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OECD POLICY DIALOGUE WITH NON-MEMBERS ON AID FOR TRADE: FROM POLICY TO PRACTICE

RAPPORTEUR'S REPORT

Doha, Qatar, 6-7 November 2006

This report is being issued as part of the follow up to the OECD Policy Dialogue with non-Members on Aid for Trade. It was prepared by Mr. Simon J. Evenett, University of St. Gallen, Switzerland.

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Rapporteur's Report

Prepared by Simon J. Evenett¹

Executive Summary

1. The purpose of this two-day long OECD Policy Dialogue, which brought together OECD Members, Non-Members, officials from many international organisations, businesspeople, and other experts, was to examine the steps that developing countries can take to enhance their economies' supply-side capacities and infrastructures so as to better exploit the opportunities created by the integrating world economy and, more specifically, by multilateral trade liberalisation. Particular attention was given to the ongoing Aid for Trade initiative and the practical measures that could be taken to implement it. Several references were made in this regard to the 2005 Paris Declaration on Aid Effectiveness.

2. After an Opening Ceremony, the Dialogue was organised into four sessions convened to discuss three distinct matters. The latter were the recent developments in the Aid for Trade agenda and the key near-term challenges faced by the stakeholders involved; how developing countries could realise the benefits of international trade and the ways in which aid can help in this respect; and how to apply the aid effectiveness principles when Aid for Trade initiatives are implemented. References made by participants to their own country or organisation's experiences anchored the discussion concerning the next steps to take.

3. There was a significant degree of agreement among participants at this OECD Policy Dialogue. It was widely accepted that supply-side factors constrain the benefits that developing countries derive from their membership of the World Trade Organization and, more generally, from their integration in the world economy. Moreover, sustained efforts should be made to help developing countries overcome any such constraints. Specifically, the Aid for Trade Framework articulated by WTO members in Geneva was widely endorsed and its urgent implementation called for. In addition, a concern for results has raised the profile of aid effectiveness and related matters. To that end it was felt that the principles contained in the Paris Declaration, and in particular as they relate to country ownership, should be reflected in the future implementation of Aid for Trade projects.

4. Discussions on a number of other related matters advanced, and several options for policy makers in industrialised and developing countries were articulated. The desire of many for a swift implementation of the Aid for Trade initiative, independent of the state of play in the Doha Round, was evident.

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I. Introduction

5. Bringing together a wide range of stakeholders, the objective of this OECD Policy Dialogue with non-Members was to discuss how developing countries can build the supply-side capacities and trade-related infrastructure that they need to take advantage of the opportunities created by multilateral trade agreements and, generally, to integrate more effectively into the world economy. The developmental significance of the Aid for Trade initiative is apparent once it is recognised that--done well--it promotes trade expansion which, in turn, can be an engine of domestic economic growth and a precursor to poverty reduction.

6. This Dialogue was particularly timely given Aid for Trade's growing profile over the past twelve months. At the World Trade Organization (WTO) Ministerial Conference in Hong Kong in December 2005 Aid for Trade received prominent billing. Recommendations from a WTO Task Force, set up to provide a framework to operationalise Aid for Trade, were adopted by the WTO General Council in October 2006. These Recommendations highlighted the 2005 Paris Declaration on Aid Effectiveness as guiding principles and came after the commitments made at the Group of Eight industrialised countries summit in Gleneagles, Scotland, in July 2005 to substantially increase aid flows to developing countries. Transforming the momentum behind the Aid for Trade initiative into tangible outcomes is a widely-held goal and current imperative, which this OECD Policy Dialogue contributed towards.

7. After an Opening Ceremony, the Dialogue was organised into four sessions convened to discuss three distinct matters. The latter were the recent developments in the Aid for Trade agenda and the key near-term challenges faced by the stakeholders involved; how developing countries could realise the benefits of international trade and the ways in which aid can help in this respect; and how to apply the aid effectiveness principles when Aid for Trade initiatives are implemented. These matters are inevitably inter-related and observations made in one session were often referred to and developed in another.

8. The remainder of this report is organised into six sections, the next summarises the principal remarks made at the Opening Ceremony. The third through sixth sections include accounts, session by session, of the main points made during this Dialogue. The last section contains some concluding remarks.

9. The Gulf Organisation for Industrial Consulting (GOIC) partnered with the OECD in the organisation of this two-day event.

II. The Opening Ceremony: An overview of the principal observations made

10. This OECD Policy Dialogue was inaugurated with a Keynote Opening Address by His Excellency Sheikh Hamad Bin Jassim Al-Thani, First Deputy Prime Minister and Minister of Foreign Affairs, State of Qatar, and under whose patronage this Policy Dialogue took place. After welcoming the participants, His Excellency began by emphasising the importance of sustainable development to developing countries and the urgent need to reduce poverty. Domestic resources are, he noted, directed towards these ultimate objectives of development policy. So, too, is aid and the challenge is how to make the most effective use of it. Building public institutions and private sector capabilities are two important uses of such aid.

11. With respect to the case for trade reforms, His Excellency argued that developing and industrialised countries both need to reduce barriers to international commerce. Trade between developing countries has considerable promise. To that end, the Gulf Cooperation Council (GCC) members have taken steps to encourage private sector development and to nurture the capacity to take advantage of trading opportunities.

12. His Excellency, who had chaired in 2001 the fourth WTO Ministerial that launched the Doha Development Agenda, also commented on recent developments in multilateral trade negotiations. He argued that the current impasse must be overcome and that South-South trade liberalisation should be part of any eventual agreement. It was understood, however, that Aid for Trade would not be an alternative to improved market access opportunities for developing countries; the Aid for Trade initiative was there to further integrate developing countries into the multilateral trading system. His Excellency also stressed that Aid for Trade should not displace existing funds earmarked for improving infrastructure in developing countries, irrespective of whether the funds were externally-provided or domestically generated. In his view the so-called additionality of resources would be an important determinant of the long-run impact of the Aid for Trade initiative.

13. Welcoming Remarks were then offered by His Excellency Dr. Ahmad Al-Mutawa, Secretary-General, GOIC, and by Mr. Kiyoo Akasaka, Deputy Secretary-General of the OECD. His Excellency Dr. Ahmad Al-Mutawa welcomed participants to Doha and observed that Qatar had achieved much in recent years. Qatar, like other developing countries, needed to forge partnerships with the OECD and with other international organisations. By doing so, Qatar could integrate more fully into the world economy, stimulate job creation, and reduce poverty. The latter was a particular challenge in a world where approximately two billion people currently live in poverty.

14. The main goal of the Aid for Trade initiative is to help developing countries to capitalise on the commercial opportunities created by trade reforms. His Excellency noted that the Least Developed Countries (LDCs) share in world trade had fallen from 1.5 percent to 1.1 percent during the last five years partly because of severe supply constraints. In addition to tackling the latter, he said it was important to create yet more market opportunities and this provided another good reason to complete the Doha Round.

15. Implementing the Aid for Trade initiative properly would require a number of steps to be taken, argued Dr. Ahmad Al-Mutawa. A partnership between recipients and donors was needed. The Paris Declaration on Aid Effectiveness should be adhered to as well. For their part, developing countries should incorporate trade policy-related considerations into the heart of their development agenda (the so-called mainstreaming of trade). Mechanisms to promote accountability need to be strengthened at the national level and developed at the global level to make sure that local needs are met. Much needs to be done and he was heartened by the WTO General Council's adoption of the recommendations of the Aid for Trade Task Force. Successful implementation will raise the living standards of the poorest and could potentially rekindle support for the Doha Development Agenda (DDA), an outcome he described as win-win. This was all ahead, he argued, and international community would have to find the political will to make it happen.

16. Mr. Akasaka started his Welcome Remarks by thanking the Qatari hosts. He spent a few moments describing the role of the OECD. Next, he stated that implementing the Aid for Trade Framework will not be easy and will require action at several levels and by many actors. The attention given to this Framework over the past year has risen, he said, not least because of the less-than-satisfactory impact to date on developing country exports of the European Union's Everything But Arms (EBA) and the United States' African Growth Opportunity Act (AGOA) initiatives. He said that this showed that market access opportunities alone are not enough and that fundamental supply side concerns must be addressed.

17. Mr. Akasaka identified several steps that should be taken individually and collectively. The first is that a stable macroeconomic environment, functioning markets, and transparency are needed to make trade an engine of growth. Second, care must be taken to ensure that aid does not crowd out private investments. Learning from unsuccessful as well as successful initiatives is important too, he said. Much could be learnt, for example, from Kenyan exporters' successful attempts to ship cut-flowers and fresh vegetables. Careful investments, taking steps to upgrade their products, and building a reputation for

quality have generated cascading positive effects, Mr. Akasaka said. As a result, some Kenyan suppliers of these products are no longer regarded as merely 'trading companies' by their customers based in OECD countries.

18. The OECD estimates that approximately USD 200 billion has been spent since the end of the Uruguay Round on improving trade capacity, including aid for infrastructure projects and productive sectors. This represents a quarter of all Official Development Assistance (ODA), excluding debt relief. With the Gleneagles Summit commitments to raise aid levels, there does not appear to be a shortage of funds available for Aid for Trade initiatives. Instead the challenge will be to obtain value for money from this assistance. Mr. Akasaka drew attention to the fact that last year in Paris donors, the multilateral development institutions, and partner countries arrived at a consensus on how best to deliver aid. Several Principles of Aid Effectiveness were articulated, including country ownership and so-called managing for results. It was noteworthy, he said, that the WTO Task Force on Aid for Trade had highlighted those Principles in their recommendations. The OECD, he said, was ready to work with the WTO to monitor the implementation of the Aid for Trade initiative, to provide advice on how to improve aid outcomes, and to agree on comparable indicators and benchmarks. Facilitating the sharing of experiences was one way the OECD can enhance the ongoing debate on Aid for Trade and he urged participants to take this opportunity to contribute to the dialogue.

III. Aid for Trade--Anything New?

19. Before introducing the speakers in this session the Chair, Ambassador Mia Horn af Rantzien from Sweden, noted that on 10 October 2006 the WTO General Council had endorsed the Task Force's recommendations on Aid for Trade. She noted that many contributed to the Task Force, which she also chaired, and that it was now time to take this initiative forward to implementation. She argued that effective implementation would require many people to work together.

20. The first speaker in this session was a Deputy Director-General of the WTO. She noted that, with the suspension of the DDA, this was a challenging time for the multilateral trading system. The proposals advanced in the DDA made it the most ambitious round ever, she claimed, with between two to three times as many cuts in trade barriers envisaged now than those that resulted from the Uruguay Round agreements. The poor, it was argued, would only be helped by an ambitious outcome to the round, cutting trade impediments to goods and services while preserving some flexibilities for developing countries. The suspension of the Round had given WTO Members time to think through how to break the deadlock. The United States, the European Union, and India held the keys to making progress with the DDA, she said.

21. With respect to the Aid for Trade initiative, this speaker stressed that the role of the WTO was strictly one of advocacy and monitoring. The WTO was not a donor agency. Instead, it saw its role as working closely with recipient countries, donors, and the private sector. As far as monitoring is concerned, the WTO could check whether any commitments on aid had been met and whether additional funds were actually made available for Aid for Trade. Moreover, the WTO could examine whether the goals for this initiative, as enunciated in the Hong Kong WTO Ministerial Declaration, had been met. For their part, developing countries might better integrate their trade policies into decision-making on national development plans and poverty reduction strategies. This speaker concluded her remarks by noting that, although implementing the Aid for Trade Framework could yield considerable payoffs on its own, its reach and potential impact could be much enhanced by the successful completion of the DDA.

22. The second presentation in this session was given by a senior minister from a small African island country. The speaker noted that in recent years his country's economy had been buffeted by three shocks: the phase-out of the Multi-Fibre Arrangement (MFA) in January 2005, the oil price increases of recent years, and the impending 36 percent cut in the guaranteed minimum sugar price announced by the

European Union as part of its new sugar regime (adopted in February 2006). These shocks had led to a substantial deterioration in the terms of trade and in sizeable job losses. These shocks, he argued, had also persuaded the government that growth based on trade preferences was no longer viable.

23. The speaker argued that his country's government had formulated a reform programme that sought to improve the investment climate, bolster competitiveness, consolidate the public finances, while strengthening social protection and cohesion. A ten-year package of measures was put together with the International Monetary Fund and the World Bank's assistance and EUR 4 billion in outlays are envisaged. His government is seeking half of this sum, principally front-loaded over the ten-year period, in Aid for Trade-related support.

24. In addition to discussing his own country's circumstances, the Minister articulated a set of criteria that eligible countries should meet if they are to receive Aid for Trade support. These criteria include.

- A detailed reform strategy with clear objectives,
- A costing of the reform plan prepared with the international financial institutions to give the plan added credibility,
- A financing plan that outlines efforts to raise funds from domestic sources and the amount of concessional finance sought, and,
- A set of deliverables and targets so as to take full ownership of the formulation and implementation of the programme.

25. Concerning the eligibility for Aid for Trade the Minister argued that it should meet all the relevant needs of developing country Members of the WTO with priority given to the following three groups: the LDCs, Small Vulnerable Economies, and small developing countries that have acceded to the WTO. Moreover, he argued that Aid for Trade should be made available through general budget support, with appropriate mechanisms for monitoring etc. It should be possible to finance infrastructure projects through the Aid for Trade Framework, he said. Since there are a number of potential donors for Aid for Trade, in his view each should use their existing financing instruments; however, where possible, donor programmes should be harmonised with each recipient country's economic programme. Regional funds could also be established. Finally, he argued that mechanisms for the enhancement of private sector capabilities should be part of the implementation of the Aid for Trade Framework. In short, this speaker outlined his position on the eligibility for Aid for Trade, instruments and mechanisms for disbursement, and the structuring of donor-recipient relations. He emphasised the need to learn from past mistakes in disbursing aid and to apply Aid for Trade flexibly.

26. A senior minister from a LDC made the next presentation in this session. In common with many other LDCs, this speaker noted that his country's economy had difficulties diversifying production, developing supply side capacities, building infrastructure, and faced heavy costs of adjustment. That is not to say that faced with these daunting circumstances his colleagues in government have been inactive. To the contrary, customs procedures were simplified in recent years and a one-stop shop for foreign investments established. However, much more needed to be done as had been revealed by a standard diagnostic analysis of his country's economy. On their side coordination among ministries could be improved. Likewise, there was room for strengthening coordination among donors, potentially through a mechanism like the Integrated Framework (IF). The Paris Declaration was a good model to follow, especially as it relates to accountability.

27. More generally, this speaker argued, LDCs need Aid for Trade for a variety of reasons including to adjust to the erosion of trade preferences granted by trading partners. The conditions attached to such aid should be limited in his view. Moreover, implementation of the Aid for Trade initiative should begin now and should not wait for the conclusion of the DDA, the former not being part of the Single Undertaking of the latter.

28. A senior administrator of a leading industrialised country's aid agency was the fourth speaker in this session. This speaker restated his country's commitment to the Aid for Trade initiative and to completing the DDA negotiations. With respect to the novelty of Aid for Trade, it was argued that although trade-related infrastructure had been supported before, the heightened emphasis on the relationship between trade policy-making and supply-side constraints and on the need for cooperation between trade and finance ministries were novel and welcome.

29. He went on to describe a number of programmes that his agency supports on Aid for Trade. Particular emphasis was given to bilateral and regional measures to simplify customs procedures, steps which encourage the creation of sub-regional and regional markets, allowing firms to exploit economies of scale. In one project in sub-Saharan Africa trade quadrupled once a corridor was established with streamlined customs regulations. In other projects his agency has worked with local business associations and with the World Bank. He noted that his country had set up a fund to help countries with a track record of good governance. Interestingly, the 10 recipients of the latter have been chosen to use 60 percent of the allocated funds on Aid for Trade projects, which is one of many indications of the demand for such initiatives.

30. The experiences of a multilateral development institution in implementing Aid for Trade projects were recounted by an official. He noted that since 2003 financial support for Aid for Trade-related projects had grown markedly, especially for those concerning trade facilitation measures. Projects involving more than one country in a region had received more support and examples were given from Central, Eastern, and Western Africa. When many parties are involved coordination becomes important and he argued that in this regard the Integrated Framework had been helpful and had received less credit than it deserved. This Framework helped focus attention and revisit matters that had been dropped or overlooked. He argued that the IF positively influenced outcomes without necessarily being instrumental in every case.

31. This speaker made the point that what was novel about Aid for Trade was the resurgence of interest in programmatic approaches to trade projects. Developing countries recognise the importance of allocating budgetary resources to strengthening firm competitiveness, not just for international trade but more generally. Coordination between ministries had improved, again in recognition of the wide-ranging nature of the challenge. In his estimation, demands for Aid for Trade would increase further should the DDA be successfully completed.

32. The final speaker in this session was a senior executive of a leading Asian company with commercial operations in a number of South-East Asian countries. Drawing on his experience in the agro-food sector, he argued that developing supply-side capacities required a partnership between governments (which provide the incentives), farmers (who need access to markets), and business (who sells seeds and provide technical support to farmers). The combination of market potential, technical competence, and managerial skills were needed to develop businesses successfully, and he illustrated his argument with references to crop-rearing in Thailand. He noted that the so-called connectivity of the Mekong region, a reference to the roads and telecommunications infrastructure in that region, was helping to forge a single market for crops which, in turn, was attracting multinational businesses. More generally, he noted that foreign companies were important contributors to the development of the agricultural private sector and that initiatives to promote firm performance should be encouraged as well as improvements in trade facilitation.

33. After these presentations a number of participants offered their own observations. One Ambassador to the WTO from a LDC stressed the importance that LDCs attached to the Aid for Trade initiative and the expectation that additional funds would be allocated to it. Infrastructure projects should, it was argued, be eligible for Aid for Trade funds as they were often related to developing supply-side capacities. The most important ingredient in his view was political will and he urged that implementation of the Aid for Trade Initiative would begin immediately. One participant from an industrialised region noted that the thoroughness with which the Mauritius had prepared its proposed Aid for Trade package was commendable and that donors had been attracted to it. One participant from an industrialised country in Asia broke down international commercial transactions into three distinct tasks, namely, produce, sell, and buy and argued that Aid for Trade should target each of these. This view was endorsed by the Chair as she concluded the session.

IV. Capturing the Benefits of Trade--How can Aid help?

34. This session addressed two recurring challenges facing developing countries: how to create the appropriate policy environment to maximise the benefits from open trade regimes and the steps that can be taken to eliminate bottlenecks to private sector development. Three speakers addressed each challenge.

The Right Policy Environment

35. The chair began by posing several questions including which domestic factors need to be in place to get the most out of trade reform; what accounts for the fact that some countries are better than others at undertaking irreversible structural adjustments; and, how can aid best improve the domestic policy environment of developing countries? The chair, moreover, pointed to several case studies prepared in the framework of the OECD's Development Centre Policy Coherence for Development project and noted that three of the preliminary findings from them might go some way to answering these questions. First, domestic leadership and political will was found to matter a lot. Ensuring policy coherence within national governments was important too--as were partnerships with domestic and international actors. Finally, working together can help developing countries capitalise on the opportunities created by the world economy, the chair remarked. Based on these case studies, the chair also argued that fears of "Dutch-disease" effects due to the scaling up of aid may be exaggerated. Donors and partner countries should work towards improving co-ordination and aid effectiveness, as agreed in the Paris Declaration.

36. The first speaker was a chairman of a business association in a LDC. This speaker began by arguing that the perceptions held by the private sector are an important determinant of their level of engagement. Apparently, business people recoil at the terms such as Poverty Reduction Strategy Papers, Donors, and Country-Level Strategies. The emphasis should instead be on wealth and job-creating strategies, collaborating partners, and business participation, respectively. In his country the government spoke to the private sector because certain donors told them to. Moreover, when such dialogues happen there is a tendency for the 20 largest or so companies to get the ear of the government, with small and medium-sized firms excluded. The speaker recommended that dialogue should be conducted with more conviction and inclusiveness.

37. The shift in international financial institutions' attitude towards private sector development was welcome, he argued. However, in his country some were very suspicious of the profit motive and much needed to be done to change attitudes. Moreover, it was said that donors still did not deliver the right support, despite the enormous leverage that donors are thought to have (they fund 40 percent of the government budget of his country). Aid programmes, including those for Aid for Trade, need to take account of national circumstances and interests. Again private sector engagement was needed here, not least to identify the pressing concerns of business. In his country these concerns included the cost of capital (the speaker reported figures which implied that the real interest rate was approximately 17 percent).

Factors such as these have a direct impact on profitability, on the business environment in general, and on the ability of firms to exploit international commercial opportunities in particular.

38. The second speaker in this session was an official at a leading international financial institution who drew on his organisation's experience with trade-related aid projects and with aid more generally. He began by noting that being able to describe the elements of a good business environment was easy, however in many cases at least some of those elements were missing. This situation should not lead to paralysis on the part of governments, especially as some reforms can trigger pressure for further reforms, leading potentially to substantial improvements in the business environment over time. However, observing the effectiveness of aid projects in imperfect business environments raises an awkward dilemma. If the environment is fine then aid would not be needed as the private sector would respond to market signals. But if the environment is poor then aid will be less ineffective as the private sector response is likely to be muted. Finding the right package of domestic reforms and external financial support, therefore, is crucial.

39. This speaker noted that the diversification of exports, a goal of many developing countries, had been shown to be retarded by the number of signatures on official documents needed to export goods and the number of regulatory hoops firms must jump through. Both findings pointed to the need to re-evaluate current trade-related regulations, and that Aid for Trade initiatives can play a useful role in supporting diagnostics, cross-country comparisons and experience sharing, and supporting the implementation of necessary reforms. Taking a different tack, the speaker recognised that sizeable inflows of aid can themselves disrupt economies. In general, the effect of aid inflows on the exchange rate and on exports can be adverse, and one contribution of Aid for Trade projects may be to boost the export base so as to allow more aid overall to be absorbed into an economy. Finally, the speaker argued that any fiscal problems created by trade reform, in particular by lowering tariffs, should be identified early and measures taken to strengthen indirect tax collections.

40. A representative from a regional development bank was the third speaker in this session. He started by joining others in saying that the DDA needed to be completed and that practical steps should be taken to that end. For many Africans, he argued, the DDA was an invaluable opportunity and one that could do much to reverse the marginalisation of this continent in world trade. Poor infrastructure and declining export capacities were just two causes of Africa's falling share of international trade. External impediments to African trade, such as agricultural subsidies, should be lifted too.

41. With respect to the Aid for Trade initiative this speaker emphasised that real partnership offered the best form of support. Promoting private sector participation was important in this respect. As many African countries struggled with debt, relief of these burdens could play a useful role too. Tying initiatives to national circumstances would improve aid effectiveness as would investments in human resources. The inefficiency of national infrastructure, in terms of cost, adequacy of cost, efficiency, and speed, needed to be addressed as a priority, especially if a continent like Africa is ever going to reorient itself from export growth towards domestic growth.

Eliminating Bottlenecks to Private Sector Development

42. The chairman began this discussion by asking whether there were any particular lessons for the implementation of Aid for Trade initiatives from the case studies on African experiences commissioned by the OECD Development Centre. He also wondered whether it would be better for such initiatives to foster a pro-business environment in developing countries or to nurture active business associations there. More generally, the optimal division of labour between the public and private sectors needs to be clarified and he hoped that the presenters would shed light on these matters.

43. The first presentation in this session was by a researcher at a development research institute located in an industrialised country. This speaker began by noting that modern supply chains, which offered the potential for firms in developing countries to tap industrialised countries' markets, differed from the vertically-integrated multinationals of old and from clusters of firms (which tend to concentrate in a geographically compact area). It was not clear, this speaker contended, that developing country firms would always benefit from participating in global supply chains. This was because lead firms are growing in clout and can drive harder bargains with suppliers, smaller firms cannot reap the economies of scale necessary to gain considerably, and that suppliers in such chains often had standards imposed on them and little role in their design.

44. Donors, it was argued, faced dilemmas if they attempted to influence supply chains. For example, their aid projects may well result in greater outsourcing from their own countries, with the attendant job losses. The unwillingness of lead firms in supply chains to transfer technology could act as a constraint too. Informal suppliers may be unable to benefit from participating in supply chains. Nevertheless, donors can profitably undertake value chain analyses to better understand the trade-offs and opportunities involved. In particular, donors should identify the lead firms in the global value chain, understand the chain's governance structure and involve them in the design of the private sector development programmes. Steps could also be taken to match potential suppliers and buyers through information exchanges and to develop innovative financing instruments for value chains.

45. The circumstances faced by agricultural producers in Mali and Senegal and the role that Aid for Trade initiatives could play were the subject of the second presentation, made by a representative of a non-governmental organisation in Africa. Based on his study prepared for the Development Centre, the speaker started by characterising the agricultural sector in these two economies. In Senegal this sector accounted for 17 percent of the Gross Domestic Product and 70 percent of total employment. The comparable percentages for Mali were 35 and 75, respectively. The labour-intensive production techniques, heavy dependence on rainfall, deterioration in land quality, and lack of an appropriate financing system for farmers were said to be constraints on the development of this sector. Moreover, it was argued that the national authorities do not regard small farmers as entrepreneurs and the latter play no role in trade policy formation. These considerations were particularly important given the dependence of both economies on a small number of products for most of their export earnings. This was the context in which aid projects and policies have to be designed.

46. A number of observations were then offered concerning the implementation of aid programmes in Senegal and Mali. The very capacity to absorb aid was a matter of concern in Senegal, and the speaker endorsed the enhanced provision of budgetary support. Too often aid programmes were formulated in London and Paris when in fact much more attention should be paid to circumstances on the ground, as he put it. Calls for country ownership of national development plans and associated aid projects were endorsed, and not just ownership by governments--by civil society as well. An important consideration was the capacities of states to implement aid programmes and reforms. Many governments in the poorer countries simply do not have the human resources to monitor and implement aid programmes. Finally, the attention given to agriculture by donors and farmers should be commensurate with that sector's contribution to the poorest developing countries' economies.

47. An Asian perspective was presented next by an official from a regional development bank. This speaker described the lessons, as he saw them, from the successful outward-oriented growth strategies pursued by some East Asian nations and the measures that can be taken to bolster the performance of economies, which he referred to as second-movers and latecomers. With respect to the former, there were three lessons for policy makers. First, implementing incentive-based reform programmes, like trade reform, on their own does not work. Measures to strengthen supply side capacities are needed and here coordination between ministries is important. Policies favouring clusters should be used sparingly was the

second recommendation, especially by latecomers. Any such measures should be time-limited and targeted to known comparative advantages. Third, the private sector should play a significant role in the formulation of government strategy and can augment the capabilities and expertise of the official sector as well.

48. As far as second-movers are concerned, it is important to appreciate that many have weak private sectors and this must be addressed. Aid programmes can improve cross-border and regional infrastructure, trade facilitation, and promote exports and the diversification into new export lines. The Greater Mekong Sub-region Flagship Programme, implemented by the Asian Development Bank, was given as an example of an initiative that directly and indirectly promotes private sector development. So-called physical connectivity, transport infrastructure, and transit times were improved. Competition between small and medium-sized enterprises was fostered and steps taken to enhance the analytical capacities for policymaking. Diagnosing the impediments faced by the private sector and measures to close the gap with international best practices motivated the design of this programme, and others could be structured in a similar fashion.

49. In the discussion among participants that followed a number of points were made. One speaker from North America emphasised the importance of ensuring that the benefits of Aid for Trade initiatives were not diminished by the effects of certain trade policies of industrial countries. In a similar vein, a European academic feared that successful Aid for Trade initiatives that led to greater exports to industrialised countries, such as Europe, would become the targets of anti-dumping investigations. In addition, this participant emphasised the central role that the business community would play in determining whether the Aid for Trade initiative was a success and implied that more business representatives should have attended this OECD Policy Dialogue. A speaker from a multilateral development bank endorsed the fears that increased aid flows may lead to adverse movements in exchange rates and so reduce, rather than increase, exports (the so-called Dutch disease).

50. Two Ambassadors from LDCs offered their thoughts on these matters. The first argued that opening their economy's markets and providing a business-friendly regulatory environment did not always lead to additional foreign direct investment inflows. (It is worth noting in passing that other participants from developing countries endorsed this position.) Aid for Trade measures were therefore needed to develop the supply sides of national economies, as little or no boost would come from foreign corporate investments. Such aid was also needed to adjust to external shocks, such as the phase out of the MFA. Diversification of exports was a problem that required creative aid-based responses too. The second Ambassador dwelt on the need for coherence by aid donors. Measures to support Aid for Trade are undermined by the sale of subsidised agricultural products on world markets. This participant also emphasised the need to diversify exports. Finally, he argued that unless opportunities for the young were created in LDCs they would continue to try to emigrate to industrialised countries, as highlighted in extensive recent television coverage of attempts by people to migrate from Northern Africa to European territories. Another participant from a LDC argued that the biggest challenge facing Aid for Trade projects concerned the sustainability of such projects after their formal completion.

51. In his concluding remarks the chairman sought to put these discussions in their appropriate perspective. Noting that the funds available in the international capital markets were substantial, he argued that developing countries would receive much more resources from the private sector, indeed multiples of those funds available for aid, if they took the following three steps: institute and implement transparent and fast state decision-making, offer guarantees against appropriation, and commit not to revoke contracts. Taking these measures required political will and a willingness to accept foreign commercial presence.

V. Further reflections on Capturing the Benefits of Trade--How can Aid help?

52. The focus of this session was on two themes namely, the specific ways in which trade facilitation and associated aid can promote export diversification and the principles to be applied for the effective design of Aid for Trade programmes. Six speakers made presentations in this session and a number of observations were made by participants.

Aid for Trade Facilitation and Export Capacity Building

53. The chairman of this session, a trade negotiator from a developing country, noted that poorer countries faced budget constraints that undermined their capacity to undertake the necessary trade facilitation initiatives which, in turn, could reduce impediments to international trade. He further noted that these impediments were often larger, sometimes much larger, than the tariffs faced by developing country exporters.

54. Drawing upon his study prepared for the Development Centre, the first speaker, an academic from East Africa, recounted the limited role that aid had played in promoting agribusiness in his country. Despite the size of the agricultural sector in the national economy, a feature in common with other LDCs such as Senegal and Mali (that were mentioned in the previous session), very little attention was given by national governments and donors to agribusiness. This happens despite the fact that the agricultural sector often provides the bulk of export earnings and has done so since colonial times. Moreover, agricultural production tends to remain highly specialised and measures to promote diversification were needed.

55. The implications of these circumstances for national policymaking and for Aid for Trade programmes were then explored. There was a need to incorporate agribusiness into national policy formation processes and into the diagnostic evaluations that guide such strategy making. An emphasis on developing regional markets and connections to those markets was appropriate given the small size of most national economies. It was particularly important to focus attention on new potential markets and economic activities. Existing infrastructure, for example, has often been inherited from colonial times and is designed to service traditional commodities export. Exploiting new markets requires improving transportation infrastructure, enhancing quality assurance, taking steps to meet sanitary and phyto-sanitary (SPS) standards in importing countries, and better logistics. Donors can play a role supporting all of these improvements. Meanwhile, donors must shift aid flows from social infrastructure into support for agribusiness development, while retaining their commitment to the aid effectiveness principles.

56. A worldwide assessment of the costs and benefits of previous Aid for Trade-like projects was offered by the next speaker, who is an official at a research organisation in the Gulf Region. He referred extensively to a study that he had recently completed with two co-authors. This study used OECD data on aid flows to calculate the total value of Aid for Trade-like outlays, bearing in mind that such spending could be on trade-related infrastructure, "trade development", and trade policy formation. Since 1988, the level of Aid for Trade outlays has fluctuated around USD 30 billion annually, with most support directed towards countries with *per capita* incomes around USD 500. It was reported that countries with *per capita* incomes below USD 100 received proportionately less Aid for Trade. Using data on aid outlays and trade costs, he reported statistical estimates which implied that spending on trade policy and regulations had the largest impact on reducing trade costs, whereas spending on infrastructure and trade development had more modest effects.

57. The speaker then explained that these estimates were then fed into a computable general equilibrium model to generate, region by region, predictions for the USD value of the welfare gains produced by prior Aid for Trade-related spending. East Asia and the Pacific was said to have gained USD 15-17 billion, sub-Saharan Africa a total of USD 6.1 billion, and the developing countries in Europe

and Central Asia saw benefits of USD 10.7 billion. Once the outlays on Aid for Trade were netted out, the industrial countries were found to have lost USD 33.2 billion. Worldwide, however, the overall gain was approximately USD 18.5 billion. Investments in infrastructure yielded the lowest return, even so they still accounted for USD 5.8 billion of the net gain to the world economy. This presenter concluded that there were welfare gains from prior Aid for Trade-like projects, that aid outlays had reduced trading costs (at a rate he observed that was ten times the average annual reduction in tariffs), but there were important inter-regional variations that should be taken account of.

58. The third speaker, a senior official from a South Asian delegation to the WTO, described the successful computerisation of the Pakistan Customs Service. This reform saw customs administration move from a so-called paper environment to a virtual one. Moreover, instead of taking 11 days on average for half of cargo shipments to clear customs, the delay has fallen to five days with the implementation of this project. Now, 70 percent of customs approvals take less than five minutes and only seven percent of shipments have approval times in excess of 24 hours. The speaker argued that, as a result of this reform, one multinational corporation now held only four days of inventory instead of 11 days worth. Transparency and predictability had improved and what he referred to as integrity issues had disappeared.

59. The most important lesson in implementing this project, the speaker argued, was to recognise that any legal changes should follow, not precede, business practice. A holistic approach to implementation was required; one which recognised that reforms amounted to more than putting a personal computer on a desk. Moreover, reforms took time and a phased implementation made sense. Consultations with customs officials as well as with other stakeholders could ease matters and provide interesting ideas. Where appropriate, he argued, best practices should be adopted.

60. The chairman closed this session by affirming that the trade facilitation agenda was very important for donors and for policy makers in developing countries. Even though this agenda does not have the same profile as negotiations on non-agricultural market access, he argued, the links between the former and the latter were not lost on many.

Designing Effective Aid for Trade Programmes

61. Drawing on the report of the WTO Task Force the chairman of this session began by noting that country ownership, mutual accountability, coordination, alignment of aid programmes with country programmes, and evaluation were important elements in the design of effective Aid for Trade programmes. The goal of this session, he said, was to share experiences and ideas about the various approaches to implementing aid programmes. In particular, he was keen to learn which processes led to the best results in implementation, the proper identification of priorities, and effective evaluation of previous Aid for Trade projects.

62. The implementation of the Integrated Framework in Laos was the subject of the first presentation, made by a senior trade official from that country. This speaker noted that as a landlocked country Laos faced particularly high logistics and infrastructure-related costs in addition to a poor business environment and international competitiveness. This is the situation facing the central government and the donors with operations in this country. As far as the IF is concerned, the government has set up an inter-agency coordinating body and has held discussions with civil society (not just in the capital but also in the northern and southern regions of the country) and with donors. After a long period of time a Diagnostic Trade Integration Study (DTIS) matrix was put in place. A challenge has been to get the IF's recommendations, which the speaker described as excellent, incorporated into government policy. It was said that a greater emphasis on the 3 Ps--policy, process, and projects--was needed. Moreover, donors needed to show more flexibility about the total level of aid support and about the share going to trade-

related projects. Coordination among donors could be improved and the national government must show greater readiness to use the tools of the IF.

63. The Aid for Trade initiative was put into context given developments in the world trading system and donor priorities by the second speaker in this session, who is a senior official at an international development agency. With respect to trade negotiations-related developments, the speaker argued that the Aid for Trade initiative would be needed even if regional trading agreements were not proliferating and the DDA had never happened. Countries want to make the most of the export opportunities that they have already and, when more are created as trade agreements come into force, then the case for Aid for Trade will be further strengthened. The speaker also noted that during the years 2002-2004 only 24 percent of the total aid spent went on projects to support productive sectors of economies, down from 40 percent in 1992-94. The Aid for Trade initiative could go a long way to reverse this decline.

64. Money alone, however, will not produce results. Effective delivery of aid requires, in this speaker's view, donor coordination, coherence and policymaking, and transparency and accountability. Coordination was needed to reduce the demands on recipient country governments. It was noted in this regard that one African country alone had a total of 160 donor visits to its capital last year. Coherence in policies applies to the trade, investment, and migration measures implemented by donor country governments and is, he argued, very important. Transparency and accountability are the cornerstones of effectiveness and help to build trust. The speaker also noted that while these steps ought to be taken by donor and recipient countries, international agencies can play a role in monitoring, in offering technical and analytical support, and in highlighting best practices and region-wide and systemic needs.

65. The assessment and evaluation of Aid for Trade projects was the subject of a presentation by an African government official, the third speaker in this session. This speaker argued that the Paris Declaration on Aid Effectiveness provided a good starting point. Follow up and assessment procedures could generate important insights, which in turn might be incorporated into similar projects, as appropriate. Monitoring of aid programmes should continue throughout and after their implementation. It was recommended that assessments should "map" the linkages from resources employed in project activities to production-related effects and, where possible, to the impact on goods and services traded and to living standards. The speaker referred to these linkages as a value chain to reduce poverty through trade-related aid projects. Outcomes could be linked to project choices and operating procedures and potentially lessons could be learned.

66. The speaker accepted that it may be difficult to confidently evaluate the contributions of individual projects to aggregate outcomes, such as total exports. In these circumstances, he argued, there may be a case for taking a group of related projects together and evaluating their collective impact. The different aspects of accountability were also stressed by the speaker: accountability by lenders and donors, by government ministries in recipient nations, and by managers of Aid for Trade projects. He also cautioned against the costs and resource requirements of evaluation and monitoring exercises but contended that reducing costs and enhancing efficiency are possible if accountability is taken seriously.

67. A number of points recurred in the interventions by participants in this session. The shift over the last 10 years or so in aid allocations away from trade-related and productive uses attracted comment. Some wondered why this had happened, while others were concerned that the Aid for Trade initiative would result in less money being spent on projects that directly target poverty reduction. The additional funds that are supposed to accompany the Aid for Trade initiative may allay these fears, it was argued. The importance of Aid for Trade being implemented as part of a coherent package of measures by industrialised countries was emphasised by a few participants.

68. With respect to the potential implementation of the Aid for Trade initiative some participants argued there were lessons to be learned from past aid projects. The onerous reporting requirements of donors were referred to and recommendations were made to streamline them. One official from a major donor country wondered what mechanism could be devised to deliver what he referred to as the 3 C's, namely, communication, coordination, and comparative advantage. Others called for greater accountability of donors' aid programmes and called for international mechanisms to that effect. A few participants asked what the timetable was for the implementation of the Aid for Trade initiative and urged that it begin sooner rather than later.

VI. Moving From Principles to Practice

69. The purpose of this session was to consider how the aid effectiveness principles (contained in the Paris Declaration) could be applied to the Aid for Trade initiative and, relatedly, the ways in which its implementation could be accurately monitored. Three presentations were made in this session, each offering considerable food for thought. The Chair of this session, the Ambassador to the WTO who also chaired the WTO Task Force on Aid for Trade, began the session by noting that there were four steps that needed to be taken to ensure the effectiveness of the Aid for Trade initiative. The steps were: strengthening the recipient or demand side for aid, strengthening the role and procedures of donors, closing the gap between the demand for aid and its availability from donors, and undertaking effective monitoring and evaluation. The chair asked, practically speaking, how was the Aid for Trade initiative to be taken forward. The Paris Declaration provided important guidance in this respect, but much remained to be done. Finally, she observed that this was an excellent opportunity to take the coherence mandate seriously.

70. The Co-Chair of this session, a senior OECD official, added that Aid for Trade measures are one way to strengthen the linkages between export-led growth and poverty reduction. He also noted the Group of Eight (G8) industrialised countries' July 2005 commitments on debt reduction and aid. For its part the OECD will engage in qualitative and quantitative monitoring of aid commitments and the implementation of related trade projects. In doing so, the OECD contributes to making aid more effective and fosters the sharing of relevant practices and experiences among Member Countries. Like the Chair, he believes that the Paris Declaration is a useful reference point and adherence to it will require donors to change their behaviour. Moreover, the Aid for Trade initiative provides an opportunity to put the Paris Declaration principles into practice. What was needed was the ownership of implementation processes and a communicable vision, not yet more detailed studies.

71. The first speaker was an official from a European Union Member State and also represented the Presidency of European Union. First, the European Union's approach towards Aid for Trade was described. Participants were reminded that the European Council had issued conclusions on Aid for Trade in December 2005 and October 2006. Together, the European Commission and the 25 Member States had committed to raising their spending on this type of aid project to EUR 2 billion per year by 2010, a substantial share of which would be directed towards the African, Caribbean, and Pacific (ACP) states. A joint Europe-wide strategy on Aid for Trade would be unveiled in 2007 and would seek to strengthen coordination between parties, including the formulation of modalities to that effect, and to identify best practices.

72. The Aid for Trade initiative is broader than its predecessors and will inevitably become part of the donor-recipient dialogues, he asserted. Furthermore, in his view discussions on Aid for Trade should focus on effectiveness rather than on the additionality of resources or its total volume. The so-called ring-fencing of funds for this initiative was not a good idea either. In the implementation of this initiative strong criteria should be avoided and so should the creation of parallel institutional structures. Programmatic approaches that emphasise flexibility offer the greatest chance of success.

73. The next speaker provided a sober account of the different aspects of Aid for Trade and the challenges that are likely to arise from trying to implement this initiative. This speaker drew on his experience as an official at a regional development bank. He started by noting that the term trade infrastructure was very broad and covered many items related to international trade. The overall challenge facing the implementation of Aid for Trade is to align support for this broad-based initiative with the Paris Principles on aid effectiveness. Eight factors were at work here and needed to be taken into account. These factors reflected the fact that the Aid for Trade initiative.

- is a multi-polar strategy with implications at the national, regional, and global level,
- is a multi-sector intervention,
- involves multiple donor mechanisms (which, he noted, at present occasionally generate competition instead of cooperation),
- requires multi-disciplinary expertise to implement,
- needs the participation of multiple stakeholders in design and implementation,
- has multiple objectives (including export diversification, the implementation of WTO agreements, enhancing supply-side capacities, etc.),
- can involve multiple policies associated with national development strategies,
- is expressed in the multiple languages of the aid and trade communities.

74. The speaker argued that it was necessary to think through how these factors fit together into a coherent programme for Aid for Trade.

75. The pre-conditions necessary to effectively implement Aid for Trade were also discussed by this speaker. In his view these included the appropriate national or regional institutions, identifiable private sector capacities to develop, a good working relationship between trade and aid experts, and an appropriate knowledge base. With respect to the implementation of this initiative, an important choice had to be made between supporting nationwide reform processes and individual projects. (He favoured the former). Another matter concerned the financial products used, the principal choice being grants versus loans. As to monitoring and evaluation, the former typically involves following the numbers (as he put it), whereas the latter requires careful consideration of the appropriate indicators and benchmarks. All in all, this presentation shed light on many of the practical aspects of implementing the Aid for Trade initiative.

76. The third speaker, an official at an international non-governmental organisation, made a number of suggestions concerning the implementation of Aid for Trade. First, he argued, this initiative should be clearly uncoupled from the DDA and its implementation certainly should not wait until the conclusion of the DDA. (Such uncoupling was appropriate, he argued, because the Aid for Trade initiative was not part of the Single Undertaking of the Doha Round negotiations.) Second, donors and recipient nations should announce their desire to press ahead with the implementation of this initiative and the Director-General of the WTO should set up an ad-hoc advisory committee on this subject. Third, the resources available for this initiative should be clarified and, in this speaker's view, this might well have ramifications for other discussions in the multilateral trading arena. Fourth, consideration should be given to implementing this global initiative on a regional basis, taking advantage of the extensive expertise of the relevant regional development bank. Finally, the OECD and the WTO should have a role in monitoring the implementation

of the Aid for Trade initiative. He was not persuaded by concerns about such a role for the WTO as its participation will strengthen the incentives of the relevant parties to cooperate and coordinate.

77. The discussion among participants that followed included some frank remarks about the current implementation of trade-related aid projects. One Ambassador to the WTO from a large African country argued that existing aid programmes often used concerns about national ownership as a pretext for applying pre-conditions. He remarked that some recipients devise their own priorities and that they should be respected by donors. Sometimes donors insist on the creation of a new governmental unit to oversee the implementation of an aid project and over time this unit becomes too close to the donors concerned, he said. Moreover, international consultants were used too often; he feels that national consultants are a preferable alternative. Another Ambassador to the WTO, this time from a LDC, argued that implementation of current aid projects was too disjointed and that a coordinated approach was needed. Concerns about the additionality of resources for the Aid for Trade initiative occupied another Ambassador to the WTO from a LDC. A trade diplomat from a Middle Eastern country sought further clarification as to which countries would be eligible for Aid for Trade support. Would it cover, he asked, all developing countries or just LDCs? As for national ownership, this participant said it was fine in principle. However, each donor has its own constituencies that it caters to and this influences the content of aid programmes.

78. An official from a development ministry in an industrialised country noted that evaluations of prior trade-related aid projects have not always been good. There was a case for monitoring any new initiatives closely and some type of global monitoring mechanism should be contemplated. A number of other participants stressed the need for careful monitoring and evaluation that went beyond creating databases of information. The matter of creating new vertical funds to support Aid for Trade projects was mentioned, but the stress in discussions was on ensuring additional funds were used to support these initiatives. Another participant said the Paris Principles provided a useful point of departure and wondered if enough thought had been given as to whether donors and recipients' incentives had been aligned appropriately. Involving these parties in national coordinating committees might, it was suggested, help in this regard. However, a different view was held by yet another participant. He thought that while there was a case for coordination, it would not happen automatically. Time was needed to develop the relevant mechanisms and expectations and the sooner the Aid for Trade initiative was implemented the better, so that the process of learning could begin.

79. The Deputy-Director General of the WTO confirmed their intention to implement the recommendations of the Task Force and highlighted that the recommendations underlined different responsibilities to the different actors of aid-for-trade and in particular, recipient countries, donors, regional banks and multilateral development institutions. She hoped that all these actors were aware and willing to respond to the challenges according to their own comparative advantage. The WTO strength is in providing transparency to the process and their role lies in the monitoring of the aid-for-trade initiative.

80. Towards the end of this session of the OECD Policy Dialogue the rapporteur gave a preliminary overview of the main finding of this meeting. As this Report supersedes that presentation, no account of it is given here. Some closing remarks were offered by an official from GOIC, the OECD's partner in organising this Policy Dialogue. He noted the widespread agreement among participants as to the developmental significance of the Aid for Trade initiative. The principal challenge now facing stakeholders was to implement this initiative. In this regard, the need to fully engage the private sector and to understand the contribution that it can make to development should be taken on board, he argued. After all, it is principally up to the private sector to seize the opportunities created by trade reform and market opening. Put another way, if firms do not respond to an Aid for Trade project then it is difficult to see how the associated measures could be regarded as a success.

VII. Closing Remarks

81. These closing remarks are organised into three parts: (i) a discussion of the matters where there appeared to be a clear sense of agreement, perhaps even consensus; (ii) some thoughts on matters where participants advanced proposals for the implementation of Aid for Trade initiatives that appeared to command less-than-universal agreement; and (iii) some remarks, prompted by reflecting on the contributions, about material choices that lie ahead of countries as the Aid for Trade initiative is implemented.

82. It is important to start by reiterating just how much agreement, potentially even consensus, there was among participants at this OECD Policy Dialogue. There was a general acceptance of the view that supply-side factors constrain the benefits that developing countries derive from their membership of the WTO and, more broadly, from their integration in the world economy. This is significant as it reinforces the point that material outcomes and not just the nature and adherence to international legal obligations are the metrics upon which the multilateral trading system is evaluated now. Second, it was accepted that sustained efforts should be made to help developing countries overcome these constraints. Specifically, the Aid for Trade Framework articulated by WTO members in Geneva was widely endorsed. Third, a concern for results has raised the profile of aid effectiveness and related matters. To that end it was felt that the principles contained in the Paris Declaration, in particular as they relate to country ownership, should be reflected in the future implementation of Aid for Trade projects. The repeated references to the need for adequate monitoring and evaluation can also be seen in this light. These three fundamental areas of agreement should provide a good foundation for the implementation of the Aid for Trade initiative.

83. Throughout this Dialogue a number of suggestions for the implementation of Aid for Trade were advanced that may not command as much support as the above propositions. The impression of less-than-universal agreement arose either because some parties stated objections to a given suggestion or because in spite of several statements in support of a suggestion (usually by participants from developing countries) very few similarly fulsome statements were made by other participants (typically from donor countries). The matter of whether additional resources will in fact be devoted to the implementation of Aid for Trade falls very much into the latter category. Moreover, calls for greater coherence among donors were not universally echoed, nor were calls to improve upon the current levels of coordination. Calls for separate funds and institutional mechanisms to implement the Aid for Trade initiative were explicitly rejected by some participants, often with reference to the principles of aid effectiveness. Claims about the future financial allocations for this initiative were also advanced. Irrespective of the latter, the greater attention given to accountability, monitoring, and evaluation in Aid for Trade projects represent a significant departure from the status quo.

84. Having reflected on the numerous and stimulating contributions to this OECD Policy Dialogue, and noting in particular the desire to implement the Aid for Trade initiative soon, it makes sense to reflect on three material choices concerning the implications of the WTO Task Force recommendations, as approved by the General Council. These are choices that cannot be avoided, although that does not prevent them from being made effectively by default (that is, by sticking to the *status quo*).

85. The first matter concerns the definition of projects that can fall under the Aid for Trade umbrella. Given the many domestic factors that determine a developing country's export performance, it is perhaps not surprising that the WTO Task Force recommended an outcome-based definition. What this could mean, for example, is that a project could be eligible for Aid for Trade support if there is a plausible trade-related impact to the project and, given the other potential projects available and the stated priorities of the developing country in question, if the project is likely to make a first-order² impact. Therefore, a project

² Note the term "first-order impact" does not necessarily mean maximum impact.

should not be supported if there is another project that is plausibly going to have a greater effect on whatever development objectives the country in question deems important (such as employment effects, impact on trade, etc.) This approach would encourage recipients and donors to be clear about the outcomes they seek to achieve and to develop some kind of preliminary and plausible ranking of the impact of different possible Aid for Trade projects. Prioritisation across possible projects would thus be encouraged. This suggestion was prompted by listening to a number of the presenters at this Policy Dialogue who argued that the agricultural sectors in some developing countries were not given the appropriate level of attention by trade policy makers, even though these sectors contributed a large proportion of national export earnings. Surely the design of Aid for Trade initiatives in these countries ought not to automatically exclude the possibility of projects that might enhance exports from one of the largest sectoral contributors to a nation's balance of trade? This approach would be fully compatible with the spirit of the proposed definition in the Task Force recommendation that aid can be considered as Aid for Trade if it is required to implement the trade element of a national development strategy, such as a poverty reduction strategy plan.

86. The second area where further clarification would be helpful concerns the country eligibility for Aid for Trade initiatives. Eligibility can, of course, be thought of in many ways: absolute eligibility, eligibility for different levels of support etc. However, as participants heard, one African island country whose population in 2005 was less than one and a quarter million people is seeking EUR 2 billion in Aid for Trade support. Given the publicly-stated commitments to Aid for Trade made by industrial countries, should other countries come forward with requests for assistance roughly in proportion to their populations, then there is almost certainly going to be a substantial imbalance between the demand for Aid for Trade support and the funds available to meet them. Either prioritisation happens explicitly, perhaps according to formal criteria, or it will happen informally. The drawback of the latter is that it is likely to generate mutual distrust among nations. (Although in the interests of balance it could be argued that such an imbalance is the consequence of many more countries making trade a priority for their national development strategies). The difficulty with the former is that it probably implies creating some sort of a vertical fund arrangement where financial allocations do not respond to country-owned priorities and strategies but to a set of objective criteria independent of recipient nation policy processes.

87. The third matter policy makers may want to dwell on is the prospect and advisability of sequential implementation of the Aid for Trade initiative. It is not apparent that every donor and every recipient country is currently ready to implement this initiative on similar terms. Waiting for consensus to emerge on the details of implementing this initiative and waiting for every developing country to assemble their proposals for support is probably impractical and will not satisfy those who do not want to wait. Sequential implementation, therefore, seems the likely outcome and it might be worth dwelling on what this is likely to mean. On the positive side, as noted by one presenter, having some countries forge ahead might yield many lessons about what mistakes to avoid and what practices to adopt, which later projects can take account of. The downside, however, is that the much sought-after coordination between donors is less likely to happen if some are moving ahead faster than others. Moreover, to the extent that mechanisms to foster coordination and cooperation are not used, then donors are less likely to amend their operating procedures, which a number of developing country participants at this Policy Dialogue expressed concerns about. Furthermore, as some receive Aid for Trade support the developing countries that do not may feel increasingly anxious that available funds are being used up and that commitments made in 2005 and 2006 to fund the Aid for Trade initiative are hollow, a perception that might create disenchantment among developing countries with the multilateral trading system. In short, much hinges on how the Aid for Trade initiative is to be implemented and policy makers should consider how the almost inevitable piecemeal implementation of this initiative can advance in such a way that maximises the benefits and mitigates the downside risks.