

Introduction

Putting a Spotlight on Aid for Trade

Assistance to build supply-side capacity in developing countries has a long history. Each year, around a fifth of Official Development Assistance (ODA) is dedicated to building supply-side capacities including those needed to engage in international trade in low and middle income countries. However, reviews of a number of bilateral donor and multilateral agencies' evaluations show that direct effects on raising export competitiveness have been difficult to substantiate. Yet, knowledge on the effectiveness and the impact of trade-related assistance is of great urgency if donor and partner countries want to raise the profile of aid for trade in their development strategies. Creating effective aid-for-trade programmes requires that they are designed and managed with clear and specific objectives. This, in turn, demands a system of mutual accountability between donors and partner countries.

This logic is also the basis of the World Trade Organization (WTO) Aid for Trade Task Force Recommendations. In order to enhance the credibility of aid for trade the Task Force recommended that two accountability mechanisms be established: one at a national or regional level and one at a global level. Once these are operational, strengthened aid-for-trade structures within countries should improve local ownership and management for results. The periodic WTO Global aid-for-trade reviews, and their corrective feedbacks, will help to ensure that locally identified needs – whether financial or performance related – are addressed.

This introductory chapter describes the aid-for-trade monitoring framework that has been jointly developed by the WTO and the Organisation for Economic Co-operation and Development (OECD) to provide an accountability mechanism at global level. It starts by setting out the monitoring objectives. Next, it elaborates the three-tiered approach to elicit qualitative and quantitative information from donors and recipients.

Strengthening mutual accountability

Aid is not a new subject in the General Agreement on Tariffs and Trade (GATT)/WTO. The key innovation of aid for trade is, however, the introduction of a monitoring framework in the WTO. It is likely that this reporting process will raise awareness and facilitate the mainstreaming of trade in development strategies. For countries with already high levels of awareness, the process should generate more actionable results such as better tracking of aid flows, stronger involvement of stakeholders in the prioritisation and implementation process, country ownership, prioritised and budgeted action.

Embedding the monitoring of aid for trade in the WTO offers a unique opportunity to reinforce mutual accountability and engineer a step-increase in aid effectiveness. By putting a spotlight on aid for trade, the WTO/OECD monitoring mechanism aims to achieve four key objectives:

- i) Raise awareness among aid and trade administrations in both donor and partner countries about the potential gains in economic growth and poverty reduction that could be obtained when trade-related supply-side capacity constraints are addressed.
- ii) Enhance transparency on aid targeted at helping developing countries build their productive and supply-side capacities to benefit from trade.
- iii) Improve the quality of aid for trade by providing incentives to donors and partners to better apply the principles of the Paris Declaration on Aid Effectiveness and in particular to focus on results and creating quality improvement loops through the dissemination of lessons of experience, best practices, shortcomings, and providing incentives for corrective actions.
- iv) Establish a clear link between “demand” and “response” of aid for trade at country, regional and global levels.

The WTO aid-for-trade reviews will also provide a visible platform for other interested parties, such as non-governmental organisations (NGOs), academics, businesses, and the press, to get involved and increase peer pressure among donors and partner countries. Over time, the WTO aid-for-trade monitoring mechanism should evolve to become an effective and highly visible platform that donors and partners can use to analyse results and disseminate best practice.

A three-tiered monitoring framework

The WTO Task Force on Aid for Trade noted that “additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid for Trade mandate”. In addition, it recommended that “in order to measure additionality and the adequacy of funding available to meet the Aid for Trade needs of developing countries, including those associated with a successful completion of the Doha Development Agenda, an account of what is being done today needs to be established as part of that process”.¹

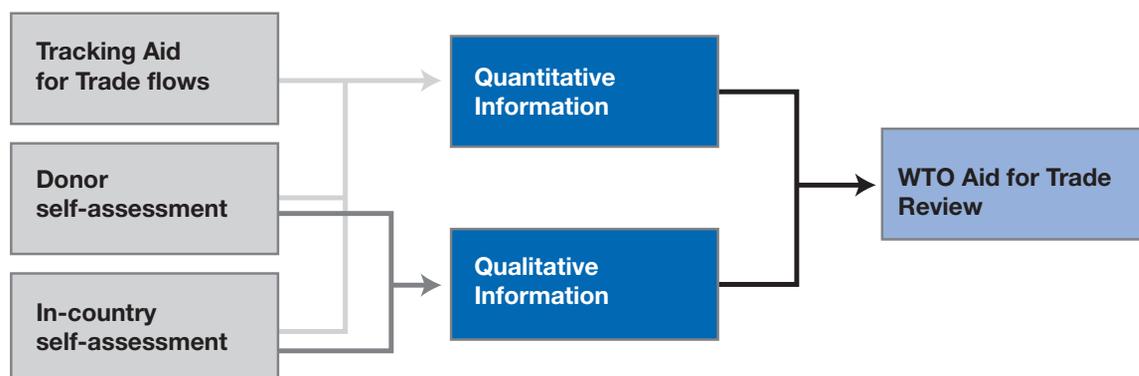
The Task Force underscored that all providers and recipients of aid for trade have a responsibility to report on progress and results, and to increase confidence that aid for trade will be delivered and used effectively. Donors were invited to report, among other things, on the volume of funds dedicated to aid for trade, how they intend to meet announced aid-for-trade targets, the forms of aid for trade they support, and progress in mainstreaming trade into aid programming. Partner countries were invited to report on various issues including trade mainstreaming in national development strategies, the formulation of trade strategies, aid-for-trade needs, donor responses, implementation and impact.

The OECD and the WTO have collaborated closely in setting up an aid-for-trade monitoring framework. This framework aims to elicit critical quantitative and qualitative information from donor agencies and their partner countries to provide a comprehensive picture of aid for trade and allow the international community to assess what is happening, what is not, and where improvements are needed.

1. See WTO DG report to the General Council [JOB(06)262].

A three-tiered system (e.g. global, donor and partner country tiers) has been developed for the monitoring of aid for trade, as depicted in Figure 1.

Figure 1. The three-tiered aid-for-trade monitoring framework



Each tier performs a distinct function, as follows:

- i) The first tier provides a global picture of annual aid-for-trade flows based on statistical data from the OECD/Development Assistance Committee (DAC) Creditor Reporting System (CRS) database. Clearly, data on global flows are important in order to assess whether additional resources are made available, to help identify where funding gaps remain, to highlight where resource reallocation might be appropriate, and to increase transparency on pledges and disbursements. The results of the first tier monitoring are set out in Chapter 1.
- ii) The second tier relies on donor self-evaluation. In seeking specific inputs from donors, this level of reporting allows for refining the quantifications of aid for trade derived from the CRS database. In addition, this second tier of monitoring also aims to uncover qualitative information on best practices and how, in the case of aid for trade, donors adhere to the principles of the Paris Declaration on Aid Effectiveness. The results of the second tier monitoring are highlighted in Chapter 2.
- iii) The third tier relies on self-assessments provided by partner countries. This tier allows partner countries to define which activities in their national development strategies are identified as trade development priorities. As such, it permits partner countries to refine the quantification of aid for trade. It also elicits additional qualitative information on how partner countries adhere to the principles of the Paris Declaration on Aid Effectiveness. The results of the third tier monitoring are discussed in Chapter 3.

The monitoring system offers both quantitative and qualitative information. The quantitative information is extracted from the Creditor Reporting System database and further refined by donor and partner countries (see the discussion of methodology in Annex II). The qualitative information is obtained through two structured questionnaires tailored to the donor community and to partner countries. Each questionnaire is organised around four themes:

- What is your aid-for-trade strategy?
- How much aid for trade do you provide/receive?
- How do you implement your strategy?
- And do you participate in mutual accountability arrangements?

Under each theme, questions are designed to elicit information to improve trade development strategies, better identify the gaps between needs and actual support, encourage a more precise tracking of aid for trade, reduce aid for trade transaction costs, and better assess impacts (see the OECD/WTO Questionnaires on Aid for Trade in Annex IV).

Monitoring the delivery and impact of aid in intergovernmental organisation not primarily focussed on development is a unique form of mutual accountability. It will force aid agencies to show results to their colleagues in trade ministries. In partner countries, it will enable trade ministries enabled to push for trade as a priority in national development plans. In short, monitoring aid for trade will provide incentives for strengthened inter-ministerial co-operation in both donor and partner countries. At a global level, it will help to focus efforts of donors and partner countries to focus on those areas where the potential impact of providing aid to address binding constraints to trade is largest.

Developing a credible monitoring mechanism is work-in-progress. It is important that monitoring does not become a passive activity but is complemented and reinforced by an active review process that promotes change by submitting feedback to donor and partner countries, providing an environment for dialogue, knowledge-sharing, exchange of best practices and information on unfunded trade-related priorities and available donor funding. This report provides a spotlight on aid for trade. The next monitoring report will provide more in-depth analysis of aid-for-trade efforts at country level, and best practices as well as more comparable data on aid-for-trade delivery practices across donor and partner countries.