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**DRAFT PROPOSAL FOR THE JOINT 2011-2012 DAC - TC PWB ON AID FOR TRADE**

**7 June 2010, OECD Conference Centre, Paris**

*This note is submitted for COMMENT to the 7 June joint meeting of the DAC-WPTC under item 8 of the agenda [COM/DCD/TAD/A(2010)4/PROV].*

*The note sets out the most recent version of the 2011 – 2012 joint DAC – WTPC programme of work and budget on Aid for Trade. Following suggestions from a number of DAC delegates, it should be noted that the budget has been reduced to make room for other priorities in the overall 2011-2012 DAC PWB. Consequently, the intermediate output area of the OECD Policy Dialogue had been eliminated from the draft PWB.*

*The next step will be a more detailed discussion about the proposed intermediate outputs during the next joint DAC - WPTC meeting in the fourth quarter of 2011.*

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## DRAFT PROPOSAL FOR THE JOINT 2011–2012 DAC – TC PWB ON AID FOR TRADE

### 1. Introduction

1. This paper provides an update of the 2011-2012 joint Programme of Work and Budget (PWB) on aid for trade and a report on the outcomes of discussions of the Development Assistance Committee (DAC) and the Trade Committee (TC) on their respective PWBs.

2. The remainder of this note is structured as follows: Section 2 provides a brief overview of the DAC and TC discussions concerning their respective overall PWB and the consequences for the aid for trade PWB. Section 3 briefly recalls the output areas of the 2009–2010 joint PWB on aid for trade [COM/DCD/TAD(2008)7]. Section 4 provides an overview of the key issues that have been identified for the coming biennium and suggests striking a balance between continuity and allowing for some new work. Section 5 proposes the output results for the 2011-2012 PWB. Annex 1 provides the DAC template on the aid for trade PWB proposal [DCD/DAC(2010)4/ADD/REV2], while Annex 2 provides the TC template [TAD/TC(2010)1].

### 2. Outcomes of the DAC and TC PWB discussions

3. The DAC finalised its 2011 -2012 PWB submission at its meeting on 19May and has set an overall ceiling of € 30.9 million for its budget envelope, including Part I resources and voluntary contributions [DCD/DAC(2010)24 and DCD/DAC/M(2010)3/PROV]. This implies for 2011 – 2012 an aid for trade budget of € 1.360,000.<sup>1</sup>

4. The TC supported the work on aid for trade and allocated a budget of € 325 000 for the biennium [TAD/TC(2010)1]. The Trade Committee noted the heavy reliance on voluntary contributions, *i.e.* € 240 000 to finance its contribution to the joint PWB on aid for trade.<sup>2</sup>

5. The implication of the discussions of the DAC and the TC for 2011 – 2012 PWB on aid for trade is a € 200 000 reduction of compared to the 2009 - 2010 PWB. Consequently, the intermediate output area of the OECD Policy Dialogue on Aid for Trade has been eliminated from the draft 2011 – 2012 PWB on aid for trade, while other efficiency saving will be required.

### 3. Background

6. During 2009–2010, the OECD has been actively engaged in delivering an agenda that addresses the key issues in the Aid for Trade Initiative; our contribution focused on two challenges in improving effectiveness:

- i)* monitoring progress in implementing the Aid for Trade Initiative; and,

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1. This includes overheads for administration and communication.

2. Some members channel their VCs through the DAC account to finance the TC contribution to the joint work on aid for trade. Consequently, the DAC aid for trade budget contains a reservation of € 165 000 that will be used to finance half of the overall TAD contribution to the joint PWB.

- ii) developing and disseminating best practices in aid for trade.

7. During the 2<sup>nd</sup> WTO Global Aid for Trade Review in July 2009, the OECD Secretary-General presented the joint OECD/WTO publication *Aid for Trade at a Glance: Maintaining Momentum*. The publication provided qualitative and quantitative information about aid-for-trade strategies and aid-for-trade flows. In addition, it presented aid-for-trade fact sheets for all partner countries that took part in the self-assessment exercise.

8. Work on developing and disseminating best practices is well underway and the final output results will be delivered as planned by the end of the 2009-2010 PWB. This work focuses on creating an aid for trade performance assessment framework consisting of guidance on how to evaluate aid for trade, and how to apply the Paris Declaration principle of management for results to aid for trade. In addition, we expect that the work on identifying the binding constraints to trade expansion [COM/DCD/TAD(2009)5/Final], and the report on good practices that builds on it [COM/DCD/TAD(2010)4], will help improve the effectiveness of aid for trade and strengthen the Initiative's impact.

#### **4. Strategic orientations for the 2011–2012 PWB**

9. Based on the output results of the 2009–2010 PWB on aid for trade and the outcomes of the DAC and TC discussions on their respective 2011–2012 PWB, it is suggested to focus the 2011–2012 joint DAC-TC PWB on aid for trade on two issues:

1. Monitoring progress in the delivery of aid for trade;
2. Linking the Initiative to the wider trade and development agenda.

##### **4.1 Monitoring**

10. The OECD/WTO monitoring framework has created incentives for strengthened dialogue among key stakeholders about what is happening, what is not, and where improvements are needed. The OECD remains committed to continuing its work on enhancing transparency about the quality and quantity of aid for trade to strengthen mutual accountability at both the global and country levels. This will involve not only a fair amount of regular activities, but also a significant amount of new analytical work.

11. Regular activities will involve reporting on aid for trade flows (based on the DAC/CRS) at the global, regional and country levels, disaggregated by multilateral and bilateral donor and by aid for trade categories and sub categories. In addition, the next review will also report on imputed multilateral flows and Other Official Flows [COM/DCD/TAD/RD(2010)4/RD1]. Furthermore, the possibility of conducting a new round of self-assessment surveys (based on a revised OECD/WTO questionnaire) is being considered.

12. It is also proposed that new analytical work will focus on short case studies allowing stakeholders to share their experiences. These case studies should highlight outcomes and impacts at the national, regional and multilateral levels, lessons of experience and where improvements are needed. This will provide an important complement to the monitoring framework, an input into the next joint OECD/WTO publication, and inform the third Global Aid for Trade Review [COM/DCD/TAD(2010)6].

13. New work will also involve using a limited set of performance indicators to track progress on the delivery, outcomes and impacts of aid for trade projects and programmes at the country level to help enhance local accountability mechanisms [COM/DCD/TAD(2010)1]. This is also in line with the overall orientation of the OECD to measure results.

14. The outcome of the monitoring exercise, *i.e.* the global aid for trade flows, the assessment of donor and partner strategies, the outcomes and impacts of aid for trade projects and programmes, and performance indicators will be presented in the next edition of the joint OECD/WTO flagship publication *Aid for Trade at a Glance*. The official launch is planned for the next Global Aid for Trade Review that is now foreseen to take place late in 2011, rather than in 2012 as originally planned. Moreover, all country profiles will be made available on the OECD Aid for Trade website.

15. Furthermore, developing countries will be regularly updated about the progress of OECD work through meetings of the WTO Committee on Trade and Development. In addition, the OECD will continue to participate regularly in regional, sub regional and country level meetings on aid for trade organised by the Regional Development Banks and UN Regional Commissions.

#### **4.2 The wider trade and development agenda**

16. In his key note speech to the 2<sup>nd</sup> Global Aid for Trade Review, Secretary-General Gurría highlighted the need to connect the Aid for Trade Initiative to the wider trade and development agenda, which encompasses international co-operation, improved policy coherence and a whole-of-government approach to economic development and poverty reduction.

17. These themes concur with the May 2009 Council decision to enhance the “*whole-of-OECD and whole-of-government*” approach to development. In fact, aid for trade is policy coherence in practice, bringing together the trade and development communities to leverage the impact of aid on building trade capacities to promote pro-poor growth. Promotion of long-term sustainable growth for the world’s poorest countries will depend on progress across a range of policy areas.

- Trade on its own will not do it; market opening can deliver benefits but needs to be accompanied by complementary policies in several areas to ensure an appropriate growth response and make the trade reform sustainable. It creates winners and losers and many developing countries remain poorly placed to harness the potential of trade.
- Aid is no panacea either. The Aid for Trade Initiative and other efforts have shown that there is no substitute for strong national will, broad-based dialogue including with the private sector and careful planning. Aid for trade can play a catalytic role, but it is not a silver bullet.

18. The 2009 OECD Ministerial concluded that we cannot and we should not simply return to the way we operated before the crisis. The crisis should help us to shift to cleaner technologies, to boost green innovation and to expand business possibilities. Ministers asked the OECD for advice to re-orient policies and aim for a stronger, cleaner and fairer global economy. Aid for trade should respond to this request via the promotion of trade integration that can help developing countries adopt new technologies, greener agricultural practices and cleaner energy production. This will contribute to putting their economies and the world at large on a more environmentally sound footing.

19. In light of the major concern with food security agriculture is attracting increasing attention from the international community. Aid for trade could play a significant role in fostering developing countries’ agriculture growth, contribute to food security, and alleviate rural poverty. Already, agriculture accounts for about one-fifth of aid for trade flows and these are growing fast (a 32 percent increase in real terms in 2008). Given that food security is a key objective of recipient countries and donors alike, understanding the binding constraints to trade in agriculture is particularly important.

20. Aid for trade has so far focused on the binding constraints to trade expansion assuming that it is sufficient to boost growth. The empirical literature strongly supports this assumption in terms of the

direction of change, but also shows that there is a large heterogeneity in the degree of growth response to trade expansion and that in many LDCs this response is weak. As argued in the first two reports on the binding constraints to trade expansion [COM/DCD/TAD(2009)5/Final and COM/DCD/TAD(2010)4], aid for trade has a role to play in maximizing the growth response.

## **5 Output results**

21. On the basis of the strategic orientations set out above and under the heading “*Aid for Trade: Making an Impact*”, the following intermediate output results for the 2011 -2012 PWB on aid for trade are proposed:

- Joint OECD/WTO publication, *Aid for Trade at a Glance: 2011*;
- Analytical reports on linking the Aid for Trade Initiative to the wider trade and development agenda.

**ANNEX 1**  
**PROPOSED DAC 2011 – 2012 PWB ON AID FOR TRADE<sup>3</sup>**

**1. Theme and Responsible entity**

Aid for Trade is a theme under the pillar economic growth and policies and work is conducted under the responsibility of the DAC jointly with the Trade Committee and in close cooperation with the WTO, i.e. joint OECD/WTO Aid for Trade at a Glance publication.

**2. Outputs. Please indicate after each output (new work) or (on-going work).**

The final output result will be policy guidance on making aid for trade work better, *i.e.* how to use aid to effectively tackle the binding constraints to trade capacity in order to promote pro-poor economic growth. The intermediate outputs are (i) monitoring reports, and; (ii) linking the initiative to the wider trade and development agenda. This is a continuation of ongoing work to improve the effectiveness of aid for trade, building on the joint OECD/WTO monitoring process, underway since 2006, that is working well.

**3. Please describe the proposal in a way that is succinct and self-explanatory.**

The work will contribute to the overall OECD objective of a stronger, cleaner and fairer world economy:

*i) Joint OECD/WTO monitoring report Aid for Trade at a glance: 2012*

As a part of the WTO programme on aid for trade, OECD work will continue to monitor aid for trade quantitatively, via the CRS, and qualitatively, via questionnaires, case studies and evaluations. In particular, work will review AfT processes, strategies, implementation, outcomes and impacts at the country level. The aim is to arrive at a more objective and evidence-based assessment (as opposed to self assessment) of what is happening, what is not and where improvements are needed.

*ii) Linking aid for trade to the wider trade and development agenda.*

Following the conclusions of the 2<sup>nd</sup> WTO Global Aid for Trade Review (July 2009) there is an explicit demand to strengthen the links between the Aid for Trade initiative and the broader trade and development agenda, namely sustainable economic development and poverty reduction. Policy notes will discuss these links, for instance, concerning environmental sustainability, agriculture, infrastructure and offer suggestions on how AfT can contribute better to a stronger, cleaner and fairer world economy.

**4. How does this link to the following?**

Reflection Exercise: Task Team no 1; fostering a free and fair trade system

Policy Directors' Meeting results: Economic Growth and Policies

PIR rating 2008: quality high 3.79; impact medium/high 3.57

MTO survey:

Others: Mandated in the 2009 Ministerial Council Communiqué (para. 12)

**5. Accountability: How are you ensuring Member application of guidance/guidelines in your area?**

The next steps in ensuring the Aid for Trade Initiative is working well is to migrate to the regional, national and local levels, where the discussions can be more in-depth and generate operational results in terms of applied policies and programming of aid. Aid for Trade Fact sheets and partner country

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3.DCD/DAC(2010)4/ADD/REV3

questionnaires have helped initiate a dialogue at the national level about aid-for-trade strategies, programmes and priorities and fostered mutual accountability and peer learning. Furthermore, aid-for-trade data is provided through an easily accessible website that has enabled partners and donors to track commitments and disbursements at the project level. In addition, the next review will also be based on case studies. The OECD updates WTO members on a regular basis on what is happening and participates in regional and national level aid for trade reviews. Through the monitoring process the OECD has engaged non traditional donors and regional financial institutions.

Members' application of aid for trade guidance is assessed through regular reviews concerning its volume and uses, assessments by developing countries of its contributions to national objectives and work underway to develop indicators, build monitoring for results cultures and propose evaluation methodologies appropriate to aid for trade.

**6. Why is the DAC the most appropriate forum to undertake this work (i.e. what is its comparative advantage?)**

As recognised in the Council evaluation of the DAC and the Trade Committee, the success of this programme of work is partly due to its horizontal nature i.e. effective co-operation across different policy communities through a joint project between the DAC and the Trade Committee and based on a strong partnership between DCD and TAD. Moreover, the work is also carried out in close co-operation with the WTO, which considers the OECD as an essential and highly regarded partner in delivering the Aid-for-Trade Initiative.

**7. Please describe the way in which the output(s) is expected to contribute to Member behavioural change and ultimately results in our partner countries?**

Policy makers in OECD and low-income countries working at increasing the trade capacity of developing countries to promote pro-poor economic growth are the end users. The expected impact is greater awareness among the development community of the need to help low-income countries build up capacities to benefit from the opportunities that international trade offers and greater knowledge of how to do so effectively. Earlier work has shown how aid for trade can contribute to growth, trade and poverty reduction; present work moves to the more operational area of identifying and tackling critical impediments to aid for trade delivering its expected contribution.

**8. Please explain whether this joint work with other DAC subsidiary bodies (There must be an agreement at least among the Secretariat staff).**

POVNET is closely associated with certain elements of the AfT work, especially the relationship between trade, growth, employment generation and poverty reduction. Evalunet and the WP EFF are closely involved in the work related to MfDR – in fact, aid for trade is a practical application of the Paris Declaration and the AAA in the trade area. Finally work concerning the greening of AfT will be coordinated with ENVIRONET.

**9. Please explain whether this joint work with the Development Cluster or other OECD policy communities (There must be an agreement at least among the Secretariat staff). Will the other units/directorates financially contribute to this joint work? If so, how much (provisionally)?**

The work is a joint undertaking with TAD (which has its own aid-for-trade budget). The work will be undertaken via the existing bi-annual joint DAC-Trade Committee Working Party meetings and the WTO Committee on Trade and Development.



**10. Inclusiveness: Who are the other stakeholders (e.g. international organisations, civil society, partner countries) who will be participating in this work and what are their roles?**

This work proposal will be implemented in close collaboration with the WTO and the World Bank, as well as other international organisations (in particular the Regional Development Banks and the UN system). Strong engagement and support of donor and partner country governments in the monitoring process is essential for its success. Civil society and business will also be involved through specific work streams and/or outreach events.

**11. Is this linked to Policy Coherence for Development. If so, please explain?**

Aid for trade is policy coherence in practice, bringing together the trade and development communities to leverage the impact of aid on building trade capacities to promote pro-poor growth. Moreover, a key objective of this work is to leverage knowledge in other OECD policy communities, (i.e. agriculture, evaluation, corporate governance) whose expertise helps enhancing our knowledge on how to increase trade capacity.

**12. Is this linked to Global Public Goods? If so, please explain**

The multilateral trading system, based on enforceable rules which increase the predictability of policies and reduces uncertainty, is a global public good. However, reciprocal bargaining of the type that characterizes multilateral trade negotiations is not sufficient: additional efforts (i.e. Aid for Trade) are needed to ensure that the WTO disciplines help reduce poverty.

**13. Estimated Budget Cost for 2011-12**

**TOTAL: 1,360 KEUR**

**ANNEX 2**  
**PROPOSED TC 2011 – 2012 PWB ON AID FOR TRADE<sup>4</sup>**

Committee work on aid for trade, in collaboration with the OECD/DCD and the WTO, has been highly successful in drawing attention to the importance of addressing supply-side constraints to trade and development. In this next stage of the project, we move from mapping and advocacy to practical analysis of how aid for trade, together with pro-active policy reform and government action, can help relax the binding constraints that prevent developing countries from improving trade performance and benefitting from the global marketplace. These constraints may be in the form of deficiencies in the enabling framework (e.g. infrastructure, technical training and human capital), the institutional framework (e.g. financial bottlenecks, exclusion of SMEs from the formal market, governance), or the policy framework (e.g., ineffectual microeconomic policies, domestic macroeconomic mismanagement, exchange-rate overvaluation.) Given that food security is a key objective of hosts and donors alike, understanding the binding constraints to trade in agricultural products is particularly important.

We will employ cross-country econometric analysis to identify these constraints in addition to case studies. Recommendations will be applicable to formulating effective development assistance programs and identifying and implementing policy priorities on the part of developing-country governments. Work will be undertaken in close cooperation with OECD/TAD/DCD and other IOs. This work is heavily reliant on voluntary contributions.

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4. TAD/TC(2010)1