

# **OECD POLICY DIALOGUE ON AID FOR TRADE: FROM POLICY TO PRACTICE**

**6-7 NOVEMBER 2006**

## **RAPPORTEUR'S REPORT**

### **Moving From Principles to Practice**

The purpose of this session was to consider how the aid effectiveness principles (contained in the Paris Declaration) could be applied to the Aid for Trade initiative and, relatedly, the ways in which its implementation could be accurately monitored. Three presentations were made in this session, each offering considerable food for thought. The Chair of this session, the Ambassador to the WTO who also chaired the WTO Task Force on Aid for Trade, began the session by noting that there were four steps that needed to be taken to ensure the effectiveness of the Aid for Trade initiative. The steps were: strengthening the recipient or demand side for aid, strengthening the role and procedures of donors, closing the gap between the demand for aid and its availability from donors, and undertaking effective monitoring and evaluation. The chair asked, practically speaking, how was the Aid for Trade initiative to be taken forward. The Paris Declaration provided important guidance in this respect, but much remained to be done. Finally, she observed that this was an excellent opportunity to take the coherence mandate seriously.

The Co-Chair of this session, a senior OECD official, added that Aid for Trade measures are one way to strengthen the linkages between export-led growth and poverty reduction. He also noted the Group of Eight (G8) industrialised countries' July 2005 commitments on debt reduction and aid. For its part the OECD will engage in qualitative and quantitative monitoring of aid commitments and the implementation of related trade projects. In doing so, the OECD contributes to making aid more effective and fosters the sharing of relevant practices and experiences among Member Countries. Like the Chair, he believes that the Paris Declaration is a useful reference point and adherence to it will require donors to change their behaviour. Moreover, the Aid for Trade initiative provides an opportunity to put the Paris Declaration principles into practice. What was needed was the ownership of implementation processes and a communicable vision, not yet more detailed studies.

The first speaker was an official from a European Union Member State and also represented the Presidency of European Union. First, the European Union's approach towards Aid for Trade was described. Participants were reminded that the European Council had issued conclusions on Aid for Trade in December 2005 and October 2006. Together, the European Commission and the 25 Member States had committed to raising their spending on this type of aid project to EUR 2 billion per year by 2010, a substantial share of which would be directed towards the African, Caribbean, and Pacific (ACP) states. A joint Europe-wide strategy on Aid for Trade would be unveiled in 2007 and would seek to strengthen coordination between parties, including the formulation of modalities to that effect, and to identify best practices.

The Aid for Trade initiative is broader than its predecessors and will inevitably become part of the donor-recipient dialogues, he asserted. Furthermore, in his view discussions on Aid for Trade should focus on effectiveness rather than on the additionality of resources or its total volume. The so-called ring-fencing of funds for this initiative was not a good idea either. In the implementation of this initiative strong criteria

should be avoided and so should the creation of parallel institutional structures. Programmatic approaches that emphasise flexibility offer the greatest chance of success.

The next speaker provided a sober account of the different aspects of Aid for Trade and the challenges that are likely to arise from trying to implement this initiative. This speaker drew on his experience as an official at a regional development bank. He started by noting that the term trade infrastructure was very broad and covered many items related to international trade. The overall challenge facing the implementation of Aid for Trade is to align support for this broad-based initiative with the Paris Principles on aid effectiveness. Eight factors were at work here and needed to be taken into account. These factors reflected the fact that the Aid for Trade initiative.

- is a multi-polar strategy with implications at the national, regional, and global level,
- is a multi-sector intervention,
- involves multiple donor mechanisms (which, he noted, at present occasionally generate competition instead of cooperation),
- requires multi-disciplinary expertise to implement,
- needs the participation of multiple stakeholders in design and implementation,
- has multiple objectives (including export diversification, the implementation of WTO agreements, enhancing supply-side capacities, etc.),
- can involve multiple policies associated with national development strategies,
- is expressed in the multiple languages of the aid and trade communities.

The speaker argued that it was necessary to think through how these factors fit together into a coherent programme for Aid for Trade.

The pre-conditions necessary to effectively implement Aid for Trade were also discussed by this speaker. In his view these included the appropriate national or regional institutions, identifiable private sector capacities to develop, a good working relationship between trade and aid experts, and an appropriate knowledge base. With respect to the implementation of this initiative, an important choice had to be made between supporting nationwide reform processes and individual projects. (He favoured the former). Another matter concerned the financial products used, the principal choice being grants versus loans. As to monitoring and evaluation, the former typically involves following the numbers (as he put it), whereas the latter requires careful consideration of the appropriate indicators and benchmarks. All in all, this presentation shed light on many of the practical aspects of implementing the Aid for Trade initiative.

The third speaker, an official at an international non-governmental organisation, made a number of suggestions concerning the implementation of Aid for Trade. First, he argued, this initiative should be clearly uncoupled from the DDA and its implementation certainly should not wait until the conclusion of the DDA. (Such uncoupling was appropriate, he argued, because the Aid for Trade initiative was not part of the Single Undertaking of the Doha Round negotiations.) Second, donors and recipient nations should announce their desire to press ahead with the implementation of this initiative and the Director-General of the WTO should set up an ad-hoc advisory committee on this subject. Third, the resources available for this initiative should be clarified and, in this speaker's view, this might well have ramifications for other discussions in the multilateral trading arena. Fourth, consideration should be given to implementing this

global initiative on a regional basis, taking advantage of the extensive expertise of the relevant regional development bank. Finally, the OECD and the WTO should have a role in monitoring the implementation of the Aid for Trade initiative. He was not persuaded by concerns about such a role for the WTO as its participation will strengthen the incentives of the relevant parties to cooperate and coordinate.

The discussion among participants that followed included some frank remarks about the current implementation of trade-related aid projects. One Ambassador to the WTO from a large African country argued that existing aid programmes often used concerns about national ownership as a pretext for applying pre-conditions. He remarked that some recipients devise their own priorities and that they should be respected by donors. Sometimes donors insist on the creation of a new governmental unit to oversee the implementation of an aid project and over time this unit becomes too close to the donors concerned, he said. Moreover, international consultants were used too often; he feels that national consultants are a preferable alternative. Another Ambassador to the WTO, this time from a LDC, argued that implementation of current aid projects was too disjointed and that a coordinated approach was needed. Concerns about the additionality of resources for the Aid for Trade initiative occupied another Ambassador to the WTO from a LDC. A trade diplomat from a Middle Eastern country sought further clarification as to which countries would be eligible for Aid for Trade support. Would it cover, he asked, all developing countries or just LDCs? As for national ownership, this participant said it was fine in principle. However, each donor has its own constituencies that it caters to and this influences the content of aid programmes.

An official from a development ministry in an industrialised country noted that evaluations of prior trade-related aid projects have not always been good. There was a case for monitoring any new initiatives closely and some type of global monitoring mechanism should be contemplated. A number of other participants stressed the need for careful monitoring and evaluation that went beyond creating databases of information. The matter of creating new vertical funds to support Aid for Trade projects was mentioned, but the stress in discussions was on ensuring additional funds were used to support these initiatives. Another participant said the Paris Principles provided a useful point of departure and wondered if enough thought had been given as to whether donors and recipients' incentives had been aligned appropriately. Involving these parties in national coordinating committees might, it was suggested, help in this regard. However, a different view was held by yet another participant. He thought that while there was a case for coordination, it would not happen automatically. Time was needed to develop the relevant mechanisms and expectations and the sooner the Aid for Trade initiative was implemented the better, so that the process of learning could begin.

The Deputy-Director General of the WTO confirmed their intention to implement the recommendations of the Task Force and highlighted that the recommendations underlined different responsibilities to the different actors of aid-for-trade and in particular, recipient countries, donors, regional banks and multilateral development institutions. She hoped that all these actors were aware and willing to respond to the challenges according to their own comparative advantage. The WTO strength is in providing transparency to the process and their role lies in the monitoring of the aid-for-trade initiative.

Towards the end of this session of the OECD Policy Dialogue the rapporteur gave a preliminary overview of the main finding of this meeting. As this Report supersedes that presentation, no account of it is given here. Some closing remarks were offered by an official from GOIC, the OECD's partner in organising this Policy Dialogue. He noted the widespread agreement among participants as to the developmental significance of the Aid for Trade initiative. The principal challenge now facing stakeholders was to implement this initiative. In this regard, the need to fully engage the private sector and to understand the contribution that it can make to development should be taken on board, he argued. After all, it is principally up to the private sector to seize the opportunities created by trade reform and market opening. Put another way, if firms do not respond to an Aid for Trade project then it is difficult to see how the associated measures could be regarded as a success.

