Chapter 2
Donor Strategies, Policies and Practices

1. Introduction

This chapter reflects donors' thinking and practice, both strategic and operational, on aid for trade. It summarises key findings in the responses to the aid-for-trade questionnaire sent to donor agencies as part of the first WTO/OECD exercise to monitor aid for trade. The chapter is based on replies from 26 countries as well as 13 multilateral, regional or global organisations, who together provide over 90% of global aid-for-trade flows.[11]

The donor responses to the questionnaire form one of the three tiers of the aid-for-trade monitoring framework. The overarching aim of the questionnaire was to serve as a tool for raising awareness and improving the delivery and effectiveness of aid for trade. This was to be achieved by: gauging broad trends in strategy and likely future financial commitments; refining information on aid-for-trade flows; and obtaining qualitative information on the ways in which donors apply the principles of the Paris Declaration on Aid Effectiveness in their aid-for-trade programmes.[12]

Because the questions were open-ended, they have sometimes been answered in different ways by different donors, varying in terms of both detail and focus. Carrying out the monitoring survey in this fashion has served the intended purpose of developing a broad panorama on donors' objectives for and implementation of aid for trade.

The responses are presented in their entirety, barring a small number of statistical contributions, in the second part of the Report; *Aid for Trade at a Glance 2007: Country & Agency Chapters*. At the outset, it is important to note the manner in which the donor responses are summarised below. This document gives a narrative synthesis of the recurrent features in donors' replies, but it does not

11. These are: Australia, Austria, Belgium, Chile, the Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Lithuania, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Latvia replied that to date it has not provided aid for trade. The multilateral, global or regional institutions responding by 29 October were: the Agency for International Trade Information and Cooperation (AITIC), the Asian Development Bank (ADB), the Asia Pacific Economic Co-operation Secretariat (APEC), the Economic and Social Commission for Asia and the Pacific (ESCAP), the European Bank for Reconstruction and Development (EBRD), the European Commission, the Food and Agriculture Organisation of the United Nations (FAO), the Inter-American Development Bank (IADB), the International Monetary Fund (IMF), the International Trade Centre UNCTAD/WTO (ITC), the Islamic Development Bank, the United Nations Development Programme (UNDP), and the World Bank.
12. The questionnaire was developed in consultation with an international expert group comprising representatives of bilateral and multilateral agencies and partner countries. It was sent to donors with an official letter from the OECD Secretary-General Angel Gurría and the WTO Director General Pascal Lamy and was accompanied by a profile of each donor's aid-for-trade commitments drawn from the OECD Creditor Reporting System database.

tabulate or rank these replies. This reflects the fact that the survey did not aim to derive quantitative indicators of donor practices, to be compared across countries, agencies or time.

The summary is organised sequentially, following the order in which the questions were posed in the questionnaire. For ease of reference, the questions themselves have been reproduced above each subsection of the summary.

2. What are the strategies and priorities?

Most donors have or are developing aid-for-trade strategies

Almost all donors possess, or will shortly possess, an aid-for-trade strategy. European Union (EU) countries are generally aligning their strategies with the new Joint EU Aid for Trade Strategy. By adopting the Council Conclusion on Aid for Trade in October 2006, EU members collectively decided to create the Joint EU Aid for Trade Strategy as a guiding document for both the Community and its Member States. As described in the European Commission's response, the strategy – formally adopted in October 2007 – specifies short and medium-term priority actions based on four core components: i) increasing the collective volumes of EU aid for trade; ii) enhancing the pro-poor focus and quality of EU aid for trade; iii) supporting effective aid-for-trade monitoring and reporting; and iv) increasing EU-wide and Member States' capacities as donors, in line with globally agreed aid effectiveness principles.

The strategies are sometimes enshrined in a single policy document. Denmark, for instance, adopted the strategy *Trade, Growth and Development* in June 2005. Finland adopted a policy paper - *Supporting Developing Countries' Trade Capacity in Finnish Development Co-operation* - focusing on scaling up and mainstreaming aid for trade. Sweden has its *Plan for Trade-Related Development Co-operation*. In other countries, such as the Czech Republic and Ireland, and in the Food and Agricultural Organization of the United Nations (FAO), a strategy is either under preparation or foreseen.

In some cases - such as Germany and Spain - donor strategies are perhaps best described as implicit. No single overarching policy or strategy document exists, but support for trade is expressed in many aspects of an agency's work, from aid for agriculture and infrastructure to support for private sector development. Sometimes an agency-wide strategy paper on development co-operation overall has trade as a core component. This is the case with the Australian Government White Paper *Australian Aid: Promoting Growth and Stability*, Japan's ODA Charter (as well as its *Development Initiative for Trade*), and the United States' 2006 *New Strategic Framework for Foreign Assistance*, which builds on two documents setting out the US trade capacity building strategy (*i.e. Participation, Empowerment, Partnership: Seeking Sustainable Results through U.S. Trade Capacity Building* and *Improving Lives through Trade and Aid*). Similarly, in Austria, for the first time, a chapter on aid for trade will appear in the *Three-Year Programme on Austrian Development Policy (2007-2009)*.

Recurring strategic goals described in the donors' responses include:

- Enhancing inter-Ministerial consultation, a goal referred to by France, Japan, and the United Kingdom, as well as the United States where more than twenty government agencies provide assistance related to trade.

- Contributing to the MDGs and in particular to poverty reduction (for example Chile, Denmark, European Commission, the Inter-American Development Bank (IADB), the Islamic Development Bank, Lithuania, the Netherlands, the World Bank).

- Increasing capacities in partner countries and regional entities to identify trade-related needs and formulate policy (Australia, France, the IADB, Japan, Korea, the World Bank).

- Strengthening economic and institutional fundamentals affecting private sector development (noted in particular by the ADB, the European Bank for Reconstruction and Development (EBRD), Finland, Portugal, United Nations Development Programme (UNDP) and the United Kingdom).

- Improving market access for developing countries and achieving a successful conclusion to the Doha Round and the development of trade rules propitious for the poorest countries (Australia, the IADB, New Zealand, the World Bank).

- Implementation costs and WTO accession. The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) notes, for instance, that as most countries who are not yet members of WTO are located in the ESCAP region, a part of its strategy is to help these countries achieve WTO membership and, after accession, to implement their WTO commitments.

- While the IMF does not have an explicit aid-for-trade strategy, it does operate two financing instruments that can be tailored specifically to trade liberalisation. The first, the Trade Integration Mechanism (TIM), can assist countries in need of balance of payments support following liberalisation. The second, the Exogenous Shocks Facility (ESF), can provide concessional financing to low-income members affected by trade or other exogenous shocks.

- Trade facilitation and the general development of supply-side capacities (Australia, the IADB, Japan, the World Bank).

Other less-frequently mentioned strategy goals include; implementing environmental and social criteria within trade (the Netherlands, New Zealand, Norway, Switzerland); supporting a range of programmes around trade, in particular commodities (Switzerland); and working actively with industry in partner countries (Sweden). While engaged in diverse activities, the Singapore Cooperation Programme focuses heavily on the development of human resources. In addition, Chile noted its engagement in triangular co-operation channelling financial resources and knowledge from developed to developing countries while adding Chilean know-how and best practices.

Strategies have evolved since the 2005 WTO Ministerial Conference

Some of the strategies described above – such as Japan's Development Initiative for Trade and the work of the ADB and the IADB – predate the December 2005 WTO Ministerial Conference. However, some strategies have been formulated recently in direct response to the Conference. This is the case for instance for the EU and its Members States which have engaged together in developing a comprehensive joint strategy in response to the 2006 WTO Aid for Trade Task Force recommendations. It is also the case with Finland's strategy paper, adopted in May 2006.

Similarly, a commitment to providing trade-related assistance is reinforced in New Zealand's *Growth and Livelihoods Strategy*, which is currently being finalised. France describes a wide-ranging set of initiatives taken since the Hong Kong Ministerial Conference. These include: the engagement of a wider set of domestic public institutions in trade-related work; the strengthening of financial instruments; and the reshaping and renewal for three years, with a budget of EUR 25 million, of its national Programme for the Strengthening of Trade Capacities (PRCC).

Few donors noted a change in the overarching strategic goals pursuant to the WTO Ministerial Conference. Rather, change is represented by greater budgetary commitment, institutional focus and

purpose. For instance, Australia's aid-for-trade commitments will be increasing from approximately AUD 154 million in 2006-07 to approximately AUD 325 million per year over the next three years. Luxembourg's spending on aid for trade is set to rise from EUR 450,000 in 2006 to EUR 2 million a year in 2007. Sweden's budget for trade-related co-operation doubled from 2006 to 2007. Spain reinforced its interdepartmental co-ordination in the area of trade and development, with work on aid for trade now being followed jointly by the Ministries of Trade and Foreign Affairs and Co-operation.

Regional challenges are increasingly addressed

Almost unanimously, donors stated that regional-level strategies are critical. Regional and sub-regional approaches to aid for trade are natural for regional development institutions such as the IADB where a *Regional Integration Strategy* is one of the four pillars of its institutional strategy. The European Commission noted regional integration as a central feature of EU development co-operation, as evidenced in the *Cotonou Agreement* and forthcoming *Economic Partnership Agreements*. A number of EU Members underscored the importance of the prominent regional focus contained in the recently adopted Joint EU Strategy on Aid for Trade. The Czech Republic will concentrate support on eight priority countries, attending to cross-border and regional issues affecting those countries. Cross-border issues are emerging as an important part of UNDP's trade programmes throughout Africa, Asia and the Pacific, Arab states and the countries in transition. In trade-related lending, the ADB, as a part of its Regional Cooperation and Integration strategy, focuses on projects that have a regional dimension.

The European Commission considered that programming and delivering at a regional level are not different in nature from the national level in that the same aid effectiveness principles need to be applied. The World Bank and Germany responded that working at the regional level poses particular challenges. However, only a minority of the donors' responses spelled out how they address such challenges. Examples of regional-level approaches and activities described include the following:

- The IADB conceptualised jointly with the ADB and then implemented a pioneer programme aimed at financing the provision of regional public goods.

- Japan referred to a goal of realising successful regional integration in Asia and the Pacific.

- The United States is working to create regional Hubs for Global Competitiveness to support trade capacity building in sub-Saharan Africa. Responding to region-specific needs, the Hubs have a multidisciplinary staff from a number of US government agencies working in trade-related fields.

- Some donors noted a natural geographic focus to their regional priorities, *e.g.* Australia and New Zealand. Australia highlighted a wide range of regional programmes, including targeted economic policy research aimed at prioritising economic integration issues in ASEAN, to a variety of trade facilitation and capacity building programmes, to support for the Pacific Islands Trade and Investment Commission in Sydney.

- The ITC's work with regional economic co-operation organisations, places emphasis on networking and value-chain development among private enterprises. Switzerland is strengthening regional institutions such as the Trade Law Centre for Southern Africa. The FAO is working on programmes that are inherently regional, dealing for instance with issues of trans-boundary diseases affecting livestock.

- The EBRD focuses its work at the regional level on trade finance, working with banks at both ends of transactions and reducing the risk of trade finance instruments.

- Italy gives a practical example of regional aid for trade referring to "the creation of a regional network to support family enterprises producing coffee in Central America and the Caribbean. The programme will help the countries involved to define a strategy for both trading and marketing coffee production. The general idea is to support both quality and the production of typical regional products."

- Belgium noted its financial support for a UNDP initiative to strengthen trade capacities in Africa, a programme that has regional integration at its core and which helps train trade negotiators in the context of Economic Partnership Agreements with the EU.

3. Are commitments increasing?

Most agencies adhere to the aid-for-trade definition of the WTO Task Force

The recommendations of the WTO Task Force on the definition of aid for trade are endorsed by most donors. The following additional qualifications were noted.

- The European Commission acknowledges this definition, but noted that detailed recording guidance on these categories is still being developed. For reporting on its pledges the European Commission uses the category Trade Related Assistance (comprising trade policy and regulation and trade development).

- The United Kingdom counts all bilateral expenditure focused on trade, investment and private sector development, while Germany questioned the rationale for distinguishing aid-for-trade activities from other growth-promoting ODA, especially given that reporting carries costs. Sweden defines its trade support as comprising aid for Trade Policy and Regulations, and Trade Development, but also funds activities under other categories, and considers that – in line with the Task Force definition – programmes should be considered as aid for trade if they have been identified as trade-related development priorities in the country's national development strategy.

- The United States defines Trade Capacity Building activities in the areas of policy, human resources, institutional infrastructure and physical infrastructure as those designed to promote trade and/or with a direct link to promoting a country's ability to conduct trade within the international trading system. This comprises a wider range of categories than those included in the global monitoring based on the OECD CRS, but includes only those activities that are explicitly targeted at increasing trade capacity.

- Japan adopts an encompassing approach that covers a range of activities relating to development needs at three stages: production, selling and buying. These activities are not confined to particular sectors. Japan also considers that general budget support should not be included as a proxy in the measurement of aid-for-trade volumes.

- The World Bank and the IADB include other activities beyond those reported under the OECD's CRS, including analytical work in assessing trade performance and making the case for trade reform.

- New Zealand uses a more restrictive definition, excluding general budget support as a proxy for trade-related structural adjustment in its definition, but cited work that its support is aimed at promoting environmentally sustainable production as well as the promotion of fair trade by building domestic consumer awareness.

Few donors can identify the aid-for-trade share in individual projects and programmes

A range of approaches exists for accounting for aid for trade in official statistics. The diversity illustrates some of the well-known difficulties in accurately estimating global volumes of aid for trade. Many aid-related statistical practices (such as in Austria, Portugal and FAO) do not possess the distinctions necessary to record precisely the trade element in projects with both trade and non-trade components. Specific responses were:

- The World Bank and the IADB code and weight the trade-related components of all their technical assistance programmes and lending. Both Banks count both concessional and non-concessional projects. This gives rise to large differences between the figures reported by these Banks and those in the CRS. For example, in the case of the World Bank, if 100% of the value of the Bank IDA concessional projects with a trade theme were counted as trade-related lending, instead of only the portion related to trade, the volume would rise from USD 569 million to USD 2 billion in fiscal year 2007.

- The United States captures all its Trade Capacity Building spending at the activity level which allows the separation of aid-for-trade components in projects. This system operates across activities implemented by numerous agencies engaged with aid for trade.

- Ireland applies a weight of 100%, 75%, 50% or 25% depending on the scale of the trade element in projects/programmes, while Finland uses a single purpose code, such that the aid-for-trade share of individual projects or programmes is either 100% or 0%. A similar binary-type classification is used by the ADB and Belgium, where projects are considered either as an aid-for-trade activity or not.

- The United Kingdom sees aid for trade as a framework rather than a new programme or sector. It is currently aligning its input sector codes to those of the OECD's CRS.

Most agencies consider CRS data as an acceptable proxy for their aid-for-trade flows

Responses to the question on financial commitments took different forms. Some donors reported on commitments under all the Task Force categories, others – such as the European Commission and Germany – reported on the categories of TPR and TD. Various donors provided no data, while the Czech Republic could provide some data for 2006, but no data for the years 2002-05. The United Kingdom reported on disbursements but not commitments (due to a change in its internal reporting procedures).

Australia, Austria, Finland, Germany, Portugal, New Zealand, the Netherlands and Sweden accepted (almost) exactly the data provided in the OECD CRS profile that accompanied the questionnaire. Spain agrees with the data on TD, but there is a divergence on TPR figures. However, within a given category of aid-for-trade spending, where divergences exist between what donors report and the CRS profile, this usually reflects reporting issues, rather than an assessment of the trade element in programmes having trade and non-trade components.

The two main exceptions here are the reports from the United States and the World Bank. The United States notes, "only a small portion of U.S. funding for infrastructure projects" is directly trade related, and thus included as aid for trade. Indeed, the submitted data on "trade-related physical infrastructure development", at USD 346 million in 2005, are significantly below the CRS figure of USD 1.8 billion. Similarly, the World Bank data, showing total aid for trade at USD 351 million in 2005, are significantly below the total of the CRS aid-for-trade proxies (USD 2.7 billion). This divergence in

part reflects a series of complex reporting issues. But it also highlights that the CRS data are proxies that undoubtedly overstate the true volume of aid for trade, whereas the World Bank data seek to specifically identify the trade-component of aid projects.

The responses from both the United States and the World Bank suggest that accurate quantification of global aid-for-trade flows would result in a sizeable downward adjustment of the CRS proxies. To do so would require the identification of trade-specific elements in programmes by a large number of donors (who currently lack the necessary statistical capacity). Consequently, for the time being, the CRS proxies will continue to represent the best quantification of aid for trade for most individual donors.

Donors reconfirmed their Hong Kong pledges and others are increasing spending

- The United States confirmed its announcement in Hong Kong of plans to more than double its contribution to global aid for trade, from USD 1.3 billion in 2005 to USD 2.7 billion by 2010.

- Japan confirmed its Hong Kong pledge of providing USD 10 billion in financial assistance in trade, production and distribution-related infrastructure over the period 2006–08.

- The European Commission confirmed its Hong Kong pledge of increasing assistance to trade policies and regulation and trade development to EUR 1 billion annually by 2010.

A number of European Union countries noted that the recently adopted *Joint EU Aid for Trade Strategy* reconfirms a collective pledge to raise Member States' spending on Trade Related Technical Assistance and Capacity Building to EUR 1 billion per annum by 2010 (a pledge that originally dates from the Hong Kong WTO Ministerial Conference). This target would imply that Members' collective commitment should rise to at least EUR 600 million in 2008. The EU Strategy will also seek to ensure that, by 2010, the increase in total expenditure on trade development is not undertaken at the expense of the overlapping aid-for-trade category "building productive capacity".

The United Kingdom has pledged to increase its bilateral trade-related assistance to GBP 100 million per year by 2010, while Finland has pledged to increase its trade-related assistance to 2% of Finnish ODA by 2010 (*i.e.* from approximately EUR 5.8 million in 2004 to EUR 15 million in 2010). Denmark pledged and disbursed DKK 37 million (EUR 4.8 million) for multilateral agencies in 2006. In addition, in Ireland's *White Paper on Irish Aid,* a commitment was given to increase funding for multilateral aid-for-trade initiatives. In May 2007 Australia committed AUD 505 million to a major new infrastructure initiative. AUD 328 million were committed to the Eastern Indonesia National Roads Improvement Project, which commenced in March 2006. Korea has pledged support for the Enhanced Integrated Framework (EIF) and a range of bilateral and multilateral programmes. Norway intends to increase support for trade from 2008 onwards. No new pledges were made by Austria, the Czech Republic, Germany, the Netherlands, Spain, Sweden and Portugal.

Few donors have precise medium-term financial plans for aid for trade

On the condition that trade is mainstreamed in partner countries' development strategies, a large set of donors foresee growth in aid-for-trade budgets over the medium term, even if in most cases precise data on volumes are not yet available, as for instance with the Czech Republic, New Zealand, the Netherlands, Norway and Spain. The World Bank only has an indicative 2-year programme of lending, while the German Ministry for Economic Cooperation and Development is not permitted to make financial plans beyond three years. The EBRD notes that demand for services under its trade-finance programme is market driven. Demand for investment service linked to cross-border infrastructure

is projected to rise in the coming years. The Inter-American Development Bank (IADB) notes as a serious challenge the limited availability of grant funding for trade-related assistance for middle-income countries.

The response from ADB, Portugal and Finland was that they have no defined medium-term financial plan for aid for trade. Australia, however, has precise projections, with spending of AUD 279 million foreseen in 2010-11. Denmark will maintain multilateral assistance at DKK 55 million (EUR 7.1 million) annually for the period 2007-11, and foresees annual disbursements in Africa alone of DKK 200-300 million over the medium-term. The ITC also specifies that its financial delivery projection in 2009 is USD 60 million, more than double the 2006 level of aid-for-trade implementation. Similarly, the Swiss budget for trade-related co-operation is set to rise from CHF 50 million in 2006 to over CHF 75 million in 2010.

4. Is the Paris Declaration on Aid Effectiveness adhered to?

Trade is being mainstreamed in aid programmes

Almost all donors stressed that the principle of developing programmes based on country demand – through a process of dialogue - is the primary guide for country-level operations. Some agencies have an official policy document giving guidance on trade mainstreaming. For instance, this is the case with the Joint World Bank-IMF Development Committee Communiqué, issued in April 2006, asking the IMF and Bank staff to deepen their work to integrate trade-related needs into country programmes. In the case of the European Commission, general programming guidelines are complemented by sector-specific guidelines, including on linking trade with development.

The United States described a high-level co-ordination process aimed at ensuring effective mainstreaming of aid for trade in overall development strategy. This involves co-ordination through the new office of the Director of Foreign Assistance, in the State Department, who consults closely with the United States' Trade Representative and other trade and development agencies in formulating the President's annual Foreign Assistance budget proposal to the Congress.

Finland operates an interdepartmental trade and development network, which also serves as a forum for recurrent follow-up of the evolving aid-for-trade agenda. Germany's response provides a comprehensive picture of aid-for-trade programming that builds on the work of a team of trade advisors networking closely with implementation agencies on a range of topics such as Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Economic Partnership Agreements (EPAs), all allied to a policy-oriented research programme. Various donors, such as the United Kingdom and New Zealand, mentioned the importance of an inter-agency division of labour in the provision of aid for trade. In this connection, New Zealand notes that it would not expect to support trade-related activities in all partner countries given the New Zealand Agency for International Development's (NZAID) small size.

In-house expertise is being strengthened

The majority of donors have bolstered in-house capacities, to different degrees and in different ways. For example, the IADB has created a special integration and trade sector as one of its four core activities. Spain has enhanced exchanges between in-house experts –for instance in statistics, international finance and evaluation – in order to apply a wider set of skills on aid-for-trade themes. Switzerland has created a high-level task force bringing together the different governmental entities responsible for development issues. The Swedish International Development Agency (SIDA) has entered into inter-agency agreements with the National Board of Trade and the Swedish Energy Agency, and discussions

on similar agreements are underway with Swedish Customs and the Board of Agriculture. Japan has an inter-ministerial mechanism for ODA policy co-ordination, including in the area of aid for trade. France has initiated new in-house programmes of training and research. In the United Kingdom, a new Trade Policy Unit has been formed bringing together teams formerly located in the Department for International Development (DFID) and other parts of government working on trade. The Netherlands has had, since 2000, a dedicated staff of six assigned to aid for trade.

Similarly, in the United States, inter-agency working groups, co-ordinated by the Office of the US Trade Representative, help draw in appropriate expertise from a broad array of government bodies. Furthermore, the United States Agency for International Development (USAID) has a cadre of economic growth officers in the field and a trade team based in Washington.

The European Commission has strengthened in-house expertise in headquarters and in delegations both by increasing the number of staff and by reinforcing linkages between staff. For instance, in all concerned Directorate Generals (DGs), specific trade and development units are in place. Furthermore, the European Commission organises direct and on-line training courses on aid for trade for staff in Delegations and Head Offices. In all the concerned European Commission DGs, specific trade and development units are put in place.

The World Bank's Trade Department has been engaging with country and sector teams to strengthen cross-sectoral expertise in various trade-related areas in order to strengthen the Bank's engagement on trade issues. By comparison, Austria, the Czech Republic, Korea, Norway and Portugal note that they have not strengthened in-house capacities. However, Korea is seeking to strengthen ties with a variety of development agencies and research bodies as a means of increasing in-house capacities. Capacities are under review in the ADB, Ireland and Italy.

Partner country ownership is considered essential

Nearly all agencies highlight that they align country-level programmes with the development strategies of partner countries, and that it is therefore the responsibility of partners to properly reflect trade priorities in national development strategies. For the Agency for International Trade Information and Co-operation (AITIC), raising awareness of the importance of the trade dimension in national development plans is central to its institutional mandate. The European Commission, Finland and the IADB raise aid for trade consistently in their policy dialogue with partner countries.

Japan noted that their partners usually place emphasis on trade development components, in particular the development of economic infrastructure and building of productive capacity. However, New Zealand recalled that even when trade is not a clearly articulated priority in national development strategies, many non-prioritised activities do contribute to building trade capacities in indirect ways. France noted that it might still provide support in the field of trade even if trade-related needs are not specified in national development strategies. The IMF noted that it would encourage countries to integrate trade policies into their poverty reduction strategies and to explore the potential benefits to growth and poverty reduction that could result from trade liberalisation.

Where trade development is weakly expressed, the approaches taken are similar across donor agencies. These approaches include support for: development of needs assessments (*e.g.* the European Commission, the United States through the Millennium Challenge Account, and Switzerland and the IADB through support for Diagnostic Trade Integration Studies); dialogue processes including with civil society (*e.g.* the European Commission, the IADB, the United Kingdom, the World Bank); and capacity development (*e.g.* Spain's and the IADB's work to build capacities in local government).

Policy dialogues among key stakeholders in partner countries are taking place

Most agencies support policy dialogue on aid for trade as a regular feature of their development co-operation programming. The field presence of larger agencies can obviously facilitate the development and maintenance of dialogue processes. The United States for instance has more than 70 field and regional missions. The European Commission addresses aid for trade in regular high-level dialogues with partner countries. The IADB holds annual regional policy dialogues on trade and integration at the vice-Ministerial level in regional and sub-regional sessions. The World Bank's guidelines for certain types of infrastructure projects require consultation with local populations.

The United Kingdom expects multilateral agencies such as the World Bank and the European Commission to take the lead on demand-led trade and growth-related policy discussions, although it sometimes does so itself in certain countries. Similarly, Germany noted that multi-donor programmes in the trade area are generally the preferred instrument to deal with comprehensive needs assessments and strategies. Germany has only entered into a bilateral strategic dialogue on trade in very few partner countries. All Swiss-supported programmes contain a module for promoting multi-stakeholder dialogue.

In the cases of Japan and Ireland, stakeholder engagement occurs through Poverty Reduction Strategy or National Development Strategy reviews. At a non-operational level, Ireland also mentioned its support to the AITIC, which promotes policy dialogue on aid for trade among stakeholders from developing countries. Australia and New Zealand both noted that support for regional entities and processes can play a role in dialogue processes. For example, Australia has supported advocacy and information sharing activities through the Asia-Pacific Economic Cooperation (APEC).

France signalled a new approach to fostering dialogue that it is currently elaborating. Under this approach a unit will be supported, in an African country, bringing together civil servants and academic economists with the aim of analysing the impacts of trade policies. This work is being developed with the Economic Commission for Africa.

Various donors noted the key role of the EIF in supporting policy dialogue in LDCs. The European Commission is a facilitator for the IF in seven countries and will take up this role in other countries shortly. The United States also acts as an IF co-ordinator in a number of countries. The IADB noted, however, that middle-income countries do not participate in the IF and therefore need alternative instruments suited to their specific needs.

Singapore noted that, as a means of underpinning dialogue processes, it invites policy makers and senior officials to observe first-hand the critical role that trade has played in the development of the country. The ADB states that one of its important functions is to share lessons learned on dialogue processes and other issues among countries in Asia. The IADB is reaching out beyond its traditional constituencies in the trade community to target decision makers more broadly.

Donors are aligning around partner countries' procedures and systems

The World Bank and the IADB noted that they only use the budgeting frameworks of countries since they only finance projects that are part of the governments' programme. Most other donors seek to use the planning and budgeting frameworks of partner countries whenever possible. The European Commission and the United States attempt to do so, but noted the need to demonstrate on a case-by-case basis that the partners' national public finance systems are effective, transparent and reliable before local procedures can be used for provision of co-operation funding. Sweden and Portugal added

that all programmes seek to respond to partners' priorities, as reflected in national planning documents, but do not necessarily use partner countries' budgeting frameworks. In Italy, it is mandatory to take into account partner countries' policy planning in programmes financed by the Ministry of Foreign Affairs.

Harmonisation of donor procedures is rising

Many donors – including the ADB, Australia, Denmark, the ITC, Japan, New Zealand, the Netherlands, the United Kingdom, and the United States – note that they support co-ordinated country-level programming and analysis as a matter of course. Portugal, Korea and Spain have not yet done so, although Korea plans to expand co-ordination in future. Finland has undertaken such co-ordination, but not in all countries. Due to its small size, the Czech Republic builds on the analytic work performed by others.

The World Bank considers that it has a central role in terms of harmonisation and the diffusion of innovation or best practices among development agencies. The IADB is working with donors such as Canada and the United Kingdom implementing programmes financed with trade-focused trust funds. At country level, co-ordination with other donors is being implemented through programme-based approaches and joint missions. Furthermore, the World Bank as well as the European Commission, the ITC and other donors consider the EIF as an important tool for greater donor co-ordination and effectiveness in aid for trade. The EBRD practices co-ordination with other donors and international finance organisations, but this occurs according to the financing needs of individual projects.

Donors are increasing spending on regional and multilateral programmes

Evidently, the regional development banks are the first providers of support to address regional aid-for-trade challenges. As an example, the IADB has a long-standing tradition of programming and delivering aid for trade considering regional entities as a primary target. In addition, under the World Bank's IDA 14 approximately USD 1 billion is available to assist regional programmes of which 90% is being used in Africa. The European Commission's upcoming programming cycle includes an increased allocation to regional programmes. For example, an increase of 70% of the regional envelopes is foreseen for the ACP regions.

Donors that are increasing aid for trade for regional or multilateral programmes include Belgium, Finland, France, Japan, New Zealand, Singapore, Spain and Sweden. A concrete example of expanding regional-level support is Australia's current work to design a new seven-year programme aimed at strengthening ASEAN's institutional capacity to support regional economic integration, to provide high-quality economic policy advice on inter- and intra-regional economic integration.

5. Are programmes managed with clear objectives?

Management for results is considered critical, but challenging

Various donors note the complexity in specifying objectives and time frames on account of the diversity of aid for trade. For instance, some training activities may have time frames measured in weeks. Other activities, such as in infrastructure, might be assessed over a period of years. The United States notes that time frames should also reflect specific country conditions. Australia notes measuring success against aid-for-trade objectives differs for each country programme area, given that each country programme has different goals. Japan likewise notes that aid-for-trade outcomes

can require extended periods to materialise, beyond for instance the 3-year period (2006-08) of its Development Initiative on Trade.

The World Bank uses medium-term and other metrics for measuring success. The United Kingdom notes a main objective of clarifying the UK Government's position on aid for trade, ultimately bringing growth and trade to the centre of thinking on sustainable development. Germany pointed to the time frames and review procedures that will be a part of the forthcoming Joint EU Aid for Trade Strategy.

There are no aid-for-trade specific evaluation approaches

The methods donors employ to evaluate aid-for-trade programmes do not differ from the conventional evaluation methods and standard DAC evaluation criteria – effectiveness, efficiency, relevance, impact and sustainability - applied to aid overall. The single exception is the European Commission, which notes that, in addition, it also evaluates against the criteria of "coherence" and "EC value added". The IADB noted that this would especially benefit from greater donor coordination.

The submission of the United States describes a comprehensive evaluation approach – a form of meta-analysis combined with "participatory evaluation" – being applied to aid for trade. The World Bank noted that their programmes are monitored by the Bank's Quality Assurance Group and on a random basis by the Independent Evaluation Group. Australia underscored the importance accorded to evaluation – as evidenced in the recent creation of The Office of Development Effectiveness - and described evaluation processes ranging from its Annual Review of Development Effectiveness, submitted to Parliament, to a wide range of thematic and sectoral evaluation reports undertaken over varying time frames. Belgium noted that its development co-operation Evaluation Service will shortly propose an evaluation of the country's aid for trade, while the support given for private sector development is being evaluated at present. And Norway will evaluate its aid for trade programme in 2010.

Some countries, such as Austria and Switzerland, subcontract some evaluative work to regional and multilateral bodies with the appropriate technical specialisation. Switzerland for instance has contracted out evaluations to the United Nations Industrial Development Organization (UNIDO) in the area of standards and clean production. Germany considered that methodologies for evaluating capacity development are inadequate.

Joint monitoring and evaluation of projects and programmes are being undertaken

Australia, AITIC, Belgium, Chile, Finland, Ireland, New Zealand, the Netherlands, the United Kingdom and the World Bank all undertake such joint monitoring and evaluation. Japan commented on the rise of the number of joint evaluations it engages in, and that this is considered an essential dimension of both ownership and accountability. The European Commission also endorsed joint evaluations as beneficial from an efficiency perspective. Sweden and Korea noted that, with other agencies, they are supporting the development of a framework for monitoring and evaluation of the EIF. The United States referred to its participation in OECD efforts to develop tools to improve monitoring and evaluation of aid effectiveness. Italy does not yet undertake joint monitoring and evaluation. The ADB stressed that agreement is needed among all stakeholders on an accountability mechanism and expected results.

6. Is mutual accountability taking place?

Donors engage with others in reviewing progress

Australia, Chile, Denmark, Japan, Korea, New Zealand, Norway, Singapore and Switzerland all noted that they engage with partner countries, regional organisations, and other donors and stakeholders in reviewing progress towards the fulfilment of aid-for-trade policies and programme commitments. Austria and Portugal have not yet engaged in joint review of progress on aid for trade. Finland noted that it did not yet undertake specific mutual accountability activities related to aid for trade, but that the recently adopted EU aid-for-trade strategy will provide for an implementation and follow-up structure. More broadly, the United States referred to its commitment to monitor the Paris Declaration.

New Zealand noted that in some programme types formal accountability mechanisms exist: for example the Pacific Regional Trade Facilitation Programme is formally discussed at the annual meeting of the Region's Trade Ministers. Spain noted that completion of this donor questionnaire is itself a tool for engagement and review with regional organisations and the broader donor community. The United Kingdom also considered the Global Aid for Trade Review as a first opportunity to engage in mutual accountability arrangements specific to aid for trade. Australia noted, in a broader sense, its active participation in DAC peer reviews of policies and programmes.