

Review of the Monterrey Consensus on Financing for Development

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OECD Submission

The 2002 Monterrey Consensus underscored that international trade is *in many cases the single most important external source of development financing*, and that *meaningful trade liberalization can substantially stimulate development worldwide, benefiting countries at all stages of development*. The Consensus invited *the multilateral and bilateral financial and development institutions to expand and coordinate their efforts, with increased resources, for gradually removing supply-side constraints; improve trade infrastructure, diversify export capacity and support an increase in the technological content of exports, strengthen institutional development and enhance overall productivity and competitiveness*. From a development perspective, the objective is to strengthen the contribution of trade (local, regional and international) to economic growth and poverty reduction.

2. Six years into the Consensus, a final agreement on the Doha Development Agenda has not yet been reached and negotiations on how to meaningfully liberalize trade in agriculture, non-agricultural goods and services continue in earnest. Along the negotiations, awareness has been growing on the need to devise instruments to help developing countries overcome their trade-related institutional, human resource and supply-side capacity gaps. This became evident at the 2005 Hong Kong WTO Ministerial Conference¹ when Ministers mandated the WTO to help developing countries, especially the least developed amongst them, build the trade capacity they need to take advantage of emerging trade opportunities. Ministers considered that in many developing countries, Aid for Trade is a key instrument to helping developing countries move from making trade possible to making trade happen.

3. The OECD has been working with the WTO with the objective of making the Aid for Trade initiative operational. This has led to the establishment of a monitoring mechanism that enables enhanced multilateral scrutiny of the flows and quality of Aid for Trade.

Aid for Trade today

4. Capturing the potential benefits of trade liberalization requires adjustment and effective supply-side responses. Domestically, countries can promote healthy adjustment by doing what is right for their economies in the first place. This means, inter alia, establishing sound economic framework conditions (e.g. striving for macroeconomic stability, reducing transaction costs, promoting entrepreneurship), developing human resources (e.g. through education and training), and facilitating the adjustment for those individuals at risk of losing out (e.g. through appropriate placement assistance or social safety net provisions)².

¹ WT/MIN(05)/DEC, Ministerial Declaration, Doha Work Programme, Adopted on 18 December 2005

² OECD (2005) *Trade and Structural Adjustment*, OECD, Paris.

5. The multilateral trading system can address some developing countries' concerns by extending special and differential treatment to help attenuate difficult-to-manage adjustment costs. And donors can provide effective development assistance through Aid for Trade in support of developing countries' efforts to address constraints and position themselves to capitalise on the new economic opportunities arising from liberalisation. This would underpin efforts to make globalisation more inclusive of poor countries and poor people, and maximise the contribution of trade to economic growth and poverty reduction.

6. Between 2002 and 2005, donors have committed on average USD 21 billion per year to improving supply-side capacity in developing countries. This includes USD 11.2 billion to build economic infrastructure, USD 8.9 billion to promote productive capacities, and USD 0.6 billion for increasing the understanding and implementation of trade policy regulations. During the 2002-2005 period, commitments to improving supply-capacity rose by 22% in real terms but represented a diminishing share of sector allocable ODA (from 34% of in 2002 to 32% in 2005)³.

7. However, despite this considerable amount of aid spent on improving supply capacity there is little evidence of the impact of these programmes. Increasing donors' contribution to trade-related capacity in developing countries requires first to convince donors and partner countries that trade integration has an important contribution to make to development and needs specific support, and, second to strengthen the effectiveness of donor's support. But doing more and better is, in the first instance, not a matter of simply more aid.

Trade and Development Strategies

8. Since 2002, the policy agenda of many low income countries began to reflect increased emphasis on the role of trade in stimulating growth. In this respect, the role of the Integrated Framework⁴ in raising awareness in LDCs should not be underestimated. For instance, nine of the ten PRSPs completed in the last two years have a well articulated growth strategy and trade issues appear in all ten, often as part of their growth agenda or macroeconomic frameworks. Nonetheless, there is still room for improvement as few PRSPs present an operational strategy (*e.g.* highlighting bottlenecks, proposing concrete plans of action connected to budgets and capacity development programmes) for using trade to stimulate economic growth and poverty reduction.

9. In addition, recent evaluations of bilateral and multilateral donors' trade related assistance programmes have highlighted a lack of full understanding of the potential role of trade in poverty reduction and how best to support the trade policy processes in partner countries. This is hardly surprising as the links between trade, growth and poverty reduction is complex and because the evidence base does not permit consensus conclusions. Consequently, only a few donor assistance programmes explicitly incorporate trade as a component in their aid programmes to reduce poverty. There is still work to be done among OECD donor agencies in better integrating their trade expertise in the country and operational

³ OECD/WTO (2007) *Aid for Trade at a Glance 2007*, OECD, Paris.

⁴ Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries and its follow-up.

teams but the WTO-led Aid for Trade initiative is already encouraging many bilateral and multilateral donors to devise and/or update their trade development strategies, and improve their aid-for-trade capacity.

Effectiveness

10. The key challenge remains effectiveness. Most evaluations highlight the poor value for money of aid-for-trade programs⁵. The Paris Declaration on Aid Effectiveness is far from being systematically applied, particularly in regards to country ownership and result-based management. 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. Moreover, coordination among donors and within governments is often poor which hampers the realization of synergies among sectors and the implementation of accompanying social policies to facilitate adjustment.

11. Analysis point to two main priority areas for action:

- There is an urgent need to improve the know-how of development practitioners in partner and donor agencies on how to design and implement programmes that effectively tackle the constraints to trade development, and increase the impact of trade on growth and poverty reduction;
- The principles of the Paris Declaration on Aid Effectiveness to aid-for-trade programmes should be applied in a consistent and comprehensive manner.

12. By definition, low-income countries will have a long list of needs, in terms of infrastructure, capacity, access to technology, etc. No amount of aid would enable a country to address all its needs at the same time. It is also crucial that the binding constraint to productivity growth is lifted in order to deliver increased competitiveness, help the political economy of reforms as well as entice further donor support. There has been much emphasis in the last decades on improving the analytical tools and evidence-basis of trade policy instruments, particularly those more often subject to negotiations such as border measures. An effective use of Aid for Trade instruments requires developing better evidence on what works and which decision-making processes are more conducive to select the 'right' interventions. In particular, further attention should be devoted to the challenges of addressing regional constraints, including political economy issues and the provision of quasi public goods.

13. The second priority is to apply better the principles of the Paris Declaration on Aid Effectiveness to aid-for-trade. The Paris Declaration is relatively new (signed in 2005) though many of its principles such as country ownership and donor coordination have been promoted as best practice in the development community for decades. At the same time,

⁵ OECD (2007) *Trade Related Assistance: What do recent evaluations tell us?* The Development Dimension, OECD, Paris.

donors find the implementation of these principles challenging and would welcome stronger political incentives.

14. During 2007, the OECD collaborated with the WTO in setting up an aid-for-trade monitoring framework. The logic of the framework is that increasing transparency on Aid for Trade would provide incentives for more effective Aid for Trade. The objective of the monitoring mechanism is thus to create a dialogue, to encourage all of the key actors to honor commitments, meet needs, improve effectiveness, and reinforce mutual accountability. An effective and systematic monitoring of aid-for-trade plans and activities should strengthen mutual accountability and improve the impact of donor's assistance.

The Monitoring Framework

15. The monitoring framework was developed in line with the recommendations of the WTO Task Force on Aid for Trade.⁶ In particular, 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 various issues including trade mainstreaming in national development strategies, the formulation of trade strategies, aid-for-trade needs, donor responses, implementation and impact.

Defining Aid for Trade

16. Different organizations and interest groups have offered various definitions of Aid for Trade. The OECD/WTO monitoring framework defines Aid for Trade as part of overall Official Development Assistance (ODA) — grants and concessional loans — targeted at trade-related programs and projects. Aid for Trade is ODA aimed at helping developing countries, in particular the least-developed, to build the trade capacity and infrastructure they need to benefit from trade opening.

17. Because trade is a broad activity, Aid for Trade is broad and not easily defined. It includes (i) technical assistance — helping countries to develop trade strategies, negotiate more effectively, and implement outcomes; (ii) infrastructure — building the roads, ports, and telecommunications that link domestic and global markets; (iii) productive capacity — investing in industries and sectors so countries can diversify exports and build on comparative advantages, and (iv) adjustment assistance — helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade.

⁶ The Task Force was established at the Hong Kong Ministerial meeting to provide specific recommendations on how to operationalise the Aid for Trade initiative. Their recommendations can be found in WTO (2006) *Recommendations of the Task Force on Aid for Trade, WT/AFT/1*

18. The Aid for Trade is not a new global fund for ODA but part and parcel of normal programmable ODA. Thus, there are neither specific eligibility criteria nor specific application procedure.

Monitoring quantity and quality

19. 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, draw a comprehensive aid-for-trade picture and allow the international community to assess what is happening, what is not, and where improvements are needed.

20. Quantitative information, i.e. tracking Aid for Trade flows, is obtained through the OECD Creditor Reporting System (CRS), a database covering around 90 per cent of all ODA. Global data is complemented by donor and partner countries' reports. Flows data are collected in order to assess whether additional resources are 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 which impact on 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.

21. Qualitative information is obtained through two structured questionnaires, each tailored to one of the two constituencies (donors and recipients). Both questionnaires were organized around four themes, namely: What is your aid-for-trade strategy? How much aid-for-trade do you provide/receive? How do you implement your strategy? And do you participate in mutual accountability arrangements? Under each of these themes, a range of questions seeks to bring out information on efforts to improve trade development strategies, better identify the gaps between needs and actual support, reduce transactions costs, and better assess impacts.

First Results

22. The First WTO Global Aid for Trade review took place in November 2007 and the first results of the monitoring exercise were presented. The joint OECD-WTO 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. Key messages in the report include:

- Aid for Trade is increasingly prioritized in donor 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 in the coming years.

- While binding regional constraints, such as poor cross-border infrastructure, are clearly acknowledged, working at regional level poses particular challenges, such as insufficient regional co-operation and concerns about asymmetric costs and benefits.
- 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 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.

Next Steps

23. The conclusions above are based on an excellent rate of responses from donors but a much poorer one from partner countries (only 8 responses). This low rate is partly due to low awareness levels in many partner countries on both the aid-for-trade initiative and the role of the monitoring framework, and to capacity constraints.

24. The 2007 round of monitoring was designed to elicit general information that would enable us to develop a broad and comprehensive picture of what's happening on Aid for Trade. In the next survey, the focus will be to promote greater mutual accountability on the results that Aid for Trade programmes are producing. This requires developing a more quantitative approach in the questionnaires that will allow us to provide benchmarks on the quality of Aid for Trade programming and the evolution of trade capacity in a format that political leaders can see at a glance and respond accordingly.

25. It is important to note that partners' self-assessment reports are also an excellent opportunity for the countries themselves to develop and refine their trade development strategies. Reporting their activities publicly in the WTO forum, whether as a fully fledged member or as an observer, enables them to share their priorities with all key donors and send a signal to the donor community on the strength of their political commitment to developing their trade capacity.

26. The OECD is working to improve the monitoring of Aid for Trade and to facilitate developing countries' engagement. In particular, we are consulting with partner countries to develop a new questionnaire that is much simpler, more user-friendly, and more relevant to national planning. We are also exploring with non-traditional donors the possibility to create a dedicated donor questionnaire that better reflects technical and south-south cooperation issues.

Further information on Aid for Trade is available at <http://www.oecd.org/dac/trade/aft>