DRAFT PROPOSAL FOR THE JOINT 2011-2012 DAC-TC PWB ON AID FOR TRADE

Joint Meeting of the DAC and the Working Party of the Trade Committee on Aid for Trade

10 November 2009, OECD Conference Centre

This note is submitted for COMMENT to the joint meeting of the DAC and the TC/WP under item 7 of the draft agenda [COM/DCD/TAD/A(2009)3/PROV]. The note aims at soliciting preliminary guidance on the 2011–2012 joint DAC–TC PWB on aid for trade.

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DRAFT PROPOSAL FOR THE JOINT 2011–2012 DAC – TC PWB ON AID FOR TRADE

1. Introduction

1. This paper aims to guide the joint meeting of the Development Assistance Committee (DAC) and the Working Party of the Trade Committee Working Party (WP/TC in developing the 2011-2012 joint Programme of Work and Budget (PWB) on aid for trade. It is a Secretariat draft that suggests possible strategic orientations and identifies key issues for discussion.

2. It is important to be aware of discussions underway in the DAC and the TC concerning the overall approach to, and possible main themes of, the 2011-12 PWB.

- The proposed process for developing the Trade Committee’s 2011-2012 PWB consists of initial Committee discussions in October 2009, a subsequent note drafted by the Secretariat in late 2009, and written comments provided by delegations in response to this note in early 2010. Approval of the final draft is expected to take place in May 2010.

- The DAC process concerning the PWB foresees the approval of its strategic orientations by 5 January 2010 and approval of the list of output results to launch the voting exercise by the DAC on 26 January 2010. Next, approval of ranked shortlist of output results based on outcomes of voting exercise will take place on 15 April 2010 with final approval by end of June 2010.

3. It is important for members of the joint DAC–WPTC to be fully involved in the processes in capitals that decides each Member’s voting results.

4. The remainder of this note is structured as follows: Section 2 of this paper provides as information the background to the 2009–2010 PWB on aid for trade. Section 3 provides an overview of the key issues the Secretariat has identified for the coming biennium and suggests that a balance will need to be struck between continuity and making room for new work. Section 4 provides the proposed output results for the 2011-2012 PWB. Section 5 lists issues for discussion. Annex 1 provides the template on aid for trade PWB proposal to the DAC

2. Background

5. During 2009–2010, the OECD has been actively engaged in delivering an agenda that addresses the key topics in aid for trade and focussed on two challenges to improve its effectiveness:

   i) monitoring progress in the implementation of aid for trade;

   ii) developing and disseminating best practices.

6. During the 2nd WTO Global Aid for Trade Review in July 2009, the OECD Secretary General presented the joint OECD/WTO publication Aid for Trade at a Glance: Maintaining Momentum, which provided qualitative and quantitative information about aid-for-trade strategies, aid-for-trade flows, adherence to the principles of the Paris Declaration and mutual accountability arrangements. In addition, it presented aid-for-trade fact sheets for all partner countries that took part in the self-assessment exercise.
7. Work on developing and disseminating best practices in aid for trade is well on its way and final output results will be delivered at the end of the 2009–2010 PWB. This work focuses on creating an aid-for-trade performance assessment framework consisting of guidance on how to evaluate aid for trade, and how to apply the Paris Declaration principle of management for results to aid for trade. In addition, the work on identifying the binding constraints to trade expansion, and the report on good practices that will build upon it, will help improve the effectiveness of aid for trade and strengthen the initiative’s impact.

3. Preliminary strategic orientations for the 2011–2012 PWB

8. As noted before, the strategic orientations of the 2011–2012 PWB on aid for trade need to take account, amongst others, of the ongoing DAC discussions regarding the DAC Reflection Exercise\(^1\) [DCD/DAC(2009)23/FINAL and DCD/DAC/RD(2009)13, RD 2, 3 and 4] and the DAC Policy Directors\(^2\) meeting regarding a review of the development cluster and beyond [DCD/DAC(200040]. These discussions identified economic growth and poverty reduction as one of the four strategic goals for the DAC, while trade is listed as one of the subthemes within this goal.

9. On that basis it is suggested that in 2011–2012 the OECD contribution to the Aid for Trade Initiative and the OECD will focus on three issues:

1. Continued monitoring of progress in the delivery and implementation of aid for trade;
2. Linking the initiative to the wider trade and development agenda; and
3. Engaging non-OECD Members through a policy dialogue on aid for trade.

3.1 Monitoring

10. The OECD/WTO monitoring framework has created incentives for strengthened dialogue among key stakeholders about what is happening, what is not, and where improvements are needed. The OECD remains committed to continue its work on enhancing transparency about the quality and quantity of aid for trade.

11. This will involve not only a fair amount of regular and substantive work, but also significant new analytical work to design better indicators to track progress on the delivery and implementation of aid for trade; and continuous outreach efforts to encourage strengthening of local accountability mechanisms as the basic reporting unit to the global monitoring exercise. This is also in line with the overall orientation of the DAC to focus its PWB on achieving development results.

12. The outcome of the monitoring exercise, \(i.e.\) the report on global aid for trade flows, assessment of donor and partner strategies, regional approaches and performance indicators will be analysed and presented in the next edition of the joint OECD/WTO flagship publication *Aid for Trade at a Glance*. The official launch is planned for the next Global Aid for Trade Review that is foreseen in 2012.

3.2 The wider trade and development agenda

13. In his key note speech to the 2\(^{nd}\) Global Aid for Trade Review, Secretary-General Gurría highlighted the need to connect the Aid for Trade Initiative to the wider trade and development agenda, which encompasses international co-operation, improved policy coherence and a whole-of-government approach to economic development and poverty reduction. These themes concur with the May 2009 Council decision to enhance the “whole-of-OECD and whole-of-government” approach to development.
14. As noted in the joint OECD/WTO publication *Aid for Trade at a Glance*, aid for trade is a central component of the international response to help poor countries cope with the economic crises. In fact, aid for trade is now needed more than ever to provide an immediate economic stimulus, to create opportunities for local employment, to strengthen local suppliers and producers and to create positive feedbacks through the multiplier effect.

15. Promotion of long-term sustainable growth for the world’s poorest countries will depend on progress across a range of policy areas.

- Trade on its own will not do it; market opening can deliver benefits but needs to be accompanied by complementary policies in several areas to ensure an appropriate growth response and make the trade reform sustainable. It creates winners and losers and many developing countries remain poorly placed to harness the potential of trade.

- Aid is no panacea either. The Aid for Trade initiative and other efforts have shown that there is no substitute for strong national will, broad-based dialogue and careful planning. Aid for trade can play a catalytic role, but it is not a silver bullet.

16. The 2009 OECD Ministerial concluded that we cannot and we should not simply return to the way we operated before the crisis struck. The crisis should be seen as a unique opportunity to shift to cleaner technologies, to boost green innovation and to expand business possibilities. Ministers asked the OECD for advice to re-orientate policies and aim for a stronger, cleaner and fairer global economy. Aid for trade should respond to this request via trade promotion that can help developing countries adopt leap-frog technologies, greener agricultural practices and cleaner energy production. This will contribute to putting their economies and the world at large on a more environmentally sound footing.

17. Following the recent food crisis, agriculture and food security is attracting increasing attention from the international community. Aid for trade could play a significant role in fostering developing countries agriculture growth, contribute to food security, and alleviate rural poverty. Already, agriculture accounts for about 1/5 of aid for trade flows and these are growing fast (+ 32 percent in real terms in 2007).

18. Aid for Trade has so far focused on the binding constraints to trade expansion assuming that it is sufficient to boost growth. The empirical literature strongly supports this assumption in terms of the direction of change, but also shows that there is a large heterogeneity in the degree of growth response to trade expansion and that in many LDCs this response is weak. As argued in “Binding constraints to trade expansion” [COM/DCD/TAD(2009)5], Aid for Trade has a role to play (and has the mandate) in maximizing the growth response, but little work has yet been done in this area.

3.3 OECD Policy Dialogue on Aid for Trade

19. The OECD organised Aid for Trade Policy Dialogues in 2006 and 2008. These events aimed to share with non-OECD Members experiences and on how best to support developing countries in building their supply-side capacity and making trade an engine of economic growth and poverty reduction. It is suggested to organise such a dialogue again at the end of 2011 to discuss evidence on what works best in aid for trade and to ensure that all key stakeholders involved are aware of the good practices.

20. In short, it is suggested that the Policy Dialogue will contribute to the following outcomes:

- Enhanced understanding of the potential role of aid for trade as an instrument to help developing countries move from making trade possible to making trade happen.
• Shared knowledge of good practices, particularly in the implementation and evaluation of aid-for-trade programmes.
• Improved global monitoring of the Aid for Trade Initiative.
• Better identification of the issues that require more evidence and analysis for drawing policy recommendations

4. Output results

21. On the basis of the strategic orientations set out above, the following preliminary output result is proposed for the 2011–2012 joint DAC – TC programme of work and budget on aid for trade: “Aid for Trade: Making an Impact”.

22. In order to achieve this output result, the following three intermediate output results are proposed:

• Joint OECD/WTO publication, Aid for Trade at a Glance: 2012;

• Analytical reports on linking the Aid for Trade Initiative to the wider trade and development agenda; and

• OECD Policy Dialogue on Aid for Trade.

5. Issues for consideration

23. Bearing in mind the considerations listed above, the following questions are intended to guide discussion on how to develop a strategic PWB 2011-2012 in order to better contribute to strengthening the impact of aid for trade.

• Does Section 3 adequately capture the strategic orientations for the 2011–2012 PWB?
• Are there areas not included that need to be incorporated in the 2011–2012 PWB?
• Are there areas that should not be taken up in the 2011–2012 PWB?
• Does Section 4 adequately set out the output and intermediate output results?
NOTES

1 The OECD Council evaluation of the DAC invited it to undertake a strategic Reflection Exercise to sustain and increase its relevance in a changing development landscape. In implementing the conclusions of the Reflection Exercise, the DAC has created three task teams to work out detailed plans:

- Task Team 1 seeks to integrate global public goods (GPGs) into the DAC mandate and to deepen and accelerate work on policy coherence for development (PCD);
- Task Team 2 addresses how the DAC can actively engage in the process of reforming development co-operation governance and aid architecture; and
- Task Team 3 addresses the organisation of DAC work, such as strengthening accountability, organisational restructuring and streamlining operations.

2 The purpose of this meeting is to find common ground among Members to base DAC’s future work over the next 2-4 years [see the agenda, DCD/DAC/A(2009)13]. The discussion will start with a report on the state of play to date concerning OECD-wide strategic goals for development, where the OECD Council aims to set out such goals at the 2010 Ministerial Council Meeting.
ANNEX I

DEVELOPMENT ASSISTANCE COMMITTEE (DAC)

Aid for Trade

1. Topic
Aid for Trade

2. Please indicate if this work is a continuation of ongoing work in the 2009-2010 work programme, or a new initiative

The proposal is a continuation of ongoing joint work with TAD and in collaboration with the WTO to quantitatively and qualitatively monitor aid for trade and to improve its effectiveness in line with the principles set out in the Paris Declaration and the Accra Agenda for Action.

3. Final output result

Policy guidance notes on making aid for trade work better, i.e. using aid to tackle binding constraints to trade capacity.

4. Describe the proposal in a way that is succinct and self-explanatory

Intermediate output results will include:

i) Joint OECD/WTO monitoring report on aid for trade, i.e. ‘Aid for Trade at a glance: 2012’

As a contribution to the wider WTO programme on aid for trade, work will continue to monitor aid for trade quantitatively, via the CRS and qualitatively, via case studies. In particular, work will move beyond self-assessment to a more objective review of processes, strategies, implementation, outcomes and impact at the country level. The aim is to arrive at a more objective assessment (as opposed to self assessment) of what is happening, what is not and where improvements are needed.

ii) Linking aid for trade to the wider trade and development agenda.

Following the 2nd Global Aid for Trade Review (July 2009) there is a need to strengthen the links between the initiative and the larger picture, which encompasses international co-operation, improved policy coherence and a whole of government approach to economic development and poverty reduction. Policy notes will discuss these links, for instance concerning environmental sustainability and offer suggestions on how to strengthen them.

iii) OECD Policy Dialogue

Following the 2006 and 2008 Policy Dialogues it is proposed to organise one again in 2011 to discuss with a wider group of stakeholders and in particular those from partner countries and providers of South-South cooperation the finding of the OECD work, including the case studies undertaken in the context of intermediate output result no i).

5. Provide reference to the proposal in the following DAC and OECD priorities
Reflection Exercise: Task Team no 1; fostering a free and fair trade system
Policy Directors’ Meeting results: Economic Growth and Poverty Reduction
MTO survey:
Others: 2009 Ministerial Council Communiqué

6. Why is the DAC the most appropriate forum to undertake this work?

As recognised in the recent Council evaluation of the DAC and the Trade Committee, the success of this work area is due in some part to its horizontal nature. The programme of work is a joint project between the DAC and the Trade Committee and is based on a strong partnership between DCD and the Trade and Agriculture Directorate (TAD). Moreover, the work, and in particular the monitoring of aid for trade, is also carried out in close co-operation with the WTO, which considers the OECD as an essential and highly regarded partner in delivering the Aid-for-Trade Initiative.

6. Who will be the end-user of this final output result? What impact on donor behaviour do you expect to achieve with this work and what approach will be taken to maximise impact?

The main end users will be policy makers in OECD and low-income countries working at increasing trade capacity in developing countries. The expected impact is greater awareness among the development community of the role of trade as an engine for economic growth and the need to help low-income countries build up trade capacities to benefit from the opportunities that international trade agreements offer.

7. What contribution(s) do you expect from other stakeholders (e.g. partner countries, international organizations, civil society)?

This work proposal will be implemented in close collaboration with the WTO and the World Bank, as well as other international organisations (in particular the Regional Development Banks). Strong engagement and support of donor and partner countries’ governments in the monitoring process is essential for its success. Civil society and business will also be involved through specific work streams and/or outreach events at regional and global levels.

8. Can the engagement of non-DAC donors add value to your work, and/or is it important in fulfilling the mandate of the Subsidiary Body? If so, what would be the most suitable form of engagement?

Non-DAC donors, such as the BRIC countries, but also regional donors such as Argentina, Chile, South Africa and Thailand have a crucial role to play in this work. They are key actors in South-South and triangular cooperation. On the one hand they have much to offer in developing best practices on how to increase trade capacity and on the other hand, they are subject to little international scrutiny. Including them in the monitoring of aid for trade exercise would be an important step towards enhancing transparency of their aid programmes.

9. How does this proposal relate to the DAC’s core output results listed in the guidance for this template and to the implementation of the Paris Declaration on aid effectiveness?

The quantitative dimension of monitoring aid for trade is based on the CRS database, which is amended to better meet the needs of this work, while the Paris Declaration provides essential guidance on how to deliver effective aid for trade.
10. Which OECD or DAC policy communities would you ideally seek to collaborate with to maximize the quality and relevance of this work proposal? In what way would this work contribute towards policy coherence for development?

The work is a joint undertaking with TAD. The work will be undertaken via the existing bi-annual joint DAC-Trade Committee Working Party meetings, and through outreach events to share approaches and experiences with other stakeholders. POVNET is closely associated with certain elements of the work, especially the relationship between trade, growth, employment generation and poverty reduction. Together, this supports policy coherence between the aid and trade communities. Moreover, a key objective of this work is to leverage knowledge in other OECD policy communities whose experience might help enhancing our knowledge on how to increase trade capacity.

11. Please indicate one of the following cost ranges for this proposal for the 2-year period

Between 1MEUR and 1.5 MEUR

Proposal submitted by: co-chair of the joint DAC-TC/WP meeting

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