



3-4 NOVEMBER 2008

OECD CONFERENCE CENTRE, PARIS

*Background Document for Session IV*

# Monitoring Aid for Trade: A Background Note



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## MONITORING AID FOR TRADE

### A Background Note

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.

The World Trade Organization (WTO)'s 2005 Hong Kong Ministerial Conference called for the expansion of aid for trade to help developing countries, and in particular the least-developed countries, benefit from WTO agreements and, more broadly, expand their trade. A Task Force was set to draw recommendations on how to operationalise aid for trade. It concluded that it is not just a question of more money, but also of effectiveness and accountability. In order to enhance the credibility of aid for trade and ensure that locally identified needs – whether financial or performance related – are addressed, the Task Force recommended that two accountability mechanisms be established: one at a national or regional level and one at a global level.

This note 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 the global level. It starts by setting out the definition of aid for trade, and then elaborates the three-tiered approach to elicit qualitative and quantitative information from donors and recipients. Next, the results of the 2007 monitoring exercise are summarized together with the conclusions from the 1<sup>st</sup> Aid for Trade Global Review for improving the monitoring framework.

### ***What's Aid for Trade?***

Aid for trade is the part of overall Official Development Assistance (ODA) — grants and concessional loans — targeted at trade-related programs and projects. It aims at helping developing countries, in particular the least-developed countries, to build the trade capacity and infrastructure they need to benefit from trade opening.

Because trade is a broad activity, aid for trade is broad and not easily defined. The WTO Task Force on Aid for Trade recommended defining aid for trade as:

- (i) technical assistance to help countries to develop trade strategies, negotiate more effectively, and implement outcomes;
- (ii) infrastructure, for example to build the roads, ports, and telecommunications that link domestic and global markets;
- (iii) productive capacity (including trade development), for example to invest in industries and sectors so countries can diversify exports and build on comparative advantages, and;
- (iv) adjustment assistance to help with the costs associated with trade liberalization such as tariff reductions, preference erosion, or declining terms of trade.

... if identified as trade-related development priorities in partner countries' national development strategies.

Aid for trade is not a new global development fund but part and parcel of normal programmable ODA. In fact, assistance to build supply-side and more specifically trade capacity in developing countries has a long history. Each year, around a fifth of ODA<sup>1</sup> is dedicated to building supply-side capacities that - among other objectives- is meant to help low and middle income countries engage in international trade.

In that respect, aid for trade is not an alternative mechanism for non-LDCs to the Enhanced Integrated Framework for Least Developed Countries (LDCs). On the contrary, activities financed by the Enhanced Integrated Framework are counted as aid for trade and considered fully part of the aid for trade initiative, including the monitoring and evaluating aspects. Commitments to technical assistance under a potential Trade Facilitation Agreement will also be counted as aid for trade.

In short, the Aid for Trade Initiative launched in 2005 at the Hong Kong Ministerial Conference did not result in a new type of ODA, nor in a new funding mechanism, but in a decision to promote local monitoring and establish a Global Review Mechanism to monitor whether the effectiveness and resource allocation of aid for trade is improving at the country level.

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<sup>1</sup>See WTO- OECD (2007) Aid for Trade at a Glance 2007 which provides a baseline for Aid for Trade flows from 2002-2005.

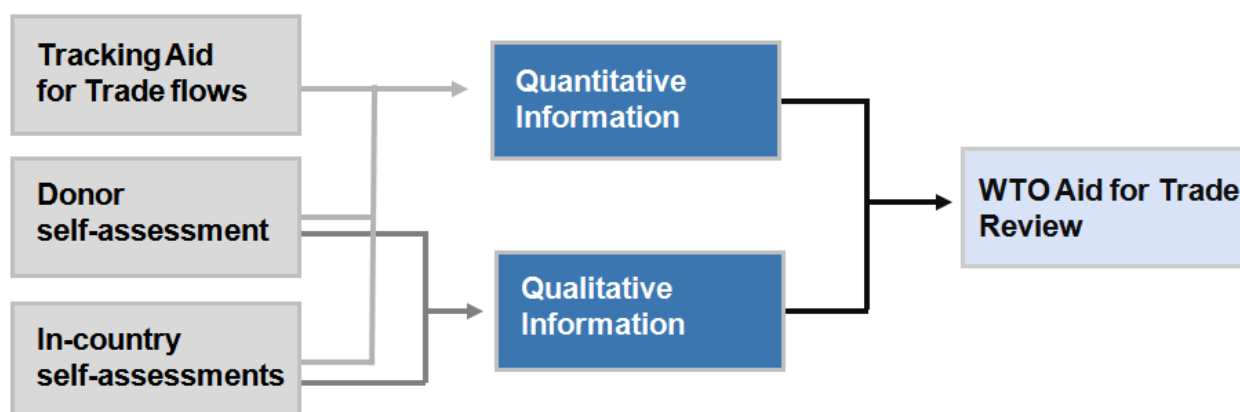
## ***The joint OECD-WTO Monitoring Framework for Aid for Trade***

The WTO Task Force underscored the need to reinforce the global accountability of aid-for-trade flows. It stressed 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 trade mainstreaming in national development strategies, the formulation of trade strategies, aid-for-trade needs, donor responses, implementation and impact.

During 2007, the OECD collaborated with the WTO in setting up an aid-for-trade monitoring framework as a global review mechanism. Monitoring the delivery and impact of aid for trade in the WTO will put a spotlight on donor agencies to honour their commitments and show results to their colleagues in trade ministries. In partner countries, it will encourage national dialogues on how to address trade needs in the 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 donor and partner countries to focus on those areas where improvements are most needed.

At its most basic level, the monitoring framework aims at providing a comprehensive picture of aid for trade to allow the international community to assess what is happening, what is not, and where improvements are needed. A three-tiered system (e.g. global, donor and partner country tiers) has been developed to elicit critical quantitative and qualitative information from donor agencies and their partner countries, as depicted in Figure 1.

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



The first tier provides a global picture of annual aid-for-trade flows based on statistical data from the OECD Creditor Reporting System (CRS) database, a database covering around 90 per cent of all ODA. Clearly, data on global flows are important in order to assess whether additional resources should be 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.

However, the WTO Task Force definition of aid for trade covers a broad set of expenditure categories as indications of donor activities that impact partner country trade capacities. The OECD Creditor Reporting System (CRS) was recognized as the best data source for tracking aid for trade flows at the global level, but it cannot provide data that match exactly all the above categories. Instead, it offers proxy measures for key categories.

The qualitative information is obtained through two structured questionnaires tailored to the donor community and to partner countries. 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. The questionnaire is organised around five themes:

- What is your aid for trade strategy?
- How do you implement your strategy?
- How much aid for trade do you provide/receive?
- Do you monitor results?
- What is the regional dimension? (new).

## ***The 2007 Monitoring Results***

In November 2007, at the [1<sup>st</sup> WTO Aid for Trade Global Review](#), the first results of the monitoring exercise were presented. The WTO/OECD report - [Aid for Trade at a Glance: 2007](#) - gives a comprehensive picture of Aid-for-Trade flows and provides an overview of donor and partner country responses to the survey about their aid-for-trade strategies, pledges and delivery, which was sent to all WTO members during the summer. Key messages in the report included:

- Between 2002 and 2005, donors committed on average USD 21.0 billion per year on the aid categories more closely associated with aid for trade. This included USD 11.2 billion to build economic infrastructure, USD 8.9 billion to promote productive capacities (including USD 2 billion for trade development), and USD 0.6 billion for increasing the understanding and implementation of trade policy and regulations.
- Commitments increased by 22% over the period but the average share of aid for trade in total sector aid declined from 35% in 2002 to 32% in 2005, reflecting the growth of aid to education and health.<sup>2</sup>
- Aid for trade is increasingly prioritized in donors and partner countries' plans. Moreover, the development of new strategic statements, a gamut of initiatives to strengthen in-house capacities and increased prioritisation in donor-partner dialogues indicated that aid for trade is likely to attract additional resources the coming years.
- Binding regional constraints, such as poor cross-border infrastructure, are clearly acknowledged. Working at the regional level, however, poses particular challenges, such as insufficient regional co-operation and concerns about asymmetric costs and benefits. The Regional Development Banks are seen as the natural partners for addressing these and other regional challenges.
- High level political backing to assign priority to trade in national development strategies is a key condition for donors' support. In cases where political commitment and local ownership are absent, donors increasingly seek to

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<sup>2</sup> For data on 2006, see '[2006 Aid for Trade Flows: Data & Analysis](#)'

reinforce mainstreaming of trade by raising the issue in dialogues with partner countries.

- Donors and partners agree without exception, that the Paris Declaration on Aid Effectiveness sets out the principles that should guide the delivery of aid for trade. However, putting these principles more broadly and widely into practice remains challenging.

Developing a credible monitoring mechanism is a 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 and exchanging best practices and information on funding gaps.

### ***Priorities for improvement***

At the Global Review in November 2007, three main priorities for improvement were identified.

- The framework should be complemented by an objective –based set of indicators that would elicit further information on results. This work stream is progressing under the WTO umbrella in consultation with experts from the World Bank, OECD, UNDP, UNCTAD and other international organisations who met at the [Expert Symposium on Indicators for Monitoring Aid for Trade](#) in September 15-17 2008.
- More attention should be given to the regional dimension. A new section dedicated to elicit information on how donor and partner countries are addressing regional challenges has been added to donor and partner questionnaires.
- Engagement of partner countries should be strengthened. Indeed, the 2007 monitoring is based on an excellent rate of responses from donors but a much poorer one from partner countries (only 8 responses). For the monitoring framework to deliver its objectives on transparency, dialogue and mutual accountability, it is essential that both donors and recipients use it fully. In any case, without a critical mass of participation from partner countries, it is unlikely that the monitoring of aid for trade would continue for much longer. In 2008, the WTO and the OECD have joined efforts to design a more user friendly questionnaire, consult widely with partner countries to increase its relevance

and work with other international organisations and donors to ensure that technical assistance is available at country-level.

The questionnaires together with preliminary country-specific data on aid for trade flows will be sent to donor and partner countries at the end of the year to help countries to prepare their self-assessments reports which together with an updated analysis of global aid-for-trade flows will provide the raw data necessary to present to the next Global Review a comprehensive picture of the progress made in implementing the Aid for Trade Initiative.

The next Aid for Trade Global Review is expected to take place in spring/summer 2009. The OECD and the WTO endeavour to present to the Review, a second edition of 'Aid for Trade at a Glance' analysing 2006 and 2007 aid for trade flows and donor and partner county self-assessment reports.

Further information on aid for trade is available at

<http://www.oecd.org/dac/trade/aft> and

[http://www.wto.org/english/tratop\\_e/devel\\_e/a4t\\_e/aid4trade\\_e.htm](http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm)