

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

6-7 NOVEMBER 2006

## RAPPORTEUR'S REPORT

### Closing Remarks

These closing remarks are organised into three parts: (i) a discussion of the matters where there appeared to be a clear sense of agreement, perhaps even consensus; (ii) some thoughts on matters where participants advanced proposals for the implementation of Aid for Trade initiatives that appeared to command less-than-universal agreement; and (iii) some remarks, prompted by reflecting on the contributions, about material choices that lie ahead of countries as the Aid for Trade initiative is implemented.

It is important to start by reiterating just how much agreement, potentially even consensus, there was among participants at this OECD Policy Dialogue. There was a general acceptance of the view that supply-side factors constrain the benefits that developing countries derive from their membership of the WTO and, more broadly, from their integration in the world economy. This is significant as it reinforces the point that material outcomes and not just the nature and adherence to international legal obligations are the metrics upon which the multilateral trading system is evaluated now. Second, it was accepted that sustained efforts should be made to help developing countries overcome these constraints. Specifically, the Aid for Trade Framework articulated by WTO members in Geneva was widely endorsed. Third, a concern for results has raised the profile of aid effectiveness and related matters. To that end it was felt that the principles contained in the Paris Declaration, in particular as they relate to country ownership, should be reflected in the future implementation of Aid for Trade projects. The repeated references to the need for adequate monitoring and evaluation can also be seen in this light. These three fundamental areas of agreement should provide a good foundation for the implementation of the Aid for Trade initiative.

Throughout this Dialogue a number of suggestions for the implementation of Aid for Trade were advanced that may not command as much support as the above propositions. The impression of less-than-universal agreement arose either because some parties stated objections to a given suggestion or because in spite of several statements in support of a suggestion (usually by participants from developing countries) very few similarly fulsome statements were made by other participants (typically from donor countries). The matter of whether additional resources will in fact be devoted to the implementation of Aid for Trade falls very much into the latter category. Moreover, calls for greater coherence among donors were not universally echoed, nor were calls to improve upon the current levels of coordination. Calls for separate funds and institutional mechanisms to implement the Aid for Trade initiative were explicitly rejected by some participants, often with reference to the principles of aid effectiveness. Claims about the future financial allocations for this initiative were also advanced. Irrespective of the latter, the greater attention given to accountability, monitoring, and evaluation in Aid for Trade projects represent a significant departure from the status quo.

Having reflected on the numerous and stimulating contributions to this OECD Policy Dialogue, and noting in particular the desire to implement the Aid for Trade initiative soon, it makes sense to reflect on

three material choices concerning the implications of the WTO Task Force recommendations, as approved by the General Council. These are choices that cannot be avoided, although that does not prevent them from being made effectively by default (that is, by sticking to the *status quo*).

The first matter concerns the definition of projects that can fall under the Aid for Trade umbrella. Given the many domestic factors that determine a developing country's export performance, it is perhaps not surprising that the WTO Task Force recommended an outcome-based definition. What this could mean, for example, is that a project could be eligible for Aid for Trade support if there is a plausible trade-related impact to the project and, given the other potential projects available and the stated priorities of the developing country in question, if the project is likely to make a first-order<sup>1</sup> impact. Therefore, a project should not be supported if there is another project that is plausibly going to have a greater effect on whatever development objectives the country in question deems important (such as employment effects, impact on trade, etc.) This approach would encourage recipients and donors to be clear about the outcomes they seek to achieve and to develop some kind of preliminary and plausible ranking of the impact of different possible Aid for Trade projects. Prioritisation across possible projects would thus be encouraged. This suggestion was prompted by listening to a number of the presenters at this Policy Dialogue who argued that the agricultural sectors in some developing countries were not given the appropriate level of attention by trade policy makers, even though these sectors contributed a large proportion of national export earnings. Surely the design of Aid for Trade initiatives in these countries ought not to automatically exclude the possibility of projects that might enhance exports from one of the largest sectoral contributors to a nation's balance of trade? This approach would be fully compatible with the spirit of the proposed definition in the Task Force recommendation that aid can be considered as Aid for Trade if it is required to implement the trade element of a national development strategy, such as a poverty reduction strategy plan.

The second area where further clarification would be helpful concerns the country eligibility for Aid for Trade initiatives. Eligibility can, of course, be thought of in many ways: absolute eligibility, eligibility for different levels of support etc. However, as participants heard, one African island country whose population in 2005 was less than one and a quarter million people is seeking EUR 2 billion in Aid for Trade support. Given the publicly-stated commitments to Aid for Trade made by industrial countries, should other countries come forward with requests for assistance roughly in proportion to their populations, then there is almost certainly going to be a substantial imbalance between the demand for Aid for Trade support and the funds available to meet them. Either prioritisation happens explicitly, perhaps according to formal criteria, or it will happen informally. The drawback of the latter is that it is likely to generate mutual distrust among nations. (Although in the interests of balance it could be argued that such an imbalance is the consequence of many more countries making trade a priority for their national development strategies). The difficulty with the former is that it probably implies creating some sort of a vertical fund arrangement where financial allocations do not respond to country-owned priorities and strategies but to a set of objective criteria independent of recipient nation policy processes.

The third matter policy makers may want to dwell on is the prospect and advisability of sequential implementation of the Aid for Trade initiative. It is not apparent that every donor and every recipient country is currently ready to implement this initiative on similar terms. Waiting for consensus to emerge on the details of implementing this initiative and waiting for every developing country to assemble their proposals for support is probably impractical and will not satisfy those who do not want to wait. Sequential implementation, therefore, seems the likely outcome and it might be worth dwelling on what this is likely to mean. On the positive side, as noted by one presenter, having some countries forge ahead might yield many lessons about what mistakes to avoid and what practices to adopt, which later projects can take account of. The downside, however, is that the much sought-after coordination between donors is less likely to happen if some are moving ahead faster than others. Moreover, to the extent that mechanisms to

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<sup>1</sup> Note the term "first-order impact" does not necessarily mean maximum impact.

foster coordination and cooperation are not used, then donors are less likely to amend their operating procedures, which a number of developing country participants at this Policy Dialogue expressed concerns about. Furthermore, as some receive Aid for Trade support the developing countries that do not may feel increasingly anxious that available funds are being used up and that commitments made in 2005 and 2006 to fund the Aid for Trade initiative are hollow, a perception that might create disenchantment among developing countries with the multilateral trading system. In short, much hinges on how the Aid for Trade initiative is to be implemented and policy makers should consider how the almost inevitable piecemeal implementation of this initiative can advance in such a way that maximises the benefits and mitigates the downside risks.