REGIONAL OECD PRACTITIONERS FORA: MAKING THE MOST OF AID FOR TRADE

Summary

This note summarises the key messages, achievements and lessons from the three recent regional Aid for Trade events held in Lima (13-14 September), Manila (19-20 September) and Dar-es-Salaam (1-2 October) and the OECD Practitioners fora organised alongside these events.

The WTO and each of the main regional development banks (Inter- American Development Bank, the Asian Development Bank and the African Development Bank) organised one and a half day event in each of the three regions. The conclusions of these events will provide the regional dimension of the WTO's Global Aid for Trade Review, to be held in Geneva on 20–21 November 2007.

The Regional Reviews aimed to address how to implement the WTO Task Force Recommendations to strengthen the regional dimension of Aid for Trade, and in particular the demand and supply of regional programmes. Moreover, there was also a concern that the Aid for Trade agenda had been very much Geneva driven and would benefit significantly from more direct involvement of high-level capital based representatives. Thus, the events aimed at:

- Raising awareness on aid for trade in each of the regions;
- Securing a high level political commitment to the aid for trade agenda;
- Highlighting activities in the region under the Aid for Trade initiative and helping governments, donors and the private sector to prioritize "aid for trade" needs and find joint solutions to trade challenges.

The three ‘Mobilizing Aid for Trade’ attracted large numbers of senior level participants, including at Ministerial level, and were highly successful at raising awareness on the aid for trade agenda across the developing world. The events crystallised the engagement of the regional development banks to Aid for Trade and send a strong signal of their commitment. The publicised association of the World Bank further contributed to underline the policy coherence aspects of the aid-for-trade agenda and of increasing collaboration between the WTO and international finance institutions.

However, the events were less successful in defining an operational regional aid for trade agendas. This was the result in part because of the seniority of the participants: most interventions were of a political nature, and were used to signal the degree of governments’ commitment to the trade development agenda, support to Aid for Trade, and areas of pressing needs. It was difficult to focus the debate on the specific *regional* operational aspects of aid-for-trade.

Moreover, because the three events took place in succession and in very distant locations from each other, most donors had difficulties in sending senior policy-makers to the three events. Their participation was considerably patchier in terms of seniority than partner countries. In general, donors expressed strong support to the aid for trade agenda and stressed their commitment to country ownership. Some noted the need to establish clear links between aid for trade and achieving the Millennium Development Goals by 2015.

It is unlikely that at this level of political engagement, the format is sustainable. But what it did was to put aid for trade quite centrally on the radar screen of developing countries. This year, the objective was to jump-start the regional review process. Since the political commitment has by now been secured, more tangible deliverables are needed to advance the aid for trade agenda. This is the key challenge for the 1st annual global Aid for trade in the WTO in November.

The **OECD** - in collaboration with the WTO and each of the regional development banks - organised a **Practitioners' Forum** back-to-back to three "Mobilising Aid for Trade" events. The objectives of these OECD fora were to ensure that partner countries' governments were aware of the objectives and elements of the OECD/WTO monitoring framework, and to consult with them on the partner country questionnaires that had been sent at the end of July. We also sought to dedicate some time to addressing implementation challenges and to developing a regional dialogue on how to address them.

It became quickly clear that in many countries the concept of monitoring aid for trade and the role of the WTO and the OECD had never left Geneva and that many participants were not previously aware of the questionnaires. A decision was taken to focus the three events only on the monitoring framework and accept that the session on the questionnaires would be as much for information as for consultation.

Participation was patchy. The OECD side events took place after the main event with participation of some 30-40 people in each session. The quality of the presentations from the pilot countries was also variable, but Peru, Cambodia and Mauritius gave excellent presentations on how they manage Aid for Trade. These were extremely important contributions which show to other countries the gains from implementing aid-for-trade management systems and the potential to use the questionnaires to jump-start this process. Indeed, the impact of the questionnaire should not be underestimated. Several policy makers in donors and partner countries have stressed how useful the questionnaires have been in stimulating dialogue across governments.

However, much remains to be done to ensure that the role of the questionnaires and the monitoring framework is understood outside Geneva and across governments. The "Mobilising Aid for Trade" events greatly helped us to raise awareness, but the audience was - for our purposes - still far too dominated by trade ministries and not enough finance and development officials.

After Manila, DCD and TAD joined the OECD Development Centre in Bangkok for a one day seminar on Aid for Trade with Thai government officials and private sector stakeholders. In Thailand, the questionnaire made government officials realise that they did not have an aid for trade strategy. They decided to launch a national dialogue and invited the OECD to update them on aid for trade and discuss the monitoring mechanism and best practices at their first meeting.

1. The format of the meeting in Thailand looks the most promising to ensure cross-governmental involvement. The Secretariat will explore the scope for holding a few targeted events in key partner countries, or maybe grouping a small number of interested countries.

Latin America and the Caribbean Region

'*Mobilizing Aid for Trade: Focus Latin America and the Caribbean'* took place in Lima (Peru) on13-14 September. The event attracted around 150 participants, mostly from trade ministries. Mexico was the only large regional power absent. Bolivia also failed to attend, depriving participants from an alternative perspective that is increasingly visible in regional politics.

Many participants underlined the need to develop a long–term vision of Latin America and the Caribbean in which business competitiveness is at the heart of the development agenda. There was much interest in how to help the private sector better capture value, including through branding, promotion of niche markets and specialising in higher value-added goods and services.

Notable remarks were expressed by the Minister for Trade from Peru who stated that the development path was a deliberate choice in which trade played an essential part. This view was echoed by Alan Garcia (President of Peru) who delivered a passionate and populist free trade speech which lasted almost two hours. Others criticised the use of term ‘aid’ and argued instead for the less paternalistic term ‘cooperation’. The CIDA representative remarked that aid will only be available to support trade if positive links to poverty reductions can be established.

Most speakers highlighted the region’s numerous FTAs as their main trade policy tool. Insufficient market access to developed economies is still perceived as a main impediment to a region with a strong comparative advantage in the agro-food sector. It also became increasingly clear that openness to trade remains a hot political issue particularly in South-America where the social movements supporting Morales in Bolivia and Chavez in Venezuela are also present in Peru, Ecuador, Paraguay and Colombia. Trade liberalisation is strongly associated with geostrategic positioning.

During the breakout sessions, the key messages that emerged from each sub-region were:

- Central American countries’ main concern is to ensure that the implementation of the CAFTA –US agreement yields the expected benefits. Participants consider their main constraints to be the high logistic costs that eliminate neighbourhood advantages, and the poor know-how of their private sector, particularly SMEs on how to exploit niche markets in the USA.

- Caribbean countries argued in favour of changing income-based concessional financing rules that hinder their access to concessional aid, and for a kind of infrastructure emergency aid that would kick in after each hurricane. They also highlighted the disproportionate infrastructure needs imposed by their island geography.

- South-American participants voiced more concern about the need for inclusive growth and had a wider vision of aid for trade needs which encompassed education, entrepreneurship, the competitiveness agenda, development of niche value chains and regional trade facilitation efforts.

The OECD Practitioners Forum was opened by OECD Deputy Secretary-General Padoan. Case studies were presented by high level representatives from Chile, Peru and Nicaragua. It became clear that many participants had not seen the questionnaires and were not previously aware of the WTO/OECD monitoring proposals. Internal coordination in Latin-American and Caribbean governments is often poor and WTO ambassadors are not always a sufficient conduit to ensure inter-ministerial awareness.

Participants listed the following as potential benefits of the monitoring proposals: (i) greater awareness among stakeholders of the potentially beneficial impact of trade on development, (ii) incentives for a dialogue among stakeholders, (iii) opportunity to share best practices, and (iv) providing incentives for more and better aid for trade. However, these potential benefits come with a cost, e.g. the burden of answering. To ease the cost it was suggested to set out more clearly the definitions (CRS reporting directives), define responsibilities and add a ‘Frequently Asked Questions’ (FAQ) section.

Furthermore, the discussion highlighted a number of unresolved issues such as: (i) how to report in-kind technical cooperation and south-south cooperation; (ii) how to deal with regional programmes; (iii) how to involve the private sector and NGO community; and (iv) how to move to impact assessments.

Asia and the Pacific

"*Mobilizing Aid for Trade: Focus: Asia and the Pacific"* took place in Manila (Philippines) on19-20 September. The event attracted around 300 participants with strong local participation but also many ministers and senior officials from trade and finance ministries from the Asia-Pacific region. Officials from poorer countries and small island states were particularly well represented, including the Prime Minister of Tonga whose country had very recently acceded to the WTO. Also present were private sector groups (e.g. Microsoft), and major bilateral and multilateral donors who are active in the region (e.g. the World Bank, Japan, USA, Australia, EU, etc.). India and China were noticeable by their absence.

It became quickly evident to all that there are clearly two distinct aspects in this region. On one hand are the success stories of the newly industrialised economies and the rapid economic growth in China and India. On the other hand, there are the least-developed, small and weak economies (e.g. Solomon Islands, Afghanistan, Turkmenistan) who argued that they lack the capacity and access to infrastructure to reap the benefits of globalisation.

Nonetheless, there was a consensus on the desirability of export-led growth and on regionally-based initiatives. Developing country officials, especially those from the small island states and Central Asia, consistently called to increase support for trade-related infrastructure and for trade finance, particularly for SMEs. There was also a strong demand for further support in standards and SPS measures. Interestingly, partner country officials repeatedly emphasised that donors should respond to recipients' priorities, rather than the other way round. To this end, almost all (including donors) underscored the importance of adhering to the aid effectiveness principles of the Paris Declaration. The private sector stressed further the need for additional support to expand access to trade finance.

The OECD Practitioners Forum was chaired by TAD Director, Mr. Tangermann and moderated by Mr. John Hancock of the WTO. The event was attended by some 40 participants (partner country government officials, donors and private sector representatives) and was an effective way to raise awareness.

As in Peru, the Secretariat presented the WTO/OECD monitoring proposals and explained key operational aspects of the global aid-for-trade monitoring framework including the objectives of the WTO-OECD Partner Country Questionnaire. Some participants voiced concerns about the inadequacies of the aid-for-trade definition used, but most seemed convinced about the validity of the exercise, including the pivotal role of the WTO Annual Review mechanism.

Two senior officials from the governments of Cambodia and the Philippines – who volunteered to complete the WTO-OECD Partner Country Questionnaire on a trial basis – presented their respective Questionnaire responses. Both pilot countries stated that the Questionnaire was very helpful in guiding them to think more strategically about their aid-for-trade needs and in stimulating inter-ministerial dialogue on the subject. The Cambodian presentation was particularly informative on how a least-developed government can put in place a highly sophisticated coordination mechanism.

Mr. Ahkmatov from the Ministry of Economy and Trade of the Kyrgyz Republic, who was invited to comment on these two presentations, strongly supported the initiative and remarked that only when his ministry received the Questionnaire did senior ministry officials began asking questions about the country's strategy for aid-for-trade.

Africa

"Mobilizing Aid for Trade: Focus on Africa" was held in Dar-es-Salaam (Tanzania) on 1-2 October. Many trade and finance ministers from the region attended, while donors were mostly represented at senior official level. The Norwegian deputy minister for development cooperation attended.

The event succeeded in raising awareness about the key role of trade in economic growth and development. Participants highlighted the poor trade performance of African countries, despite noticeable improvements in the last few years; they also stressed the need for additional and more predictable aid for trade flows in order to overcome the most important barriers to competitiveness. However, much criticism was expressed regarding the way donor delivered aid. Richard Manning, the DAC Chair, responded by making reference to the Paris on Aid Effectiveness.

Key barriers to trade competitiveness are weak infrastructure, lack of access to finance – including trade finance – and a poor investment climate (discretionary as opposed to rule-based regulatory environments). Many participants noted the costs to African exporters of weak infrastructure and inefficient customs practices. The World Bank, for example, estimated that to build roads linking Africa's capitals and major cities would cost USD 20 billion and another USD 1 billion per year in maintenance. But the Bank also estimates that such infrastructure improvements could boost trade by USD 250 billion within 15 years with the rural poor being major beneficiaries. DG Lamy mentioned OECD estimates of a 10% rise in Africa exports for each 6 days reduction in customs delays.

African participants also highlighted a number of challenges in accelerating the pace of regional integration on the continent: weak regional institutions; multiple and overlapping membership in regional economic groupings; absence of strong regional focal points; limited domestic constituency for regional integration in member states; and sectoral challenges, particularly in the areas of trade, macro-economic policy convergence, free movement of factors of production, and infrastructure deficiencies.

Richard Manning, noted that the Paris Declaration on Aid Effectiveness was far from being systematically applied in aid for trade programmes, particularly in regard to country ownership and results based management. Furthermore, the active involvement of the private sector, which is essential to identify the real binding constraints to trade but also to make local officials accountable for results is often lacking. The Enhanced Integrated Framework (IF) could provide valuable assistance. African governments should focus on what they can control and reduce the burden they place on exporters.

Deputy Minister of Commerce from China Yi Xiaozhun, told participants that since the 1950s, China has provided assistance to 53 African countries through nearly 900 projects covering areas such as farming, animal husbandry, fishery, light and textile industries, transportation, radio communication, water conservation, electricity supply, machinery, as well as public and civil construction.

The OECD Practitioners Forum was well attended. The meeting started with an excellent introduction from Mr. Vishnu Bassant, Deputy DG of the Ministry of Finance and Economic Development from Mauritius, a country that has developed from a small and vulnerable economy to an island with a per capita GDP of USD 5 000 (a country the size of Zanzibar with a GDP that is 60% of Tanzania!).

Mr. Bassant maintained that trade liberalization has not made much progress because of the fear of the unknown. Furthermore, the associated economic and social cost makes it politically difficult in the absence of firm financial commitments. Especially, since the costs are incurred immediately, but benefits are obtained in the longer term. He noted that the aim of the strategy should be to unlock growth to attain the goals set, including MDGs, employment creation, poverty reduction and encompass wider economic reforms such as: improving public sector efficiency, enhancing industry global competitiveness, improving the business environment to attract investment and FDI to build productive capacity and designing “safety nets” to protect the welfare of citizens likely to be.

According to Mr. Bassant donors should bring their experience to support nationally owned programmes, better coordinate to ensure coherence and reduce the administrative burden on recipient countries, agree on the architecture of conditionalities that puts in place a framework for success and avoid creating vertical silos. This could be achieved by having periodic development partners meetings to discuss AFT strategies and monitoring and implementation.

Finally, coming from a country that has an AFT-compliant programme, Mr. Bassant noted with hind sight that:

- The partner questionnaire is a useful tool to test the state of preparedness of countries to embark on AFT strategies

- It puts the right questions but many countries may not yet have the right answers

- It requires vision and courage since reform is very painful

- It requires high-level expertise to design and estimate the costs and anticipated benefits

- IFIs to help in analytical and advisory work to design a programme acceptable to decision makers

- Must be implemented in the first year of mandate

Mr. Bassant’s presentation was very well received but did not solicit many questions. In fact, the only issue raised was to emphasize the point that answering the questionnaire required a high level of expertise and which in some low income countries probably required external assistance, for instance from the IF.

Several delegates noted that they had never received the joint WTO/OECD partner questionnaire. (DG Lamy promised to urge developing country ministers to respond). Unfortunately, most of the discussion was about the data. Nevertheless the meeting succeeded in setting out the aid-for-trade monitoring including the pivotal role of the WTO annual review.