AID FOR TRADE AND THE 6th WTO MINISTERIAL CONFERENCE

Senior Level Meeting, 6-7 December, 2005

This note is submitted for INFORMATION to the Senior Level Meeting [DCD/DAC/A(2005)17/REV2]. Further background information concerning the DAC Special Meeting on Aid for Trade, which took place on 27 October 2005, can be accessed at www.oecd.org/dac/trade.

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1. The Doha WTO Ministerial Declaration emphasises that commitments to help developing countries overcome their trade-related institutional and human resource capacity gaps are one of the core elements of the development dimension of the multilateral trading system. It considers trade related capacity building as a critical element for the successful completion of the Doha Development Agenda. Trade ministers will meet in December 2005 in Hong Kong to assess progress made in implementing the agenda; including in respect of trade related technical assistance and capacity development.

2. Since the launch of the Doha talks in 2001, the total volume of aid for trade has increased steadily to reach USD 3 billion in 2004. Contributions to the multilateral trust funds (e.g. Joint Integrated Technical Assistance Programme, Integrated Framework Trust Fund, the International Trade Centre and the WTO) increased from USD 26 million in 2001 to USD 45 million in 2004. Support for economic infrastructure – particularly transport, energy and telecommunications – reached USD 9.3 billion in 2003.

3. Although the volume of aid for trade has increased significantly, the need for further increases has been reiterated in the WTO July Framework agreement, with specific references to existing and new commitments. Initially, support was focussed on providing assistance to (i) trade policy making at the national level, (ii) participation in WTO negotiations, and (iii) implementation of WTO agreements. Over time, the agenda has expanded and also encompass (iv) aid to manage adjustment cost from liberalisation, and, (v) aid to address supply side constraints.

4. At the September 2005 meeting of the Development Committee, Ministers endorsed a proposal for an enhanced Integrated Framework, including expanding its resources and scope and making it more effective. In addition, they agreed that the enhanced Integrated Framework will organise the diagnostics on developing countries’ needs for trade capacity building and infrastructure, as well as the impact of preference erosion following multilateral trade liberalisation. Finally, the World Bank and the International Monetary Fund were asked to examine the adequacy of existing mechanisms to address regional trade needs and explore new mechanisms as appropriate.

5. Reactions to the conclusions of the Development Committee were not unambiguously positive. On the contrary, the Zambian coordinator of the WTO Least Developed Countries group judged the
outcome as totally inadequate. In addition to an enhanced Integrated Framework, that group suggested the creation of an adjustment facility, an infrastructure fund and the removal of the debt overhang for all low income counties. Others also expressed disappointment that Ministers did not agree on a multilateral aid for trade fund that could be used to lubricate trade liberalisation by developing countries.

6. At a special meeting, the DAC has discussed, first, how to deliver aid for trade more effectively and, in particular, the need to pay closer attention to the basic principles of aid effectiveness, including: (i) strengthening local ownership, (ii) aligning around national systems and development strategies, (iii) harmonising donor efforts, and, (iv) managing for results. This strong reference to the Paris Declaration expresses the concerns of the donor community about proposals for a special fund for trade related aid. Second, the DAC considered how to use aid to assist developing countries overcome their trade related institutional and human resource capacity gaps, supply side constraints and manage the adjustment challenge. The conclusions of the DAC meeting have been issued under the responsibility of its Co-Chairs [see annex attached].

7. It is expected that in Hong Kong, Ministers will provide support for the enhanced Integrated Framework and reach agreement to explore and define the broader aid for trade agenda, in consultation with the development community. Key difficulties are the increasing scope of the concept and its overlap with existing development programmes, particularly regarding supply-side constraints; the potential tension between a targeted top down programme and aid effectiveness principles based on bottom up local ownership; the lack of reliable indicators to assess the effectiveness of trade capacity building efforts; and the capacity of existing channels, such as the Integrated Framework, to deliver effectively substantially increased aid flows, as well as eligibility concerns.

8. The OECD, and in particular its aid and trade communities, is well placed to contribute to the broader aid for trade debate, inter alia, by analysing these issues, including the political economy in recipient countries, the implications of different approaches for addressing developing countries’ supply-side constraints and assessing the impact of TCB strategies and programmes.

9. Finally, the potential contribution of trade to economic growth and poverty reduction is seriously under-realised in many developing countries. Trade, like other components of the growth dimension, is also poorly integrated into poverty reduction strategies. Building on present DAC work on aid for trade, future POVNET work on this theme could analyse what holds back the contribution of trade to poverty reduction and identify areas where the POVNET could provide value added guidance to donors on enhancing that contribution.
Conclusions issued under the responsibility of the Co-Chairs.

1. Building on discussions in major recent international events, including the September 2005 Development Committee meeting and the Gleneagles G8 Summit, the OECD Development Assistance Committee held a special meeting on aid for trade. The aim was to contribute to a successful outcome of the 6th Ministerial Conference of the World Trade Organisation in December 2005 in Hong Kong.

2. The meeting was co-chaired by Ambassador Mia Horn af Rantzien, Permanent Representative of Sweden to the WTO, Ambassador Valentine Rugwabiza, Deputy Director General of the WTO and Richard Manning, DAC Chair. Delegates represented the development and trade policy communities in OECD Member States, International Financial Institutions (IFIs) and Members of the Integrated Framework for Trade Related Technical Assistance to the Least Developed Countries (IF). Mozambique presented its experience in connecting up its trade and development agendas and its contribution to poverty reduction, including through its IF process.

3. The discussions underlined the need to continue to improve the effectiveness of aid for trade and the mechanisms to deliver it, including through the current proposals for enhancing the IF and to leverage resources to support trade related technical assistance and capacity building, including beyond the IF to realise the expectations of the Doha Development Agenda.

4. International trade, when coupled with domestic reform, can be a powerful engine in promoting sustained economic growth, employment opportunities and poverty reduction. But this potential contribution is still seriously under-realised in many developing countries. Governments, institutions and enterprises often lack the capacities, e.g. information, policies, procedures, institutions and/or infrastructure, to compete effectively in global markets and take full advantage of the opportunities provided through international trade. Many developing countries are also concerned about their ability to manage adjustment pressures arising from trade integration. With well designed support all countries, including LDCs, have the potential to benefit from an ambitious Doha reform package. Much work has already been done by the World Bank and the IMF to clarify adjustment issues. The Development Committee has expressed its support for a strengthened framework for assessing adjustment needs so that IFI and donor assistance can be better utilized and urged the Bank and the Fund to better integrate trade-related needs into their support for country programmes.

5. Trade, and growth more generally, have to be more fully integrated into poverty reduction strategies through PRSP or equivalent frameworks. Doing so requires a better understanding of and actions on the factors so far hindering this, but it also needs additional funding for trade capacity building within the expanding aid supply now projected. (The OECD Secretariat projects that donor commitments, if fulfilled, will raise ODA levels from USD80 billion in 2004 to USD130 billion in 2010).
6. Participants at the DAC meeting therefore recognised and appreciated the high priority attached by developing countries to progress on TCB.

**Enhancing the IF:**

7. The key objective is to foster strong, sustainable local capacities for engaging in dynamic regional and global trade patterns, including the new opportunities created by a successful Doha Development Round.

8. Participants welcomed the creation of a Task Force and agreed on the importance of active and timely support for the Task Force. The elements include strengthening national capacities, governance of the IF, and resources. The aid effectiveness agenda, as set out in the Paris Declaration, together with the prospects for a significant scaling up of aid, suggest some basic orientations:

- The importance of local ownership and establishing an on-going process of interaction between national policy makers and the private sector, as well as research institutions and civil society, for identifying national trade development agendas and priorities.

- The need for strong leadership in the developing country and in the donor community both in capitals and locally, in making an enhanced IF work on the ground.

- Donor resources to support an enhanced IF and the implementation of action agendas should be provided on a multi year predictable basis and on an increasing scale.

- Processes for monitoring progress and results and sharing national experiences and lessons learned should be an integral part of an enhanced IF.

**The Wider Aid for Trade Agenda:**

9. Participants recognise that the aid for trade agenda goes beyond national IF processes. It helps to provide an enabling environment for the integration of developing countries into the multilateral trade system. They underlined the need to more closely define the various components of the Aid for Trade agenda.

10. The Paris Declaration provides aid effectiveness benchmarks for shaping the delivery of the wider aid for trade agenda. Support for trade and trade capacity has to be integrated into country-led development strategies.

11. Participants noted that the ODA targets announced by donors provide the basis for a significant scaling up of aid and consider that in the new context, there is potential scope for increasing concessional resources for aid for trade.

**Towards Hong Kong and Beyond:**

12. In a Doha Development Agenda package, liberalisation and aid for trade are neither a trade-off nor substitutes, but necessary complements.

13. The donor community stands ready to contribute at Hong Kong and beyond to promoting and implementing the trade capacity building agenda. Specifically, they fully support the enhancement of the Integrated Framework and exploring and defining a broader aid for trade agenda.