengthening the ongoing trade policy process. Indeed, the Development Committee paper envisages that part of IF assistance should be allocated to financing stronger local institutions and inter-ministerial systems.¹⁵ Nevertheless, there remains a risk that the IF will become the major external driver of the whole process, which could undermine local ownership and, in turn, aid effectiveness. Consequently, the IF process must pay close attention to the basic principles of aid effectiveness, *e.g.* (i) local ownership, (ii) alignment around national systems and strategies, (ii) harmonised donor efforts, and (iii) management for results.¹⁶

13. Bhagwati and others have expressed disappointment that Ministers did not agree on a multilateral aid for trade fund, see Financial Times, 26 September 2005 “*World Bank funds should be used to lubricate trade liberalisation by developing countries*”.

14. Trade and Structural Adjustment Policies in Developing Countries; A joint contribution of DCD and DEV to the horizontal OECD programme on Trade and Structural Adjustment (OECD DEV Working Paper No.245 at <http://www.oecd.org/dataoecd/50/27/35112784.pdf>

15. DC2005-0016 Annex I

16. 2005 Paris Declaration on Aid Effectiveness and Harmonisation of Donor Practices.

16. In response to these criticisms, the IF Working Group is discussing ways to improve its operation so as to play a more sustained catalytic role in building long term capacity. In particular, the following objectives have been identified:

- Strengthened in-country institutional arrangements and capacity of trade authorities and other stakeholders to integrate trade more comprehensively in national development strategies.
- Greater focus on management for results.
- Increased and more predictable funding.
- Strengthened partnerships to maximize knowledge sharing among participants.

17. Donors are often not focused on the need to provide support for TRTA/CB because of the limited attention accorded to trade in national development strategies. As the World Bank's Operation and Evaluation Department noted many investment and capacity building needs are left unaddressed due to the limited availability of resources. Consequently, implementation actions remain largely short-term in nature.

18. Therefore, a requirement to ensure donor support that adequately responds to the DDA commitments is increased priority among donors to TRTA/CB, both at headquarters and in their field offices. In turn, this priority will facilitate adequate donor support for implementing IF action plans in developing countries that assign a critical role to trade in their national development strategies, or which are moving in that direction.

ii. Leveraging aid to assist developing countries overcome their trade-related institutional and human resource capacity gaps, supply side constraints and manage the adjustment challenge.

19. Initially, trade related technical assistance focussed on helping trade policy making at the national level, participation in WTO negotiations and implementation of WTO agreements. The negotiations on trade facilitation are an example of this type of assistance. Although, developing countries will benefit greatly from introducing trade facilitation measures, most measures call for institutional, human or financial resources, which are often in short supply in developing countries. Building on work by the OECD Trade Committee, the DAC is reviewing donor support for trade facilitation with the aim to strengthen the design, delivery and evaluation of development assistance and agreeing on good practices paper for strengthening trade facilitation capacities in developing countries.¹⁷

20. Over time, this WTO focussed agenda has expanded and now also aims to help developing countries and their private sectors compete successfully in global markets and take full advantage of the opportunities that are provided through international trade. As mentioned above, the September 2005 Development Committee meeting also supported a strengthened framework for assessing adjustment needs so that international financing institutions and donor assistance mechanisms can better utilize that meeting. In addition the Bank and the Fund were urged to better integrate trade-related needs into their support for country programmes.¹⁸

17. DCD/DAC(2005)26

18. Professor Jagdish Bhagwati and others have expressed disappointment that Ministers did not agree on a multilateral aid for trade fund, see Financial Times, 26 September 2005 "World Bank funds should be used to lubricate trade liberalisation by developing countries".

21. The challenge for the aid and trade communities is to use the momentum behind both the DDA and the MDGs to successfully conclude the Doha Round. Evidently, aid for trade should not be used as a compensation for a DDA outcome that falls short of its ambitions. Rather, the Hong Kong Ministerial Conference offers the donor community an opportunity to convey their commitment to provide increased support to those countries that are actively engaged in making trade an engine of economic growth and development. The projected scaling-up of ODA from USD 80 billion in 2004 to USD 130 billion in 2010 offers a new opportunity for doing so.

5. Meeting Agenda and Next Steps

22. The special DAC Aid for Trade meeting on 27 October, with the imminent Hong Kong Ministerial Conference as a backdrop, will provide an opportunity for the bilateral aid community to discuss how to take forward the aid for trade agenda. The meeting will focus on two priority questions:

- How to improve the effectiveness of aid for trade and operational mechanisms to deliver it, in particular through an enhanced the IF.
- How to leverage the prospective increase in ODA to assist developing countries in overcoming their trade-related institutional and human resource capacity gaps and supply side constrains.

23. Based on the discussions and feedback at the meeting, it is proposed to build stronger synergies between work on trade and the broader growth and poverty reduction agenda, including ongoing and future POVNET activities regarding pro-poor growth and infra-structure development.

6. Background documents

The Doha Development Agenda and Aid for Trade, IMF/WB Staff Papers DC2005-0016
at: <http://www.imf.org/external/am/2005/index.htm>

Integrated Frame Work (IF) for Trade Related Technical Assistance for Least Developed Countries:
An IF Manual; Integrating LDCs into the International Trading System, UNCTAD, 2005
at: <http://www.integratedframework.org>

2001 DAC Guidelines on Strengthening Trade Capacity for Development,
at: <http://www.oecd/dac/trade>

Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building
at: <http://www.tcbdb.wto.org>

Making Open Markets Work for Development, OECD Policy Brief 2005 (forthcoming).