



OECD POLICY DIALOGUE ON AID FOR TRADE

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Rapporteur's Report

by

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OECD POLICY DIALOGUE ON AID FOR TRADE¹

Executive Summary

1. This event was the second such Policy Dialogue that the OECD has organised on Aid for Trade and it follows the publication last year of a joint OECD/WTO report titled Aid for Trade at a Glance. The Dialogue was comprised of four substantive sections each covering an important facet of Aid for Trade. Participants in the Dialogue, who came from developing as well as industrialised economies and from government, civil society as well as national and international agencies, sought (i) a better understanding of the potential role of Aid for Trade as a development tool, (ii) to share knowledge about best practices, particularly with respect to the implementation and evaluation of Aid for Trade programmes, (iii) to improve monitoring--at national, regional, and global levels of this initiative, and (iv) to identify matters concerning Aid for Trade that require further evidence and analysis. The discussions in each panel were lively with contributions from a wide range of participants. The purpose of this report is to summarise the main points made during the OECD Policy Dialogue.

Summary of the opening remarks made at the Policy Dialogue

2. The Policy Dialogue was opened by the Secretary-General of the OECD, who reviewed some of the pertinent facts concerning the Aid for Trade initiative. The first Global Review of this initiative attracted high-level participation. Spending on Aid for Trade in 2006 grew by 10% in real terms. Moreover, the increase was additional; meaning not to the detriment of aid to the social sectors. Most of the increase was allocated to Africa and to regional initiatives, two accepted priorities of Aid for Trade. Regional programmes now represent 18% of total aid for trade flows.

3. However, it was argued that these successes have to be seen along with a deteriorating global economic climate (including not only financial turmoil but also falling commodity prices) and a failure to conclude the Doha Development Agenda (DDA). The global economic downturn has begun to feed through into lower export revenues for developing countries, making Aid for Trade all the more important. Falling and volatile energy and food prices place additional burdens on many poor nations and it will be important to ensure that developing country governments have funds in the future so that their populations can maintain the current levels of food consumption. During this crisis donors should honour their Aid for Trade pledges and all governments should stay focused on meeting the targets associated with the Millennium Development Goals and renew efforts to conclude the DDA.

4. The Secretary-General advocated that a number of practical next steps be taken, organised into the following three themes: "getting the arguments right", "getting delivery right," and "getting feedback right." With respect to making the case for Aid for Trade, now more than ever because of the global

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economic downturn it is necessary to counter protectionist impulses. The acceleration of exports, facilitated by Aid for Trade, would help lift economies out of recession sooner. Concerning the implementation, it was argued that the Accra Action Agenda and the Paris Declaration offered important principles and lessons for undertaking Aid for Trade initiatives. Promoting cooperation among developing country governments was seen as a particular priority, as was broadening the support for Aid for Trade beyond trade ministries. Developing mutual accountability for this initiative was important and required careful consideration of incentives, mechanisms to elicit the relevant information, and open appraisals as to what works and what does not. In this regard it was suggested that the development of indicators might be a promising topic for deliberation.

5. The keynote address to the Policy Dialogue was given by Mrs. Valentine Rugwabiza, Deputy Director-General of the World Trade Organization (WTO). She argued that deliberations at this event would provide valuable inputs into the next WTO General Council discussion on Aid for Trade, which is expected to take place in June 2009. Aid for Trade is still a relatively new matter upon which the WTO and the OECD cooperate and there was plenty to learn about what works, best practices, etc. The speaker then recounted the history of the Aid for Trade initiative and noted that, while there was a powerful synergy between the DDA negotiations and this initiative, any lack of progress with the former had not detracted from the latter. For example, November 2007 saw the first Global Review of Aid for Trade and a joint report was issued by the WTO and OECD. Data presented then showed that additional funds had been made available and experiences had been shared at a regional and global level. Moreover, at the time of the first Global Review there was a widespread conviction that the Aid for Trade initiative had to shift its emphasis from awareness building and needs assessment to the financing and implementation of projects, a theme reiterated by many participants from developing countries in the Policy Dialogue.

6. Mrs. Rugwabiza hoped that discussions at the Policy Dialogue would contribute towards better monitoring of the Aid for Trade initiative. In this regard it was suggested that a set of indicators could be developed and employed in future reviews and deliberations. Generating new information on national and sub-regional Aid for Trade projects is another potential payoff from this Policy Dialogue. It was also argued that specific case studies of Aid for Trade projects could provide useful information for the next Global Review of this initiative. Assistance from national, regional, and multilateral agencies was requested in supporting the evidential base required for sound decision-making.

7. Some reflections were also offered on the worsening financial crisis and its likely impact on aid flows. Tighter credit conditions, including trade finance, were constraining economic activity in developing countries, adding to the pressures created by a deteriorating world economy and export markets. If anything, it was argued, the case for Aid for Trade had strengthened, precisely because facilitating exports at this time would shore up economic growth. However, the fear was expressed that in times of stringency aid flows may be cut back and that this must be strongly resisted.

Summary of the principal observations made during the four sessions of the Policy Dialogue

8. The report presented by the rapporteur at the end of the Policy Dialogue was divided into the following five themes:

- (1) The current context and deliberations on Aid for Trade;
- (2) The case for Aid for Trade;
- (3) Getting the delivery of Aid for Trade right;
- (4) Getting the right feedback; and
- (5) Getting the right information on the Aid for Trade initiative.

i) Current deliberations on Aid for Trade taking place in a new context

9. Several speakers at the Policy Dialogue noted that the context in which Aid for Trade discussions were taking place had changed during the past months and year. Three contextual changes were given particular prominence. First the global financial crisis, with its implications not just for global levels of economic activity but also for commodity prices, had reinforced the case for Aid for Trade, principally to allow exports to make a greater contribution to the recovery of developing countries. Yet the fear was also expressed that, with pressing economic matters on their hands, senior decision-makers may inadvertently demote the Aid for Trade initiative and, indeed, aid pledges in general. Many felt strongly that this should be avoided and it was noted that the OECD Secretary-General and the Chairman of the Development Aid Committee (DAC) had sought pledges the previous weeks from donors to adhere to their stated commitments.² More generally, the view was expressed by many that the global economic downturn not be used as an excuse for any lack of progress in attaining the Millennium Development Goals, slowing climate change, and on implementing Aid for Trade.

10. A second contextual factor was the inability for the WTO membership to agree modalities over the summer for the Doha Round. While technically separate from the Doha Round negotiations, the Aid for Trade initiative had important synergies with multilateral and other trade reform initiatives and remained a significant and legitimate matter for developing countries. Again the view was expressed by many that negotiating hiccups should not prevent further progress on the Aid for Trade initiative.

11. It was also argued at the Policy Dialogue that current discussions on Aid for Trade could build upon prior experience, which is often encapsulated in international declarations and deliberations such as those that had taken place recently in Accra, Ghana. It is important to recall that the deliberations at this Dialogue are part of an ongoing programme of evaluation and discussion. Several future milestones in this programme were mentioned by participants including the next debate on Aid for Trade that is likely to be held in the WTO's General Council in June 2009. In short, the trade and development communities are not starting from scratch and every effort must be made to capitalise on previously garnered insights. Another legacy of prior discussions is that many now feel it is time for the emphasis to be on the *implementation* of the Aid for Trade initiative and perhaps less on awareness raising and assessing needs. Some voiced demands for "results" and for greater monitoring of inputs and outputs of the Aid for Trade initiative.

12. These three contextual factors shaped deliberations at this Policy Dialogue as will become clear in the matters discussed below.

ii) Reiterating and Developing the Case for Aid for Trade

13. Participants in the Policy Dialogue were reminded that there was an ongoing need to make the case for Aid for Trade. This was not because there was a large body of opposition, rather that not everyone appeared to be convinced thoroughly of the merits of this initiative. It was noted that this initiative's supporters were often found in greater numbers in trade and commerce ministries and less so in finance and development agencies. Moreover, the inevitable turnover of personnel in trade ministries meant that new persons were frequently coming to the Aid for Trade file for the first time and naturally sought to understand the pros and cons of pursuing this initiative. Given these considerations it is only appropriate that a session was devoted to making the case for Aid for Trade at this Policy Dialogue.

2. The Aid Pledge was agreed on 24 November 2008.

14. Taken together, several presentations to the Policy Dialogue provided a useful overview of the impact of trade reforms on development outcomes, in particular poverty reduction. Two-thirds of the latter in recent decades was driven by economic growth and not by redistribution policies, according to one speaker's interpretation of the evidence. Another speaker argued that openness was a necessary condition for poverty reduction, while others noted that there was a wide variation in the latter associated with certain levels of openness to international commerce. The macroeconomic evidence, therefore, provided something of a mixed picture.

15. Some participants noted that there were direct impacts of trade liberalisation on the poor through the prices of the goods they purchased and sold (including through exporting), through wages and employment levels, and through the impact on government finances (and therefore the ability to pay for social transfers and to support social safety nets.) Which tariffs get cut is important too, for it was argued that the relative position of the poor in Argentina improved from what amounted to progressive tariff cuts by the Mercosur customs union.

16. Several indirect effects were also identified, including the impact of trade reform on the degree of production specialisation of developing countries, on the intensity of inter-firm rivalry and competition, and on productivity growth, bearing in mind that there are likely to be linkages between these variables as well as with the incomes of and the prices paid by the poor. In particular, it was argued that trade reform increased the public and private returns to corporate investment and promoted technology transfer; thereby linking trade reform to the investment climate, economic growth, and poverty reduction. One speaker argued that there was almost no dispute that productivity rises when nations open up to international commerce.

17. While the conceptual underpinnings and empirical strength of these linkages can be debated, and may well vary across developing countries and over time, the question does arise as to whether the relevant policy question is the impact of trade reform itself or the impact of Aid for Trade's implementation on the effects of trade reforms. The rapporteur argued that much of the evidence presented at the Policy Dialogue related to the former and not the latter, leaving open the possibility of the latter receiving more attention in future such Policy Dialogues and related events.

18. A number of participants argued that one role for Aid for Trade is to "take care of the losers" from trade reforms. Without denying the legitimate social objectives underlying this proposition, questions were raised as to the specific contribution that Aid for Trade could play here, as compared to other measures to cushion economic adjustment and social safety nets in general. For example, if the objective is to make trade reform easier to accomplish politically then the question arises as to why trade-related losses should be privileged.

19. Many speakers noted important complementarities between the outcomes of trade reform, potential Aid for Trade projects, and existing institutional characteristics of trading nations. The case was made by some speakers that the priority for Aid for Trade projects was to target "trade costs", that is factors that increase both the expense and uncertainty associated with conducting both domestic and international commerce, and evidence was presented as to the impact of such cost reduction on developing country export performance.

20. Others argued that lowering such costs could have direct poverty impacts, especially as it could affect the prices received by the poor for the goods that they produce (including agricultural products such as crops, fruit, and fish). Interestingly, the same matters were frequently characterised differently by other participants. Some preferred to refer to institutional bottlenecks, supply side factors, and information deficits rather than trade costs. Close inspection of the comments made tended to suggest that these terms were used almost synonymously with trade costs. However, there was some divergence as to whether

concerns about the export performance of developing countries called for renewed national industrial policies, especially since the latter was not defined with any specificity. Another, perhaps more illuminating area of subtle disagreement, was between those who felt that reducing trade costs or 'fixing the supply side' should be accomplished before developing countries attempt trade reforms and others who argued that reform measures should be undertaken at the same time with Aid for Trade initiatives. Arguably more analysis is needed here as it has implications for the timing of Aid for Trade and trade reform initiatives and presumably, therefore, for the current and future needs for Aid for Trade support.

21. Understanding the impact of Aid for Trade requires information on the funds provided, projects undertaken, and possible outcome measures, including not just economic indicators but also social measures. Several speakers noted that there were deficiencies in the reporting of all of these variables and made the case that a very small proportion of the large amount of resources devoted to the Aid for Trade initiative should be deployed in improved data collection and dissemination. Such data is a necessary prerequisite for improving the delivery of Aid for Trade but is also important in sustaining support among national policymakers, legislatures, and the public for international aid projects.

iii) Getting the Delivery Right

22. Participants in this Policy Dialogue proposed various steps and principles that could be taken to improve the implementation of Aid for Trade projects. While many speakers noted the value of the Paris Declaration on Aid Effectiveness, the recommendations of the WTO's Aid for Trade Task Force, and the recent deliberations in Accra, Ghana, and argued that awareness of these initiatives should be raised, three contributors offered a similar set of guidelines for delivering Aid for Trade.

23. The first such contributor emphasised the following three guidelines: country ownership (as a response to the needs of recipient nations), a focus on projects with the highest impact on international trade (which in turn, it was argued, requires diagnosis, data collection and Aid for Trade links to national competitiveness strategies), and a focus on packages of interventions (bearing in mind the complementarities referred to in the last section of this report.) The second contributor's guidelines elaborated the first's to include a broader notion of country ownership, to formalise private sector involvement in the processes associated with the delivery of Aid for Trade. The third contributor noted that as far as country ownership was concerned it was important not to overestimate the capacity of donor countries and to recognise the degree of inter-ministerial negotiation in donor countries. This contributor concurred that getting the right sequence of interventions correct is vital and that errors here resulted in a loss of momentum. Finally, donors and recipients should not wait for or insist on perfect plans before implementing projects; if a project is promising enough, then it should go ahead.

24. Several interventions demonstrated that progress had been made over the near term, while recognising the various political-economy considerations that can impede reform. On a positive note, speakers from two African governments explained the steps they and their colleagues had taken to "mainstream" trade reform into development policymaking. Another speaker noted that the so-called capture of developing countries regulators by vested interests had limited opportunities to export, especially in transportation, infrastructure, and distribution sectors, where monopoly power is significant. It was argued that the delivery of Aid for Trade should recognise such bottlenecks at both the national and the regional levels.

25. A number of innovative approaches were suggested and discussed at this Policy Dialogue, including a greater emphasis on regional and sub-regional initiatives to cut trade costs especially for landlocked countries. It was argued that such initiatives could be supported by the multilateral and regional development banks. Moreover, specific proposals were made for creating a Trade Facilitation facility to cut red tape and improve procedures in developing countries.

26. A set of discussions concerned South-South collaboration on delivering Aid for Trade. Some developing countries explained the form and process employed when assisting other developing countries on Aid for Trade projects. Closer levels of development were said to generate greater affinity and understanding of the challenges faced and provided a pool of potential solutions. Like in other forms of Aid for Trade, one developing country speaker noted the following challenges remain in the delivery of aid for trade: country ownership, the definition of clear and quantifiable objectives, lack of qualified candidates, low response rates to questionnaires, and an overreliance on the use of English language training tools. Moreover, the concerns of traditional donors about sustainability and impact of aid projects were echoed here by Southern donors. Furthermore, it was argued that developing country donor efforts should concentrate on what they have learned from their own integration into world markets and their own development trajectory.

27. Finally, a proposal was made that middle income countries that offer and deliver Aid for Trade should be given bonds that they can "cash in" for assistance from traditional donors; the creation of such bonds by the latter thereby inducing the former to undertake valuable Aid for Trade projects with other developing countries with less experience or success integrating into the world trading system.

iv) Getting the Right Feedback

28. The following three reasons were advanced at the Policy Dialogue for better monitoring and evaluation of the Aid for Trade initiative:

- (1) to improve the delivery of related projects (for which evaluations of specific interventions might be most useful);
- (2) to elicit information that further promotes the mainstreaming of trade policy in national decision-making purposes, and,
- (3) to facilitate deliberations among WTO members.

29. As far as the latter is concerned, it was argued that better information flows could reinforce the momentum behind the Aid for Trade initiative, identify further reforms, and provide subtle peer pressure. Each of these three reasons was said to become more pressing especially as the Aid for Trade initiative moves from raising awareness to implementation.

30. During the Policy Dialogue some argued that the Aid for Trade's longer-term viability was determined in part by the need to demonstrate that projects had resulted in tangible benefits. This raises the matter of the evaluation of such projects and, in turn, the appropriate metrics for assessing this initiative. One speaker recounted his international organisation's evaluations of trade-related technical assistance projects and the deficiencies that had been uncovered. These included no demonstration of the relevance or rational for the trade-related technical assistance; when a project was planned there was at best a weak, and in some cases no, explicit hypotheses linking the related activities and economic growth and poverty reduction; the strategy and support for the tradable sector in the recipient nation was either non-existent or not adapted to local circumstances; adverse conditions in the recipient nation and worsening trade opportunities faced by exporters in recipient nations; and lack of coordination, especially between the headquarters of the donor and the field offices. It would seem, then, that there is a considerable potential for outcomes to fall short of best-practice principles on delivery. This speaker went on to propose that a common, comprehensive framework be developed to assess Aid for Trade projects along with tools for evaluation, in particular tools that better take account of the synergies and complementarities emphasized by so many other participants of the Policy Dialogue.

31. Several participants and speakers grappled with the appropriate metrics for evaluating Aid for Trade projects. At one level it may seem obvious that trade-related impacts are appropriate, but then others were more concerned with the effects on poverty and the poor more generally. There may be less of a tension here than some might think as one speaker presented estimates of the impact of infrastructure-related projects in the Greater Mekong sub-region on trade and transportation costs, commercial flows, and poverty levels. While the total cost of the projects evaluated was USD 2.8 billion, the total welfare gain (excluding China) was more than twice this amount, USD5.8 billion. In addition, 350,000 people are expected to move out of poverty (defined as one-dollar-a-day in income) with the implementation of these projects; with more moving out of poverty at the more generous two-dollar-a-day threshold.³

32. Benchmarking Aid for Trade projects against other aid projects may appeal to some, a point worth bearing in mind given that not every traditional aid project leads to meaningful improvements. Moreover, given the complementarities mentioned earlier between economic outcomes, aid interventions, and prevailing national institutions and policies, care is needed in determining what outcomes can actually be attributed to Aid for Trade projects and what can be attributed to other factors. The mismatch in the timing of costs (felt typically sooner) and benefits (felt typically later) should be borne in mind, some argued. Finally, developments in evaluation will be contingent in large part on the availability of data, again reinforcing the case for investing some Aid for Trade resources in the collection and dissemination of such information.

33. Concerns were also expressed about the potential burdens placed on developing countries by current and potential future evaluation procedures for Aid for Trade projects. Having limited administrative capacity to begin with, such countries (in particular the Least Developed Countries) were said to find it difficult to cope with many different information and reporting requests from donors. These concerns may well reinforce the observation that a common framework be developed for evaluating Aid for Trade-related projects and processes and that this framework should be developed in consultation with recipient nations.

v) *Getting the Right Information*

34. This session began with a reminder from Mrs. Rugwabiza, the keynote speaker, of the importance that WTO member governments ascribe to the development of better indicators to monitor the implementation of the Aid for Trade initiative and of the types of questions that, with better information, WTO members wish to find answers to. Those questions include:

- (1) Since the Aid for Trade initiative was launched in 2005 how much more aid resources have been mobilised?
- (2) What progress has been made in setting priorities in developing countries? In this regard, how were any aid resources actually used and did they align with priorities set by the recipient nation?
- (3) What improvements in the trade capacities of developing countries can be attributed to Aid for Trade projects? What has been the impact of such projects on the trade performance of recipient nations?

35. It was then argued by the keynote speaker that indicators needed to be developed so as to shed light on these questions, in particular in estimating impact and whether resources made available align with identified priorities. Furthermore, thought should be given to monitoring progress in the processes

3. NB: New threshold is USD 1.25.

employed and not just project committed and implemented. In sum, monitoring can add to the momentum in deliberations at the multilateral level and to the momentum underlying reforms at the national level.

36. This perspective contrasted with that of another speaker who was concerned about both the different audiences of any output from a monitoring exercise and the cost of oversight. With respect to the former, one challenge was that the audience in Geneva was political and different in notable respects to those in national capitals (where developmental considerations may have a greater sway). With respect to the latter, it was argued that there was no need for another layer of monitoring, that there was a risk of information overload, and that individual projects should not be evaluated as this was too burdensome. Instead general lessons based on country experience and donor and recipient country questionnaires, such as those completed in 2007, ought to be used to support a monitoring exercise. Revisions to such questionnaires should be decided soon, it was argued, as time was passing and policymakers wanted to see results.

37. Another speaker argued that logs be created for assistance projects and that indicators be developed for monitoring and evaluation purposes from the information contained therein. Another suggestion made was that the indicators used to evaluate Aid for Trade projects should be agreed before a country finalises its trade-related assistance "roadmap." On this view the indicators chosen may well vary across recipient countries. One challenge this speaker noted was that not every indicator has the unambiguous link to the trade, economic, and social improvements that policymakers ultimately seek.

38. It was argued that information in a number of different formats could be collected as part of a more comprehensive effort to monitor the implementation of the Aid for Trade initiative. A strong case was made for developing indicators that were comparable across countries and across time, although it was conceded that much work remains in the selection and justification of specific indicators. Case studies of Aid for Trade interventions were said to add to the qualitative base of information that could guide policymaking. Detailed analyses of the processes followed and outcomes of specific projects were thought to offer potential insights, too. While these observations suggest that going forward a multi-track approach should be taken to strengthen the monitoring and evaluation of the Aid for Trade initiative, they also raise questions about the adequacy of the underlying evidence base and whether additional resources need to be devoted to the collection of comparable and policy-relevant measures that can facilitate policymaking. Some argued that such data collection represented a global public good and that financial support should be made available for this purpose.