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**AID FOR TRADE AND
THE FOURTH HIGH LEVEL FORUM ON AID EFFECTIVENESS (HLF-4)**

**Joint Meeting of the Development Assistance Committee and the Working Party of the Trade Committee
on Aid for Trade
17 June 2011, OECD Conference Centre, Paris**

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AID FOR TRADE AND THE FOURTH HIGH LEVEL FORUM ON AID EFFECTIVENESS

The Aid-for-Trade Initiative and the Paris Declaration on Aid Effectiveness were conceived at the same time. The WTO Task Force on Aid for Trade made explicit in its 2006 recommendations that the delivery of aid for trade should be guided by key principles of the Paris Declaration. Five years on and, as the latest evidence in the joint OECD/WTO *Aid for Trade at a Glance 2011* shows, the commitment to the Paris principles by both partner countries and donors on aid for trade is gathering momentum. Such commitment is particularly important considering that donors provide over a quarter of their ODA to aid for trade (see Chapter 3 in the joint OECD/WTO *Aid for Trade at a Glance 2011*). This note sets out, for discussion, the possible contribution of aid for trade to the Fourth High Level Forum on Aid Effectiveness which will be held from 29 November to 1 December 2011 in Busan, Korea. In particular, it focuses on how aid for trade contributes to development outcomes.

1. What is the Fourth High Level Forum?

The Fourth High Level Forum on Aid Effectiveness (HLF-4) will be a milestone for international development, reflecting the collective effort by donors, developing countries and all development stakeholders to implement the Paris Declaration (2005) and the Accra Agenda for Action (2008). In particular, the HLF-4 aims to achieve the following objectives.

- Share experiences of implementing the Paris Declaration and the Accra Agenda for Action, in order to highlight good practices, identify lessons learned from the experience, and identify where more work is needed.
- Seek a new consensus on global development partnerships with all the actors involved in development.
- Frame actions around aid quality in the broader context of development in order to enhance development results and outcomes in the rapidly changing global environment.

The debate and discussion in the Forum will be based on the substance emerging from the evidence uncovered in the *2011 Survey on Monitoring the Paris Declaration* (covering about 90 developing countries, including 14 fragile states) and the *Phase II of the Evaluation of the Paris Declaration Implementation* (involving 22 developing countries and 18 donors). HLF-4 will assess whether the commitments and targets set for 2010 of the Paris Declaration and the Accra Agenda for Action have been achieved or not (and why), as well as assess new development opportunities and challenges – including the evolving landscape of actors and partnerships – to enhance aid effectiveness in achieving broad and inclusive development goals. The forum will set the stage for a forward-looking and innovative post-Busan agenda for development and aid which, along with key recommendations, will be put together into a “Busan Outcome Document.”

The final format of the Forum is still under discussion. However, some possible general themes have been identified for the high-level sessions (see Annex 1). These sessions will also focus on presenting the building blocks for post-Busan implementation of key issues identified in the outcome document.

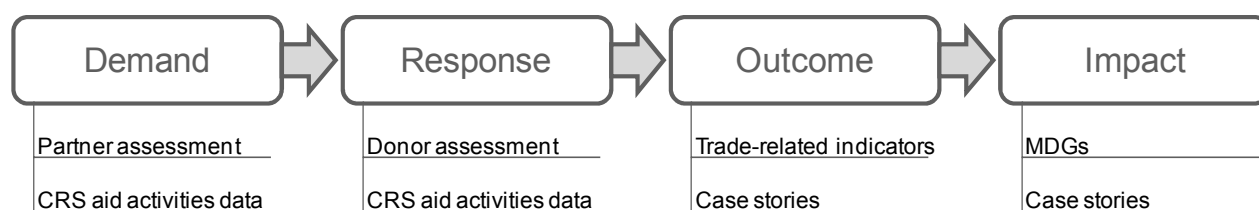
2. The importance of Busan for aid for trade

The Paris Declaration on Aid Effectiveness orients the aid relationship towards genuine partnerships that are focussed on results for which recipient countries and donors are mutually accountable. Three elements are central in establishing mutual accountability. The first is a shared agenda, with clear objectives and reciprocal commitments. The second involves monitoring and evaluating these commitments and actions. Both of these elements inter-relate with a third: dialogue and review.

The Aid-for-Trade Initiative is one of the clearest international examples of how these three elements create powerful incentives to carry out commitments and, ultimately, to change behaviour. Accountability between partners and donors is enhanced by transparency about the effectiveness of what works and what does not work in aid programmes and projects. In aid for trade this has been realised through a framework of mutual accountability between the trade and development communities at two levels: first, at the country level, to foster genuine ownership; and second, at the global level to ensure that the needs identified at country level – whether financial or performance-related – are addressed.

At the global level, the WTO and the OECD periodically put a spotlight on aid for trade to create incentives, through enhanced transparency, scrutiny and dialogue, for more and better aid for trade. The monitoring follows a logical framework (Figure 1) underlying the Aid-for-Trade Initiative. It follows the path from demand to response, through outcomes of priority programmes, and finally to impact – lasting development results, *e.g.* the Millennium Development Goals (MDGs). As Figure 1 shows, the framework consists of self assessments, transparency about aid-for-trade flows, trade-related performance indicators, and case stories about outcomes and impacts.

Figure 1. Logical framework for monitoring aid for trade



Source: OECD/WTO

3. Third Global Review on Aid for Trade and its contribution to aid effectiveness

The 2011 monitoring and evaluation exercise is based on 140 partner and donor self-assessments (including from nine South-South providers), 269 case stories submitted by stakeholders, and the aid-for-trade proxies extracted from the OECD/DAC CRS aid activities database. The survey results provide a sound basis against which to evaluate the commitment of the aid-for-trade community to putting the Paris principles into action. In particular, the 2011 survey finds that:

- Country ownership has advanced the furthest. Many partner countries are mainstreaming trade into national development strategies. They are consulting broadly involving the private sector, civil society organisations and relevant government agencies to formulate trade strategies and priority project proposals.
- Donors are continuing to work towards harmonising their procedures and aligning their support around national priorities relating to trade. But progress appears to be uneven and partner

countries note that more remains to be done, including addressing particular challenges in accessing aid for trade.

- Managing aid to achieve trade results and being mutually accountable is challenging, but increasingly donors and partner countries are making significant progress by jointly monitoring and evaluating programmes and projects.
- Donors and partners alike face difficulties in measuring results, particularly with regard to the basic problem of attribution, *i.e.* what part of the observed changes have resulted from aid-for-trade activities at the project level?

Applying the principles of the Paris Declaration is clearly a work in progress and necessitates continued attention and efforts. Therefore, it is important that aid for trade is profiled at the HLF-4, both to build on the momentum to date and above all because the Initiative will be able to provide concrete and specific examples of what has worked, and what has not worked, on the basis of the large number of case stories which have been submitted for the Third Global Review. Based on these findings, the aid-for-trade community can demonstrate how the development outcomes and impacts of aid for trade can be improved and help identify key priority issues for Busan. Strengthening this work and the results of the Third Global Review will also be an important element of the first objective of HLF-4, namely to “share experiences of good practices and identify lessons learned.”

4. How can the aid-for-trade work contribute to Busan?

Based on the results from the 2011 review, the OECD Secretariat, in collaboration with the WTO, can showcase the Aid-for-Trade Initiative at Busan as an example of how applying the principles of the Paris Declaration can lead to results. There are several entry points where aid for trade can possibly contribute to an informed debate at Busan.

- First option is to showcase it directly in one of the main sessions, either in the session on: *Results and Accountability; Ownership; or Leveraging Aid* (see Annex 1).
- As an additional session looking at how all six general themes coalesce in the Aid-for-Trade Initiative.

Either option would ensure that aid for trade is suitably profiled as an integral part of HLF-4 and that the results obtained in the Third Global Review are fed into the Busan aid-effectiveness agenda.

There will only be three official HLF-4 documents: the Progress Report since Paris, the Report of the Paris Declaration Evaluation Phase II and the Busan Outcome Document. Therefore, rather than producing an in-depth report analysing the case stories, **a short brief** (*e.g.* a 4-page policy brief), to be prepared jointly with the WTO, could be envisaged as a background document for the main session. Largely drawing on the evidence provided in the case stories from partner countries, this proposed policy brief will illustrate how aid for trade exemplifies the benefits of adhering to the Paris principles, enabling countries to use trade more effectively to promote growth and poverty reduction and to achieve their development objectives. In particular, it will be structured around four parts: *What is aid for trade? Why is the Paris Declaration important? How is aid for trade adhering to the Paris Declaration? And what are the remaining challenges?* The discussion in Busan will essentially be political. Therefore, the policy brief will need to be accessible to both political and technical stakeholders.

5. Next steps

HLF-4 preparation is placed under the responsibility of the Working Party on Aid Effectiveness (WP-EFF) hosted and supported by the OECD. WP-EFF members are currently discussing possible outcomes for Busan and are to meet in July to agree on the outline of the Busan Outcome Document (a negotiation process will then follow within the WP-EFF and its Executive Committee to finalise the text of the outcome document). WP-EFF co-chairs, through consultations, have started to identify a few themes (Annex 1) that seem to require political commitments to be reached at Busan, and to be followed through post-Busan.

6. Issues for discussion

The following issues are suggested for discussion:

- *How best should aid for trade be integrated into HLF-4 - as part of the existing themes or as an additional theme?*
- *What type of background information on aid for trade do members wish to see presented at Busan?*
- *What specific outcome would members expect from the HLF-4 regarding aid for trade?*

Annex 1: Proposed themes for the high-level sessions

The following general themes (with indicative substantial topics) have been identified by the OECD Working Party on Aid Effectiveness.

1. **Results and accountability:**

- a) Legitimacy of looking at development results, difficulty to measure them, common result frameworks avoiding distorting domestic policies and priorities
- b) Statistical capacity development and monitoring & evaluation
- c) National and global mutual accountability frameworks, ongoing progress and lessons learned, link with domestic accountability; accountability at local level, access to information

2. **Aid quality** in field:

- a) Transparency of ODA, non-ODA and domestic public spending, at all levels. Quality and comparability of statistical data
- b) Predictability, including in year and medium term
- c) Complementarity of donors – fragmentation and proliferation of ODA delivery channels (bilateral and multilateral) – aid allocation
- d) Alignment and trust building: use of country systems, budget support (general and sector), mix of instruments, scaling up projects, cash on delivery schemes

3. **Ownership:** reinforcing inclusive ownership of domestic development policies and practices, for effective and accountable states and institutions:

- a) Country leadership for designing strong development policies, respecting internationally agreed commitments on human rights, decent work, gender equality, disability
- b) Capacity development for effective and accountable states and institutions (including role of Parliaments, Supreme Audit, budget, PFM, procurement, fighting corruption, domestic taxation)
- c) Enabling environment for, and participation of, non central-government institutions (local governments, private sector, CSOs, media, think tanks)

4. Situations of **conflicts, fragility and risks:**

- a) Conflict prevention and peace building, aid and security funding (military/diplomatic/aid nexus) – humanitarian aid – failed states and insecure zones, state and institution building
- b) Aid and prevention of disasters

5. **Leveraging** aid for other sources of development finance

- a) Aid and the improvement of domestic taxation (also see effective states, theme 3).
- b) Aid in the context of Middle Income Countries: blending ODA with other public development finance tools (non-concessional loans, equities, guarantees, shock facility, etc.) – Debt issue
- c) Blending ODA with private for-profit investments: PPPs and other roles of ODA with regards to the private sector
- d) ODA and non-DAC providers of development finance, South-South cooperation and perspectives of triangular cooperation
- e) ODA and International Climate Finance (ICF)
- f) Other innovative financing

6. **Systems** and frameworks

- a) Future framework for aid and development effectiveness monitoring; country-led implementation frameworks
- b) Global aid governance and new global partnership framework/peer pressure and incentives for better action