CHAPTER 3
HOW IS AID FOR TRADE **DELIVERED**?

This chapter presents the findings of the 2011 aid-for-trade monitoring survey of donor and partner country adherence to these key aid effectiveness principles. More specifically, it assesses whether the delivery of aid for trade has improved since the previous survey in 2009. The commitment to the Paris principles by both partner countries and donors on aid for trade remains strong. Compared to the situation in 2009, the 2011 survey finds that country ownership over aid for trade has advanced the furthest among the five Paris principles. That is to say, 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 continue 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. Putting the aid effectiveness principles into practice necessitates continued attention and efforts. Donors and partner countries note that the challenges in delivering aid for trade effectively are not unique to this initiative, but are, in fact, part and parcel of the broader aid effectiveness agenda.

INTRODUCTION

Aid for trade is about enabling partner countries to use trade more effectively to promote growth and poverty reduction and to achieve their development objectives, including the Millennium Development Goals (MDGs). To achieve these objectives, aid for trade – as with any cross-sectoral development co-operation programme – involves complex relationships among partner country governments, bilateral donors, multilateral and regional agencies, the private sector and other non-governmental organisations. Each of these stakeholders has different priorities, operating arrangements, timeframes and financial and human resources. Therefore, making aid for trade work better requires comprehensive and rigorous implementation of the tenets of aid effectiveness enshrined in the Paris Declaration, which encapsulates decades of lessons learned and which sets out clear commitments aimed at improving results.

The importance of aid quality was underlined in the 2006 Recommendations of the WTO Task Force on Aid for Trade, which urged that the Paris Declaration on Aid Effectiveness should guide the delivery of aid for trade. In practice, this means that partner countries need to integrate trade objectives into their development strategies and take the lead in their implementation (*Ownership*). To make ownership a reality, donors are expected to align their aid around these strategies and priorities and use local systems for the provision of their aid (*Alignment*). Furthermore, all aid-for-trade activities provided by donors should be delivered in a harmonised and transparent manner (*Harmonisation*). Finally, managing for results and being accountable for them should ensure effective delivery of aid for trade (*Managing for results/Mutual accountability*).

Aid for trade exemplifies the benefits of adhering to the principles of the Paris Declaration. Furthermore, it shows how coherence at the international level can – and should – work. From the outset, the Aid-for-Trade Initiative has contributed significantly towards implementing the Paris principles. For instance, although some initially suggested setting up a new dedicated aid-for-trade fund, the general view was that aid-for-trade objectives would be better advanced not by creating additional mechanisms but by making existing ones work better. Indeed, if aid for trade were implemented through earmarked funds rather than as part of broader development programmes, it would risk undermining the principles of ownership and alignment (Voionmaa and Brüntrup, 2009). This is particularly important considering that donors provide over a quarter of their ODA to aid for trade. Another achievement has been the adoption of a system to strengthen mutual accountability between the trade and development communities at two levels: first, at the country (and regional) 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.

This chapter presents the key findings of the monitoring survey pertaining to the implementation of the Paris principles with respect to aid for trade. The analysis is based on questionnaire responses from 84 partner countries, 43 donors, 10 South-South partners and 9 regional economic communities. In addition, a number of relevant case stories have been referenced. The rest of this chapter is structured as follows. The next section examines whether the country-led approach is being reinforced and how the process of consultation and co-ordination is working. Developments in donors' performance with respect to the operationalisation of two key Paris principles (*i.e.* alignment and harmonisation) are presented in the subsequent section. The final section draws some conclusions.

HAS OWNERSHIP OVER AID FOR TRADE IMPROVED?

Strengthened ownership…

Ownership is widely regared as a precondition for development (OECD, 2008). When developing countries are not in the driver's seat to steer their own development path, or when donors fail to respect their leadership, then the results from development assistance will most likely be unsustainable. Thus, the aid effectiveness agenda acknowledges "the primacy of ownership" (Stern *et al.*, 2008). Within the framework of effective development partnerships, donors have committed themselves to "respect the right – and responsibility – of the partner country to exercise effective leadership over its development policies and strategies, and coordinate development actions" (OECD, 2005). A commitment to country ownership and country-driven approaches – complemented by more focused aid – is key to successful implementation of aid for trade.

Aid for trade can be considered as a joint venture between developed and developing countries. It can only succeed if partner countries ensure that trade is an integral part of their development plans (*i.e.* mainstreaming trade) with clearly articulated needs and priorities (see Chapter 1). This is a point which comes out very strongly in the case stories. The importance of ownership – at the political as well as the technical level – in ensuring that projects and programmes achieve their objectives was clearly expressed by many partner countries, donors and providers of South-South co-operation. The case stories suggest that the partner government's commitment, often at the highest level, is critical. Furthermore, co-ordination with domestic stakeholders, as well as with the donor community, will enhance country ownership and strengthen mutual accountability. For example, a case story on multi-donor assistance to Cambodia's rice-export sector attributes its success to strong country ownership and leadership in identifying binding constraints, and the creation of trilateral partnerships (donors, public and private sector) which ensured that the projects and programmes were aligned with Cambodia's priorities and could be self-sustaining post-donor support.

Shimomura and Ohno (2005) point to two elements that countries themselves must demonstrate if country ownership is to be taken seriously: the capacity to own development policies (policy autonomy) and the capacity to own the relationship with the donor community (donor management).[1] In order to exercise country leadership, countries must undertake co-ordination on three levels: "policy", "institutional" and "donor-partner government" level (UNDP 2008).

In 2009, almost all partner countries reported that they either fully or partly mainstreamed trade in their development strategies. Consequently, the 2011 survey no longer addressed this issue. Instead, it focussed on progress in encouraging national and international stakeholder dialogues. It shows that the principle of ownership appears to be taking hold better in the realm of aid for trade. The remainder of this section focuses on issues related to policy-level mainstreaming, institutional arrangements for aid co-ordination, and finally donor-partner dialogues.

…through better trade mainstreaming…

The relationship between trade and poverty reduction is not automatic. It needs to be managed and made compatible with the country development strategies and policies (OECD, 2011). Partner countries need to design their own trade strategies and make them central to their overall development efforts. This means integrating trade into national development or poverty reduction strategies and sectoral policies. Therefore, trade mainstreaming is inextricably linked with the concept of ownership. Such a process can help harness the benefits of trade, mitigate its possible negative impacts and improve the rate of development (UNDP, 2008). However, raising the profile of trade often proves difficult due to lack of institutional capacities and the division of competences between many ministries (Voionmaa and Brüntrup, 2009). While the trade ministry is responsible for negotiating and implementing trade policy, many aid-for-trade issues fall under the responsibility of other line ministries (*e.g.* finance, agriculture, transport). Moreover, the trade ministry is often absent from consultations with donors when national development priorities are discussed.

Despite such challenges, there is now a body of evidence from the global monitoring survey and other studies suggesting that trade is being increasingly mainstreamed into partner country development strategies. The 2009 survey showed that more than half of the partner countries indicated that they "fully" mainstreamed trade in their national development plans with well developed trade-related priorities and implementation plans. This assessment is broadly in line with the findings of a UNDP study assessing the role of trade policy in Poverty Reduction Strategy Papers (PRSPs). On the basis of the 72 PRSPs surveyed, Kosack (2008) found that trade was increasingly prominent in poverty reduction strategies, with 50 of them including a section devoted exclusively to trade. Furthermore, 52 PRSPs related their trade policies in some way to an analysis of their nation's poverty profile, and many showed substantial improvement in integrating trade and poverty issues. However, the study qualified these findings by stating that many PRSPs seemed to view poverty reduction at some distance removed from trade, rather than fully integrated with it (Kosack, 2008: 17). In a similar study of second-generation PRSPs in selected African countries, Driscoll *et al.* (2007) also concluded that there was still room for improvement, particularly with regard to trade-poverty linkages.[2]

In the LDCs, progress towards mainstreaming can be linked to the enhancement of the Integrated Framework (IF) (Box 3.1). Kosack (2008), for example, found that the countries that made the most progress with integrating trade into their PRSPs (*e.g.* Uganda and Rwanda) did so following their Diagnostic Trade Integration Study (DTIS). While most LDCs noted that it is still too early to tell (19 out of 32), eight respondents stated that the enhancement of the IF had made a significant impact on their ability to mainstream trade into their national development plans or poverty reduction strategies, with a further three reporting moderate impact.[3]

The role of Enhanced IF (EIF) is also documented in the case stories. For example, Lesotho noted that the EIF offers a way to overcome challenges related to mainstreaming trade. Another case story underlines how in both Uganda and Mali the EIF processes played an important role in efforts to integrate trade priorities in national development plans, as well as in sensitising donors on cross-sectoral links and the inefficiencies of isolated programmes.[4] There are, however, cases where such mainstreaming is still under way (OECD/WTO, 2011).[5] The WTO's Trade Policy Reviews of Democratic Republic of Congo and Malawi, as well as a joint review of Burkina Faso, Benin, and Mali also confirm the progress being made in mainstreaming trade.

…based on better national policy co-ordination…

Experience has shown that successful trade mainstreaming depends critically on consultation and co-ordination among different public and private stakeholders, as well as with donors and South-South development partners. This can be achieved by creating co-ordination mechanisms to promote broad-based consultations between these stakeholders to formulate trade strategies, action plans and project proposals (UNDP, 2008).

Aid-for-trade activities cut across many policy areas and sectors. Therefore, effectiveness in aid for trade will depend on many actors working together in a coherent way. As noted previously, the profile of trade can be raised through an institutional set-up that promotes stronger leadership for reform and more effective co-ordination by inter-ministerial teams. In the 2009 survey, the majority of partner countries (51 out of 82) reported that their trade department performed a coordinating role, but implementation was decentralised across ministries. Some had established inter-ministerial bodies, such as a national committee, to encourage a more inclusive, government-wide process.

Responses to the 2011 survey show that institutional mechanisms to coordinate trade-related support across government appear to be well established in many partner countries. Almost three quarters of the partner countries reported no change since 2008 in their institutional arrangements for the co-ordination and implementation of their aid-for-trade activities. In most countries, the trade ministry continues to perform the coordinating role while implementation is decentralised across ministries.[6]

Box 3.1 The Enhanced Integrated Framework and aid for trade

The Integrated Framework (IF) for Trade-related Technical Assistance for Least Developed Countries was originally launched in 1997 at the WTO and was seen as a means to build capacity in trade policy and other trade-related areas. The IF had two objectives: integrating trade into national development plans, such as poverty reduction strategies; and assisting in the coordinated delivery of support to address trade-related needs identified by LDCs. In the first stage of meeting these twin objectives, the IF called for a diagnostic trade integration study (DTIS) that specifies the main elements of the policy framework for trade integration, and an action matrix that maps out trade-related investment needs and identifies priority areas for the delivery of trade-related assistance.

Initial experience with the IF highlighted a number of problems: weak in-country capacity, lack of systematic follow-up at the country level, insufficient and uncertain financing, and variable donor responses to priorities identified in the DTIS. In May 2007, several enhancements were adopted to address these problems. The framework officially became "Enhanced" in October 2008 when an Executive Secretariat was established. The Enhanced IF (EIF) is intended to give LDCs greater ownership; to bring increased commitments from development partners; and to make improvements in the decision-making and management structure to ensure effective and timely delivery of increased financial resources.

Steps toward the enhancement of the IF came after the establishment of the Aid-for-Trade Initiative following the 2005 WTO Hong Kong Ministerial Conference. The EIF is "an aid-for-trade partnership in action" for the LDCs. This multi-donor programme currently supports 47 LDCs worldwide, tackling their supply-side constraints to trade and helping them become more active players in the global trading system. The EIF works towards a wider goal of promoting economic growth and sustainable development and helping to lift more people out of poverty.

The Paris Declaration was also seen as very important to improving or "enhancing" the IF. The Task Force on an Enhanced Integrated Framework stated in its recommendations that "The enhanced IF should be guided by the aid effectiveness principles set out in the Paris Declaration, such as donor harmonisation, using country systems, promoting ownership and involving stakeholders such as the local private sector" (WT/IFSC/W/15).

The EIF process also aims to strengthen donors' support to a country's trade agenda. LDCs can use the EIF as a vehicle to assist in coordinating donors' support and to lever more aid-for-trade resources. Donors, in turn, can sign up to the EIF as a vehicle to deliver on their aid-for-trade commitments. The EIF programme is currently supported by 22 bilateral donors through contributions to the EIF Multi-Donor Trust Fund: Belgium, Canada, Denmark, Estonia, European Commission, Finland, France, Germany, Hungary, Iceland, Ireland, Japan, Luxembourg, Norway, Republic of Korea, Saudi Arabia, Spain, Sweden, Switzerland, Turkey, United States, and United Kingdom. To date, trust fund donors have contributed approximately USD 100 million, with total pledges of USD 182 million to be disbursed over a five year period.

The EIF has made significant progress in 2010 with regard to the institutional set-up of the programme, project delivery and outreach. Project implementation is now under way, with 19 multi-year National Implementation Arrangements projects and 7 pre-DTIS projects approved. To date, 42 DTIS and 3 DTIS updates have been validated, with another three such studies and several updates in the pipeline. The EIF is fully operational in 46 LDCs and in one other developing country that has recently graduated from LDC status. EIF graduating LDCs can also continue to access EIF funding for an additional three years after they graduate.

Several other countries (Gabon, Gambia, Madagascar, Mongolia, Sierra Leone and Yemen) have in place a central coordinating body. Evidently the task of co-ordination will be made much simpler (and involve lower transaction costs) when handled by a single entity.[7] Still, given its cross-sectoral nature, aid for-trade requires the involvement of various line ministries (*e.g.* finance, planning, transport, agriculture, businesses), and good co-ordination as well as communication between them. As such, the majority (11 out of 18) of the countries which carried out reforms delegated the coordinating role to several distinct entities. For instance, in countries such as Burundi, Mali, India, Nigeria, Tonga and Tuvalu, various line ministries, besides trade, are involved in coordinating trade-related support, often working through an inter-ministerial body (a national committee).

The EIF is one of the main vehicles for achieving better in-country co-ordination. In 28 of the 32 EIF countries[8] which have responded, the EIF focal point (often working out of the trade ministry) is responsible for in-country stakeholder consultation, and for overseeing and coordiating trade-related assistance. Few changes were reported in the entity or entities responsible for coordinating their aid for trade activities.[9] In a majority of the EIF countries, all relevant ministries are involved in the EIF process, although there is still room for improvement in promoting synergies with existing institutions and mechanisms. For example, in Zambia the EIF process was initially criticised as administratively cumbersome and slow because of difficulties in establising institutional mechanisms, on-off engagement by donors and limited buy-in by some stakeholders. Similar observations were also made in the case stories submitted by Malawi, Ethiopia and Niger.

Some 18 countries reported a change in their co-ordination mechanisms. In a number of cases where changes were made, the transfer of the co-ordination role was from a single ministry (typically the trade ministry) to a national co-ordination body (*i.e.* an inter-ministerial entity). Nine partner countries (Burundi, Fiji, Gambia, Mali, Madagascar, Nigeria, Suriname, Tonga and Uruguay) note that the changes have been made to improve co-ordination across government. For Gabon, Mongolia, Suriname and Tuvalu, institutional reforms resulted from a change of government. All but one (Tuvalu) opted for a single co-ordination entity. In Suriname, for example, the change of government provided an opportunity to rationalise the co-ordination procedures, establishing a dedicated unit within the Ministry of Finance for coordinating trade-related support. However, the responsibility for programme formulation and budget management is decentralised to individual line ministries.

Several case stories point to partner countries' weaknesses in co-ordination at the national level which affects the setting of priorities, implementation and the sense of ownership. For example, in the case of Zambia, one particular challenge was forging the necessary inter-ministerial lines of communications, which in turn held up official endorsement of the DTIS for nearly a year (OECD/WTO, 2011).[10] Institutional or political obstacles (*e.g.* inter-ministerial rivalries or vested interests) may also complicate inter-ministerial co-ordination. These weaknesses may explain why, in some cases, there seems to be a lack of synergy among the various players involved in implementing projects.

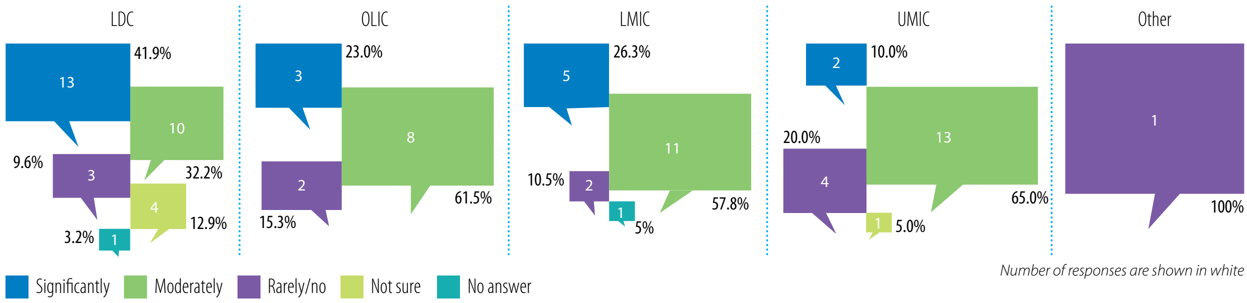
…and more inclusive partnerships…

The Accra Agenda for Action stresses that wide participation in development policy formulation and priority setting is paramount for country ownership. Indeed, many case stories highlight the importance of involving local stakeholders in the design and implementation phases of the activity, and the need to mobilise private sector. Stakeholder consultation is about "asking the constrained about constraints" (OECD, 2011), and has long been acknowledged as best practice in trade capacity building (OECD, 2001) and to make aid-for-trade effective (OECD, 2006). National stakeholders – both private and public sector, and non-governmental and civil society organisations – offer invaluable insights for identifying and prioritising the most critical constraints on trade expansion.

To achieve regular and effective dialogue, formal and informal consultation channels should be strengthened. A number of case stories highlight the challenges faced by governments in ensuring that consultation is broad-based, and includes representation from businesses outside the main cities and marginalised groups, such as informal traders and small-scale farmers. Some cases stories also point to the need to include women traders in such dialogues given their potentially powerful impact on progress towards meeting the MDGs.

Compared to the 2009 survey, the dialogue on aid for trade between government and national stakeholders has been significantly (39%) or moderately (36%) strengthened in three-quarters of partner countries surveyed. Whereas in 2009 stakeholder dialogues took place more frequently in middle-income partner countries this trend has now shifted to the LDCs (Figure 3.1). Some 17 LDCs report significant improvements, and an additional eight report moderate improvements. While less pronounced, stakeholder dialogues in lower middle-income countries (LMICs) and upper middle-income countries (UMICs)

Figure 3.1 More stakeholder dialogues are taking place in LDCs



Source: OECD/WTO questionnaire (2011)

have also seen some improvements. In terms of geography, Africa and Asia – where most of the poorest countries are found – show the strongest improvements. Latin America, where stakeholder dialogues were most common in 2009, has the lowest proportion of countries reporting 'significant' improvements.

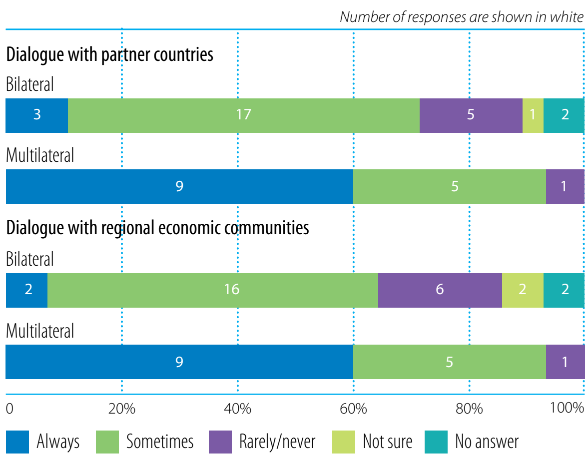
Such dialogues take a variety of different forms: consultation meetings, forums or committees involving the private sector, trade associations and civil society roundtables.[11] Some 54 partner countries report that both the number and the frequency of such stakeholder consultations have increased. The remaining 15 countries saw no change in the frequency and level of dialogue, while a further three countries were not sure, although none observe any deterioration of their national dialogue processes.

The Gambia, for example, reports the following developments.

"There has been an increase in dialogue through some Aid for Trade capacity building programmes through EIF, West Africa Quality Programme, Hub and Spokes Project amongst others. These projects have actively engaged national stakeholders in trade-related issues. In addition, the EIF national steering committee meets quarterly and consists of key stakeholders on trade. Lastly, the newly established Aid for Trade Ministerial Committee was launched in December 2010 and will be meeting on a monthly basis."

A majority of donors (over 70%) also involves the private sector and civil society organisations to some extent in their policy dialogue with partner countries and regional communities. Most multilateral donors (60%) report that they 'always' involve the private sector in their dialogue; this rises to over 90% when also including 'sometimes'. Bilateral donors appear to involve the private sector less frequently but still significantly (Figure 3.2). As for the ten South-South partners, just five countries provided answers, with only Mexico stating that it sometimes involves the private sector in its trade-related assistance projects. In particular, Mexico highlighted its public-private partnerships in the areas of technical and scientific co-operation to facilitate the transfer of knowledge and skills to the private sector in the South. India and Indonesia also appear to involve the private sector (*e.g.* industry and trade associations) to some extent in their trade-related assistance. The remaining four (*i.e.* Argentina, Chile, Colombia and Ecuador) report that they rarely or never involve the private sector in their trade-related assistance.

Figure 3.2 Donors involve the private sector in their dialogues with partner countries and regional economic communities



Source: OECD/WTO questionnaire (2011)O

…and through trade-focused government-donor dialogue.

Binding constraints to building trade capacities are context specific. Consequently, aid for trade needs to be demand-driven. Put differently, donor support should be guided by priority needs of the specific partner countries (ownership and alignment). During the Second Global Review, the LDCs considered that effective implementation of aid for trade required better co-ordination between donors and recipients. Responses to the 2011 survey show that this has indeed happened. The following section presents the views of different aid-for-trade stakeholders.

Partner countries' views

More than three quarters of partner countries report that their policy dialogues with donors have been strengthened since 2008. This is broadly in line with donors' own assessment (see the next section). Most partner countries attribute these improvements to more regular and structured meetings with donors. In other cases (*e.g.* Fiji, Madagascar), dialogue also took place through informal channels. In several cases, partner countries have made specific efforts to strenghten their teams responsible for aid for trade (*e.g.* Guatemala, Serbia and Sierra Leone). It is likely that improved co-ordination within partner countries may have also contributed to strengthening the donor-partner country dialogue. For instance, all but one partner country (Yemen) that have changed their coordinating entities since 2008 (17 out of 18) note an improvement in their dialogue with donors. The Solomon Islands' response provides a somewhat nuanced picture:

"Since aid for trade covers a range of trade-related areas and there is no central co-ordination body, it is unclear whether dialogue may have been strengthened with donors in some areas of trade. Broadly, however, aid for trade does not yet feature as a main area of discussion in the regular national government-donor dialogues. This is likely to be partly due to the fact that aid for trade did not feature prominently in the 2008-2010 National Medium-Term Development Strategy document."

As was the case for the 2009 survey, the number of partner countries and regional communities with whom trade concerns are prominently discussed is much higher for multilateral donors than for bilateral donors.[12] About half of the donors report 'moderate' to 'significant' improvements compared to 2008. Multilateral donors have seen greater improvements (over 50% for partner countries and 60% for regional communities) than bilateral donors.

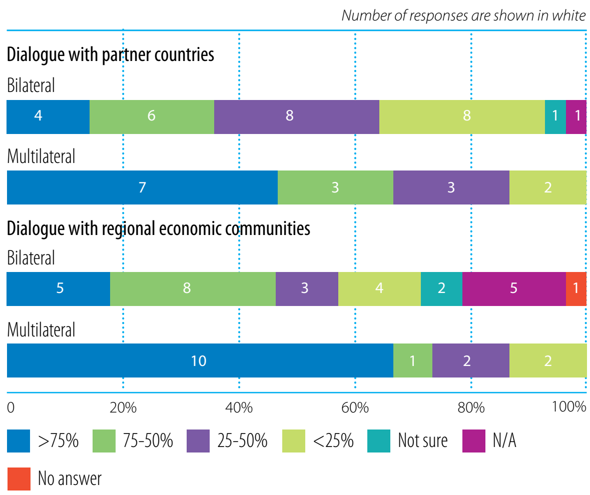
Greater co-ordination of efforts between partner governments and donors also appears to be taking place in the LDCs. Of the 32 LDCs that responded to the questionnaire 13 say that the aid-for-trade dialogue between government and donors has 'significantly' strengthened, while a further 10 say that the strengthening has been 'moderate.' Certainly, the EIF has provided the LDCs with the tools needed to improve ownership, and has also brought increased donor commitments (Chapter 2). In particular, The EIF's Donor Facilitators appear to be playing a central role in this regard (see Table 3.2).

Uganda reports that its Donor Facilitator (the European Commission) helps to improve the dialogue between the government and the donor group. Nepal expects that, with the recent appointment of Germany as its Donor Facilitator for the EIF process, the dialogue between the government and donors will be strengthened. Furthermore, a quarter of other low-income countries (OLICs) and almost a third of LMICs also report significant improvements in their dialogue with donors.

Views from the providers of aid for trade

For many donors, trade-related issues remain an important part of their policy dialogue with partner countries (19 out of 42 estimate that trade is discussed in more than 50% of their partner country dialogues) and even more so with regional communities (23 out of 42) (Figure 3.3). The latter may be explained by the fact that, for most regional economic communities, trade is already mainstreamed in their regional and sectoral development strategies (as indicated by the seven respondent regional organisations[13] to the questionnaire). For example, partner countries and donors in the Asia and Pacific region have all coalesced around the importance of delivering effective aid for trade. In 2009, they formed an informal Regional Technical Group (co-chaired by Cambodia and Japan, with the Asian Development Bank serving as the Secretariat) to discuss aid-for-trade issues, share good practices, build partnerships, and help to formulate an integrated approach to operationalising aid for trade in the medium term.

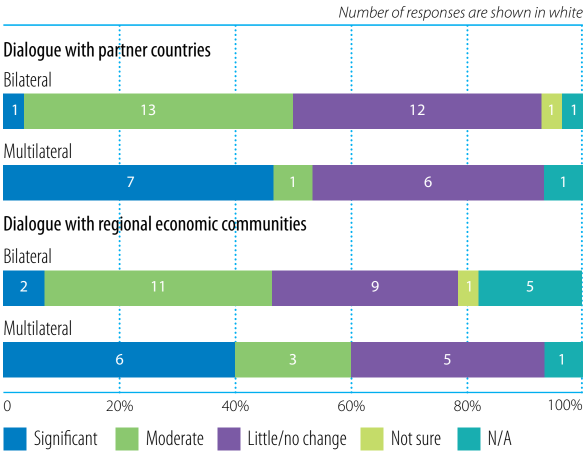
Figure 3.3 Trade is featured prominently in most donor-partner country dialogues



Source: OECD/WTO questionnaire (2011)

Significant or moderate improvements in the extent to which trade-related issues were discussed in policy dialogues with partners were also reported by half of the donors (Figure 3.4). Some indicate little or no change, but this may be because trade was already well mainstreamed in policy dialogues in 2008, as is the case for the European Union. In general, the majority of key ministries and agencies in partner countries are participants in a national consultative process to a varying degree.

Figure 3.4 Progress has been made in trade mainstreaming



Source: OECD/WTO questionnaire (2011)

A majority of South-South development partners (7 out of 10) also report significant progress in strengthening the dialogue with their partner countries. For example China, in addition to its regular bilateral dialogues, discusses development and co-operation with its partners through regional co-operation mechanisms (*e.g.* the ASEAN 10+1, Forum on China-Africa Co-operation, Shanghai Co-operation Organisation, China-Pacific Island Countries Economic Development Co-operation Forum, and China-Caribbean Economic and Trade Co-operation Forum). Chile prioritises regional integration by strengthening dialogue with countries from Central America, the Caribbean, and particularly with its neighbouring countries, such as Bolivia, Ecuador and Paraguay. In addition, work has intensified with the countries with which trade agreements have been signed (*e.g.* Argentina, Mexico, Uruguay and Colombia). The governments of Colombia and Mexico held the 10th Summit of the Tuxtla Dialogue in June 2008, to review the process of the Plan Puebla Panama (PPP), launched in April 2007. It was agreed to transform the PPP into an integration and development project for the Mesoamerica sub-region, called the Mesoamerica Project. Colombia organises quarterly monitoring meetings.

The providers of South-South co-operation in the Latin America and the Caribbean region have been active in promoting regional dialogue relating to trade and interaction with partners. For example, in November 2010 they organised a seminar *"Cooperación Sur-Sur: hacia una agenda regional como espacio de oportunidades para la integración* (South-South Co-operation: Towards a regional agenda as an area of opportunity for integration)" in Quito, Ecuador. One of the resolutions adopted mandated Brazil, Chile and Ecuador to represent the Latin America and the Caribbean countries on issues related to multilateral and regional co-operation. Other challenges identified included reaching a common regional position on South-South co-operation as an instrument for regional integration, strengthening institutions, promoting a new system for co-operation, improving the efficiency of resource use, seeking consensus on modalities of co-operation and common methodologies for measurement, encouraging regional co-ordination among multilateral agencies, and raising awareness about South-South co-operation as a development tool.

The members of the Development Assistance Committee (DAC) also widely recognise that there are a multitude of development models and approaches for providing development assistance and that more purposive efforts by the DAC are needed to deepen the understanding of the principles underpinning South-South co-operation and associated good practice. In an effort to strengthen their engagement with the providers of South-South co-operation, the DAC unilaterally adopted at its Senior Level Meeting in April 2011 a statement "Welcoming New Partnerships in International Develoment Co-operation." This DAC statement signals its readiness and desire to engage in a meaningful dialogue and co-operation with the South-South partners.

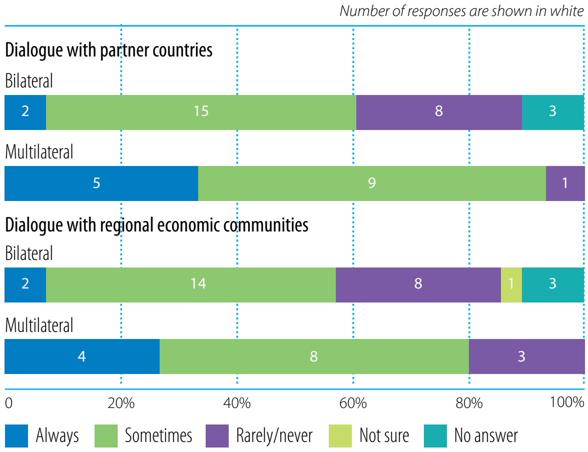
Engagement of the private sector and other parts of civil society on aid for trade

The private sector is the engine of growth and trade. Aid for trade can help to strengthen public-private partnerships and ensure that civil society is more actively engaged in setting national trade priorities and in promoting a broad-based trade agenda. Donors engage with the private sector in a variety of ways, some involving the private sector systematically, and others involving it on a case-by-case basis (*e.g.* Sweden engages with the private sector where private sector development is identified as a priority by the partner countries). These different levels of engagement range from dedicated programme components, to support for private sector advocacy (*e.g.* Australia's Enterprise Challenge Fund, Sweden's Business for Development initiative, and the UK's TradeMark programmes in Southern and Eastern Africa), to consultation during the programme planning and design phase, to monitoring and evaluation (*e.g.* Belgium, Canada, Denmark, EU). For some donors (*e.g.* Switzerland, UNIDO), the private sector is often represented in project steering committees and technical working groups, and is also directly involved in project implementation (*e.g.* UNECA-supported African Alliance on E-Commerce was a private-sector driven initiative which involved the creation and promotion of single windows in Africa).

Several donors emphasise public-private dialogue as a key instrument in, and an important element for, successful trade-related assistance programmes. Germany considers that a systematic involvement of the private sector in aid for trade ensures that business perspectives are effectively reflected in the formal government-to-government negotiations. Japan plans to expand its private sector dialogue to other countries in the Asia region. The UK Department for International Development, too, has established a new Private Sector Department to strengthen its engagement with the private sector in both identifying and helping to solve trade-related development challenges. Belgium channels a large part of its bilateral aid for trade (around 55%) through its development finance arm (the Belgian Investment Company for Developing Countries, or BIO) to support the development of small and medium-sized enterprises (SMEs) in the agribusiness sector.

The European Bank for Reconstruction and Development (EBRD), which works directly with private actors, sees policy dialogue with the private sector as particularly crucial in cases where specific trade policies have a detrimental impact on private sector projects. In other cases, donors consult and involve the private sector on a systematic basis through formalised arrangements or channels. For example, each time Finland holds a high-level policy dialogue with the Vietnamese government, a separate dialogue is also held in parallel with private sector representatives via the Vietnam Business Forum. The US, through its four USAID Trade Hubs in Sub-Sahara Africa, helps private sector actors take advantage of the African Growth and Opportunity Act (AGOA). These private sector clients are a key component of the bilateral and regional trade dialogues between the US government and the AGOA countries.

Figure 3.5 Donors involve civil society in their dialogues with partner countries and regional economic communities



Source: OECD/WTO questionnaire (2011)

New Zealand reports that the 2010 Pacific Island Forum of the region's leaders included a private sector dialogue for the first time. UNDP supports the active participation of the private sector in aid for trade through its role in the EIF process (*e.g.* trade diagnostic and needs assessments). Several donors also engage actively with the private sector as part of their efforts to support and promote public-private partnerships (*e.g.* UNECE, World Bank), in some cases in collaboration with business organisations from donor countries (*e.g.* Japan's Vietnam-Japan Joint Initiative, or Korea's renewable energy project in Kazakhstan). Australia supports the Pacific Island Private Sector Organisation (PIPSO) which is the central body for the private sector in the Pacific region and supports effective private sector representation in regional policy making processes and relevant business development activities.

A majority of donors – particularly multilateral donors – involve civil society organisations in their dialogue with partner countries and regional communities (Figure 3.5), although less frequently than the private sector. One explanation may be that civil society organisations working specifically on trade-related issues at country or regional level are in short supply. UNDP suggests that the limited capacity of civil society organisations may constrain their effective engagement with government counterparts and development partners.

Civil society may not always be part of donor-partner government policy dialogues on aid for trade. Some donors engage with civil society in partner countries as appropriate. Other donors, such as Germany and Portugal, have established mechanisms for regular dialogue on development issues with civil society organisations (CSOs) and non-governmental organisations (NGOs). Non-state actors are involved through a variety of channels, including programme design, implementation and monitoring and evaluation (*e.g.* UK, EU). CSOs sometimes play the role of development partners in aid-for-trade operations (*i.e.* donors directly funding NGO programmes) and of implementing agents (on donors' behalf). They can also be the direct beneficiaries of aid for trade.

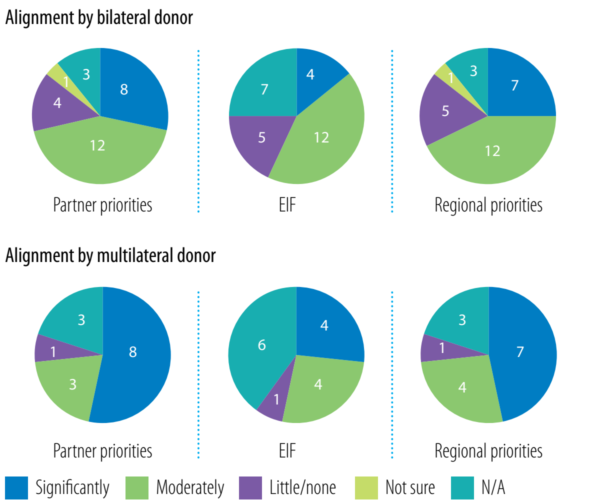
Under its new Country Partnership Framework, Spain's technical co-operation offices in partner countries engage with civil society, the private sector and other stakeholders in the co-ordination of Spain's ODA programmes. For Canada, dialogue with civil society is seen as particularly important in identifying the gender implications of aid-for-trade policies and programmes. SMEs, women's groups, firms, and banks in partner countries are consulted in the USAID's economic growth activities. Most regional and multilateral organisations are required to carry out public consultations, including with civil society, when developing their country assistance or sector strategies. For example, CSOs in partner countries were involved during the development phases of the World Bank's forthcoming Trade Strategy.

These results showing the increasing role that national stakeholders are playing in aid for trade are promising. However, while recognising that the private sector and other stakeholders are invaluable sources of information about what is happening on the ground, it is important to consider – and remain vigilant – about the potential risk of selection bias. OECD (2011) highlights some of these inherent biases. The first main source of consultation bias is the lack of comprehensive representation of all concerned stakeholders. In many partner countries, the formal sector is often very small and unorganised and does not have representatives who can speak on its behalf; at the same time, while informal sector is much larger, it can be very difficult to establish representative contact points.

The second main source of bias is the inherent subjectivity of those consulted. For example, while the objective of aid-for-trade interventions may be to expand trade and its benefits for the economy, some established firms may have a vested interest in maintaining anti-competitive practices that might limit the gains from trade liberalisation. For instance, a case story from the ECOWAS on the Trade Liberalisation Scheme (ETLS) highlights that companies which benefit from informal trade barriers (for example, continuing tariff restrictions or non-tariff measures, such as seasonal bans) and agencies that collect revenue (both formal and informal) may not favour ETLS implementation. Similarly, when the objective of the aid-for-trade intervention is the creation of new economic activity (*e.g.* through export diversification), rather than improving the performance of existing exporting sectors, the value of the information obtained from existing private sector organisations may be of limited value since they may not be independent or representative of the new target beneficiaries.

Finally, there is the on-going debate about the value of questioning the "incumbents" – those who have already adapted successfully to existing constraints. As noted by Dani Rodrik "asking successful firms what are the main problems they face – a very common strategy both in business consulting and in country analysis – is not only uninformative about the binding constraints of the economy, it may lead the analyst precisely in the wrong direction. After all, successful firms are successful (relative to other firms) because they have been able to surmount the binding constraints. So they are least likely to complain about the blockages that are holding the rest of the economy back."[14] Others, however, found that adjusting to a constraint does not mean that firms then do not recognise it; for example, generator-owning firms are not distinguishable from other firms when ranking electricity scarcity or high price as a constraint. Consequently, they maintain that stakeholder views can provide a useful first step in the business-government consultative process and help in prioritising more specific policy reforms (Gelb *et al.*, 2007).

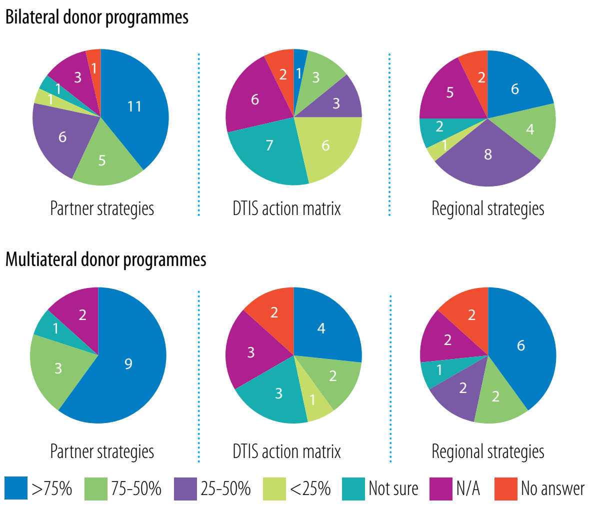
Figure 3.6 Bilateral and multilateral donors are aligning better compared to 2008



Source: OECD/WTO questionnaire (2011)

Number of responses are shown in white

Figure 3.7 Donor programmes are more aligned with country and regional stragegies



Source: OECD/WTO questionnaire (2011))

Number of responses are shown in white

IS AID FOR TRADE BETTER ALIGNED TO POLICIES AND PROCESSES?

Alignment is an expression of donors' commitment to partner country-led development process. To foster true ownership donors need to align their support around partner-country priorities, policies and systems (*e.g.*, strategies, institutions and procedures). Alignment to partner-country policies and processes provides strong incentives to improve them, further strengthening national capacities, and enhancing the state's ability to govern (GMF-Eurodad, 2008). For this reason, the alignment principle of the Paris Declaration and the Accra Agenda for Action puts partner countries' priorities at the centre of development planning and implementation.[15]

Alignment is improving, but unevenly...

The 2011 survey shows that alignment continues to improve improve (Figures 3.6). Most donors align their support around partner-country priorities and regional strategies, although to a lesser extent around DTIS Action Matrices. The exception, as previously noted, is LDCs which are using the IF/EIF structures and the DTIS to mainstream trade into their national development plans and transform broad priorities into specific action programmes for individual LDCs. Therefore, as long as the DTIS has been sequenced and feeds into the national development planning process (such as the PRSP) too much should not be read into this finding (Figures 3.7).

Likewise, the majority of partner countries (60%) report that, compared to 2009, donors are aligning their support better with national trade priorities. Barbados highlights that the process of jointly developing country strategy documents with donors has led to significant improvement in donor alignment. Other factors highlighted that contribute towards enhanced donor alignment include: strengthened donor-partner country dialogue (*e.g.* Antigua and Barbuda, Azerbaijan, Benin, Burkina Faso, Cape Verde, Central African Republic, DR Congo, Mexico, Niger, Pakistan and Tuvalue), shared adherence to the Paris Declaration principles (*e.g.* Ghana and Senegal), and the stability of national trade strategies over time (*e.g.* Uruguay). A number of case stories showcase how alignment with national strategies and priorities improves the chances of success. Tonga's case story, for example, identifies the lack of alignment of the STABEX programme around the government's priorities as one of the fundamental reasons for its limited success. In contrast, a port development project in Fiji, financed by the ADB, attributes its success to effective alignment of the project with the government's national development plan.

Table 3.1 How the implementation could be improved (ranked 1: most to 9: least important)

	CARICOM	CEN-SAD	ECOWAS	OECS	SADC	TTCA-NC	UEMOA
Greater say in design of interventions	2	4	4	1	1	1	1
Better predictability of funding	3	4	7	2	-	1	2
More regular joint donor implementation approaches	7	-	8	6	3	2	5
More frequent co-ordination with donors	6	6	6	3	4	2	5
More systematic use of M&E systems	8	1	5	9	3	1	4
Stronger focus on capacity development	1	5	1	4	-	1	3
Greater capacity within the Secretariat	4	3	2	5	0	1	5
More harmonised reporting requirements	9	-	9	8	-	1	6
Greater co-ordination between Member States	5	2	3	7	-	1	5

CARICOM : Caribbean Community ; CEN-SAD : Communauté des États Sahélo-Sahariens ; ECOWAS : Economic Community of West African States ; OECS : Organisation of Eastern Caribbean States ; SADC : Southern African Development Community ; TTCA-NC : Northern Corridor Transit Transport Coordinating Authority ; UEMOA : Union Économique et Monétaire Ouest-Africaine

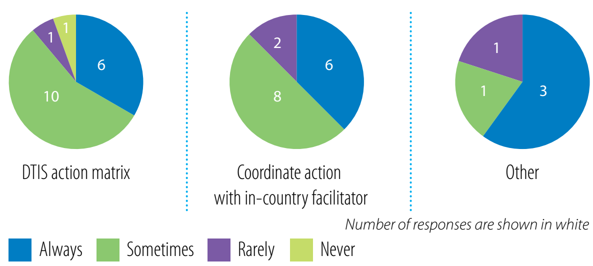
Source: OECD/WTO questionnaire (2011)

For many donors, alignment varies across country and regional programmes. Most donors report that they ensure alignment by responding to the priorities outlined in PRSPs, in other national development plans, or in bilateral/multi-donor dialogues with partner-country governments. They also involve partner countries and regional communities in the planning phases of their country or regional assistance strategies. Regional donor agencies typically formulate their programme implementation plans based on the priorities set by the regional economic communities, which are themselves based on their regional strategies or action plans. For example, the African Trade Policy Centre, the main conduit for UNECA's aid for trade, annually organises a meeting with its client regional economic communities to consult on its work programme. UNECE applies a common strategic framework under the Special Programme for Economies in Central Asia (SPECA), which builds on the development objectives and priorities identified in national and regional aid-for-trade action plans of SPECA countries.

The main message from regional economic communities on how to improve the implementation of aid for trade is their wish to have a greater say in design of donor interventions and to see a stronger focus on capacity development (Table 3.1).

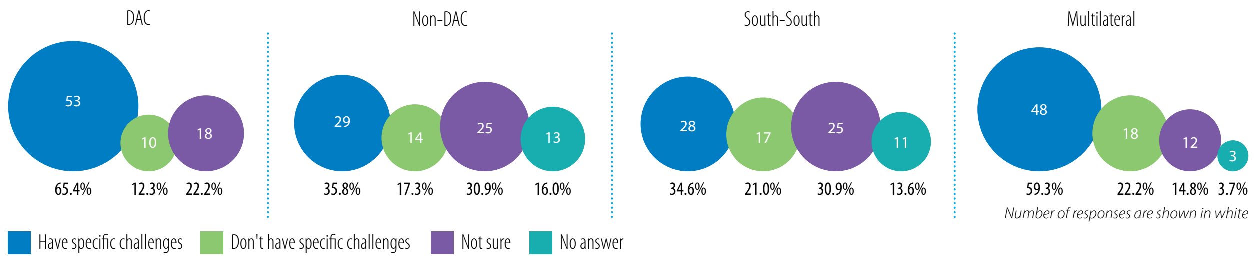
The EIF assisted LDCs in assessing their priority needs so as to allow donors to align their support accordingly. The process is starting to bear fruit. Eight LDCs (*i.e.* Benin, DR Congo, Guinea, Lao PDR, Mali, Senegal, Tuvalu and Uganda) report that alignment efforts are significantly better than in 2009, while a further nine (*i.e.* Burkina Faso, Burundi, Central African Republic, Comoros, Cote d'Ivoire, Lesotho, Madagascar, Mozambique and Niger) report a moderate improvement (Figure 3.8).[16] A case story from Lao PDR highlights how the EIF is also encouraging more innovative approaches. The Trade Development Facility – based loosely on a similar scheme in Cambodia – laid the basis for a sector-wide approach to trade and private-sector development. Initial assessment of the programme suggests it has "crowded in" additional assistnace and improved donor alignment with government priorities and implementation systems.

Figure 3.8 EIF mechanisms are being used to improve donor alignment



Source: OECD/WTO questionnaire (2011)

Figure 3.9 Partner countries face specific challenges in accessing aid for trade



Source: OECD/WTO questionnaire (2011)

Several donors highlight their efforts to align around the DTIS action matrix. Finland, for example, states that alignment has improved the most in Zambia, where Finland acts as the EIF Donor Facilitator. Germany is currently preparing its aid-for-trade strategy and intends to base its bilateral programmes around the prioritised needs identified in partner countries' DTIS. Still, a number of donors (*e.g.* Denmark, Finland, Germany) report that because EIF structures in many LDCs remain still weak it is difficult to align effectively.

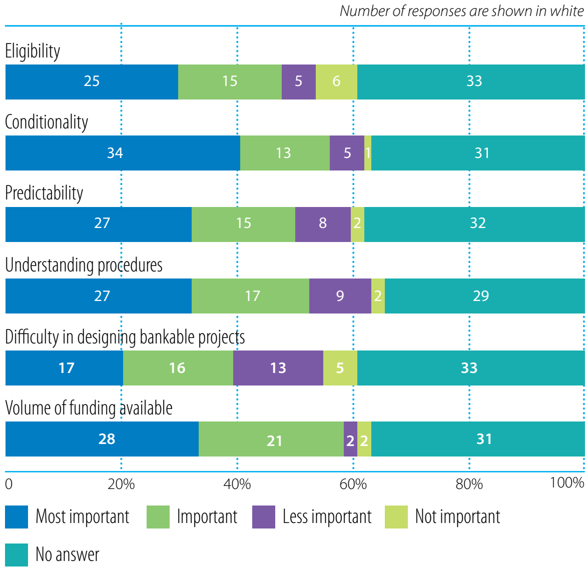
Despite progress, a quarter of partner countries view donor alignment with national prorities as a challenge (*e.g.* Afghanistan, Botswana, Fiji, Haiti, Jordan, Malawi, Sri Lanka). A number of countries (Cameroon, Colombia, DR Congo, Sierra Leone, St Vincent) point explicitly or implicitly to the problem of donors having specific interests in certain sectors that do not necessarily coincide with government priorities. Maldives makes the same point, that donors are more willing to support areas such as climate change and good governance than trade. Some countries suggest that all donor resources be pooled in an aid-for-trade basket fund to ensure aid is delivered in accordance with national priorities. In other cases, a lack of well-defined national strategies (*e.g.* Madagascar and Cote d'Ivoire), a lack of dialogue with the donor community (*e.g.* Dominican Republic), or a lack of tools to assess alignment (*e.g.* Bangladesh) have been mentioned as possible factors contributing to slow progress in donor alignment. Interestingly, while 77% (65 out of 84) of partner countries say that the levels of their exchanges with donors have improved, only 60% of countries can point to improvements in donor alignment. In their case stories, some partner countries also point to the problem of conditionalities imposed by donors which they say complicates implementation.

...partner countries have challenges in accessing aid for trade...

Improving the predictability of aid flows is also an explicit target under alignment embeded in the Paris Decalaration. A lack of predictability typically involves managing both aid shortfalls and windfalls, and hampers aid management even in countries with stable macroeconomic policies (Celasun and Walliser, 2008). Aid-dependent countries are particularly vulnerable when committed funds are not disbursed on time, or when there is insufficient information about donors' intentions to disburse. Bulíř and Hamann (2008) suggest that a lack of aid predictability mostly results from unjustified bureaucratic and administrative delays by the donors. However, Celasun and Walliser (2008) also explain that donors may have aid effectiveness and technical reasons for not being fully predictable and that these need to be distinguished from what the authors call 'fickle' donor behaviour. In any case, progress toward this donor commitment is essential if partner countries are to successfully manage their public finances, so that they are able to develop, implement and account for their policies to their respective citizens and parliaments (OECD, 2009).

Over 60% of partner countries have specific challenges accessing aid for trade from DAC donors and multilateral agencies (Figure 3.9). Given that not all countries receive significant flows from non-DAC donors and South-South partners, there is generally less insight into whether there are also challenges in accessing these funds. Almost 50% are unable to answer with certainty. 35% have specific challenges from these providers as well. A minority of respondents, roughly 10-15% in each category, has no specific challenges accessing aid for trade.

Figure 3.10 Partner countries see conditionality as a major challenge



Source: OECD/WTO questionnaire (2011)

There is some variation by income groups. Lower income countries appear to have a slightly higher perception of difficulty: 66% of LDCs and 75% of OLICs report having specific challenges in accessing aid for trade from bilateral donors. Only Afghanistan said they did not have specific challenges. Middle income countries had fewer problems but still over half of LMICs and half of UMICs pointed to difficulty. The situations are slightly better when it comes to accessing funds from multilateral agencies, with 59% of LDCs and 58% of OLICs reporting difficulty.

...and conditionality is the most challenging aspect.

When asked to elaborate on the specific challenges, 40% of partner countries did not respond to the question (Figure 3.10). Still, of those countries which did answer, conditionality was identified as 'most important' by the highest number of partner countries. While appropriate forms of conditionality are key to achieving development goals and maintaining accountability to citizens in both partner and donor countries (OECD, 2009), they may potentially promote development at the expense of the poor majority in aid recipient countries (Fine, Lapavitsas, and Pincus, 2001). Fiji, for example, notes that some external funding was "conditional upon political status which in essence should not be the case if the objective of the aid for trade is targeted at socio-economic development." For Lebanon, a number of trade-related projects were held up because of "conditionalities related to the country's legislative framework (new laws and/or amendments to existing laws)…[which] can take time to meet due to a tense political situation that has faced Lebanon over the last six years."

The Paris Declaration commits donors to base conditions on recipient-country priorities "wherever possible" though it does allow exceptions with "sound justification" (paragraph 16). In general, however, as respect of ownership improves, conditionality should become less relevant and donors that insist on policy conditions may soon find themselves sidelined as developing countries look to alternative official and private sources of finance with fewer strings attached (Mold and Zimmermann, 2008). Rather, an emphasis should be placed on measures that will increase trust between donors and recipient countries which, in turn, will reduce aid volatility without reducing its effectiveness (Hudson and Mosley, 2008).

As for the other challenges, the lack of adequate trade-related funding, eligibility and understanding of procedures are also considered by many as particular constraints to ownership and alignment. Burundi, for one, notes that the volume of aid is insufficient to cover its aid-for-trade priorities. Jamaica reports that while its ability to attract grants for trade-related projects is limited, the country's "debt overhang restricts the quantum of loan financing that can be accessed." Costa Rica faced difficulty likely experienced by others in accessing concessional and non-concessional funding because procedures are not standardised, requiring the learning of different processes and requirements for each application to be successful.

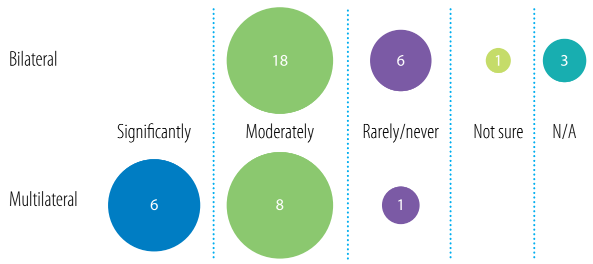
However, many of the issues flagged in the qualitative responses are not specific to aid for trade but are related to general problems affecting development co-operation. Nigeria, for example, mentions that the delivery of aid for trade has "a long gestation period" with cumbersome and lengthy procedures for accessing funds and for procurement. Gabon highlights the difficulties in mobilising internal resources where co-financing is required. Paraguay points to institutional weaknesses as a reason for the difficulty in designing bankable projects, which is likely the case across income groups both in the feasibility stage (project design), and the implementation and monitoring.

HAS DONOR HARMONISATION IMPROVED?

Harmonisation refers to co-operation between donors to reduce the transaction costs of aid delivery. First and foremost, transferring more aid through country systems depends significantly on partner countries' ability and willingness to exercise the necessary leadership over coordinating donor programmes. If donor agencies were able to align their aid programmes completely around partner countries' policies and systems, 'harmonisation' *per se* would be less of an issue. However, shifting more of the focus of donor management to recipients does not absolve donors of responsibility. Especially in cases where country ownership is weak, and where it is not possible to use recipient country systems, donors can ease this burden by adopting common arrangements (*e.g.* for disbursement, procurement, and accounting), simplifying and adopting common procedures (*e.g.* reporting requirements), and sharing information. The OECD/DAC Working Party on Aid Effectiveness suggests that "given the difficulty of achieving full alignment, aid effectiveness can be enhanced when donors harmonise their actions and adopt – where possible – simple and transparent common procedures" (OECD, 2009: 72). In this context, the responsibility for implementing harmonisation goals rests primarily with donors.

The cross-cutting nature of aid for trade requires a high level of co-ordination between donors. However, separate co-ordination arrangements – often involving different line ministries – already exist in many partner countries for the various sectors covered under aid for trade. These structures often still have a sector-specific focus (*e.g.* private sector, transport, agriculture) and have not yet adapted to the comprehensive and cross-cutting requirements of the Aid-for-Trade Initiative (Voionmaa and Brüntrup, 2009). Despite these challenges, it is clear that some advances have been made by both donors and partner countries.

Figure 3.11 Donors are harmonising more compared to 2008



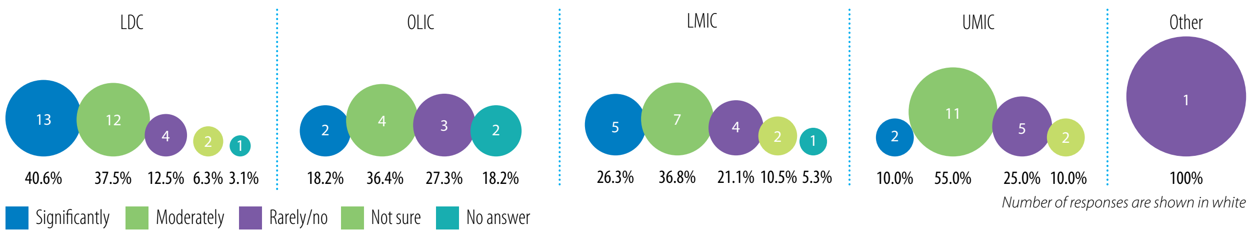
Source: OECD/WTO questionnaire (2011)
Number of responses are shown in white

Donors are harmonising better, but more can be done

The 2011 survey suggests that harmonisation has improved between donors (Figure 3.11). A majority of donors report that they are harmonising better than they were in 2008.[17] Partner countries too largely agree with donors' own assessment, as 66% of them (56 out of 84) report a 'significant' (22) or 'moderate' (34) improvement in donor harmonisation. While progress appears to be modest for most bilateral donors (17 out of 27), six multilateral donors report significant improvements since 2008, with a further eight noting moderate progress. It appears that most partner countries perceive that donors are doing a better job at harmonising procedures than at aligning with their trade-related priorities.

Harmonisation among donors seems to be improving the most in LDCs, partly due to the success of the EIF's efforts in these countries. Donors are working with the EIF at the country level, for example, by building on the EIF's DTIS when programming their support or by acting as Donor Facilitators of the EIF process on the ground (Table 3.2). A recent empirical study of the impact of US support for trade capacity building found a stronger positive impact on exports in countries where USAID was working more fully with the EIF (Bearce, Finkel and Pérez-Liñán, 2010). Indeed, some 12 LDCs report that donors are harmonising their support significantly better than before 2008, and a further 12 say that harmonisation has moderately improved (Figure 3.12).

Figure 3.12 Donors are harmonising their support better in low-income countries



Number of responses are shown in white

Source: OECD/WTO questionnaire (2011)

Box 3.2 Complementarity and division of labour: an EU approach

The Paris Declaration noted that excessive fragmentation of aid at the global, country or sector level impairs aid effectiveness and overburdens recipients. Such concerns are leading some major bilateral donors to concentrate their aid on a reduced number of priority countries. Since the Accra High Level Forum in 2008, country-led division of labour (DoL) among donors has emerged as an important strategy to achieve harmonisation and to avoid aid fragmentation.

The European Union has been a leading proponent of the DoL agenda through the 2007 EU *Code of Conduct on Complementarity and Division of Labour*. EU donors aim at concentrating on a maximum of three sectors per country, according to country comparative advantage. The presence of EU donors in a given sector is expected to be limited to three to five donors per country, with a lead donor in charge of co-ordination (Table 3.2), while efforts will be made to avoid imbalances in the form of "aid orphans" or "aid darlings" and the primary responsibility for in-country donor co-ordination lies with partner countries (Voionmaa and Brüntrup, 2009). Substantial progress has been made to enhance co-ordination among EU donors at country level through delegation agreements (*i.e.* a Member State, lead, acting authority on behalf of the EU, silent partner), transfer agreements (*i.e.* from a Member State to the European Commission), and co-financing arrangements. EU Member States have been monitoring progress on DoL in some 30 partner countries[1] through the EU Fast Track Initiative on Division of Labour and Complementarity (FTI-DoL) launched in December 2007. The FTI countries were selected on the basis of the following criteria: *i*) a local structure for co-ordination has been established; *ii*) the process of DoL has been started; *iii*) a regional balance; *iv*) countries are aid-dependent and have to work with a considerable number of donors; and *v*) EU donors have a significant share of ODA.

Of the 32 FTI partner countries (Table 3.2), 22 have responded to the questionnaire. Eight partner countries reported that donors were harmonising their support 'significantly' better than prior to 2008, whereas 10 reported moderate improvements. While it is not possible to make direct causal links between the EU's efforts on DoL and the improvements in donor harmonisation observed by those countries (for example, Lao PDR reported significant improvement in harmonisation even though in-country DoL among EU donors was not in place), one could plausibly assume that the former has positively contributed towards the achievement of the latter. As an example of delegated co-operation, Belgium approved in 2009 a voluntary contribution of EUR 2 million annually over the period of 2009-2013 to the Trademark East Africa (TMEA) Burundi Programme of the UK Department for International Development (DFID). In addition, in four of the countries (Bangladesh, Benin, Ethiopia and Senegal), the same EU donors act as both FTI-DoL and EIF donor facilitators, further smoothing the progress of in-country co-ordination of donors within the EIF.

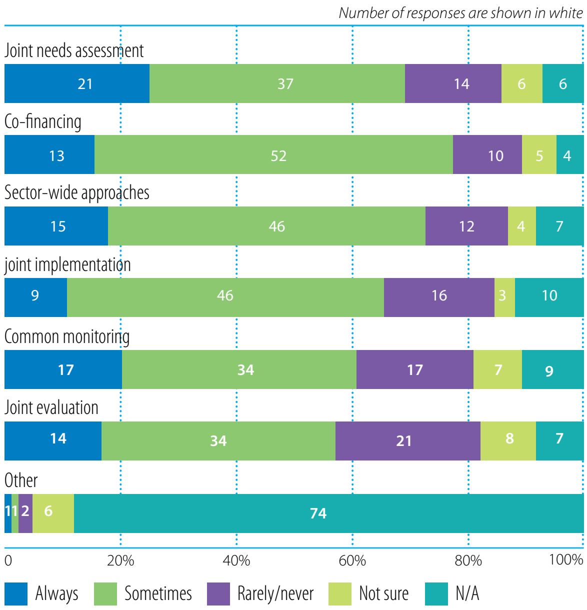
Four countries (Mongolia, Nicaragua, Sierra Leone and Zambia) have indicated that donors' performance has rarely improved or not improved at all. While the EU has not identified a facilitator to coordinate the DoL-process in Mongolia, the facilitating and supporting donors are already in place for the other three countries (in the case of Sierra Leone, there are two facilitating donors, Denmark and Ireland, supported by the UK). Interestingly, in Zambia, two EU donors (Denmark and Finland) act as facilitators of FTI-DoL and EIF processes respectively. It is difficult to draw any conclusion without first knowing the intentions of the countries for choosing 'Rarely/No' response. It could very well be that donors in those countries were already better harmonising in 2008 and that they continued to do so. It could also be that the facilitating donors for these countries are not major aid-for-trade donors (except for the EU) and, thus, may not be as active in local DoL process addressing a larger donor community involved in aid-for-trade activities. Of course, the role played by the non-EU donors who are not bound by the EU-led DoL process may also be a factor.

1. The countries include: Albania, Bangladesh, Benin, Bolivia, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Ethiopia, FYROM, Ghana, Haiti, Kenya, Kyrgyz Republic, Lao PDR, Madagascar, Mali, Malawi, Mongolia, Moldova, Mozambique, Nicaragua, Rwanda, Senegal, Serbia, Sierra Leone, Tanzania, Uganda, Ukraine, Vietnam, and Zambia.

More than half of OLICs have seen improvements in donor harmonisation over the past two years. LMICs and UMICs follow a similar pattern, with the proportion of countries reporting either significant or moderate improvements in harmonisation at 63% and 65% respectively.

Partner countries report that donor harmonisation has improved across almost all aspects of aid-for-trade implementation (Figure 3.13), which sometimes, but not always, involved joint needs assessments (69%), co-financing (77%), sector-wide approaches (73%), joint implementation (65%), common monitoring (61%), and joint evaluation (57%).[18] Donors confirm these assessments and note that they favour using harmonised approaches, namely joint needs assessment, co-financing and joint implementation. They use common monitoring and joint evaluation less frequently.

Figure 3.13 More donors are using innovative tools to improve harmonisation



Source: OECD/WTO questionnaire (2011)

Harmonisation efforts vary among country or regional programmes, often depending on the donors' programme objectives, as well as on the expertise and resources on the ground. Australia, for example, reports that the use of harmonisation tools – *e.g.* joint needs assessments, co-financing and joint implementation – is more frequent in its aid programmes in the Pacific region than in Africa, where Australia's presence is smaller. Country-level donor co-ordination is actively pursued in some partner countries (*e.g.* the Development Co-operation Forum in the Philippines, the Development Partners Group in Tanzania, etc.).

n Vietnam, a series of donor groupings has emerged over the years, including the Like-Minded Donors Group and the Six Banks Harmonisation Initiative[19] (Cox *et al.*, 2011). In Bangladesh, progress on harmonisation has been achieved due to the reorganisation of the local consultative group and the adoption of the Joint Co-operation Strategy (June 2010) by 15 bilateral and multilateral donors and the Government of Bangladesh (Choudhury *et al.*, 2010). In Kenya too the government and donors have formalised the Kenya Assistance Strategy and the Joint Statement of Intent to adhere to the Paris Declaration and the Accra Agenda for Action.

Co-financing is often used as a way to harmonise multiple donor procedures. Good examples are the regional and sub-regional transport corridor projects (*e.g.* the North-South Corridor in Eastern and Southern Africa, the Mesoamerica Integration Corridor in Central America and the Greater Mekong Sub-region corridor projects in Southeast Asia) (see OECD/WTO, 2009). The UK's TradeMark East Africa Programme launched in February 2011 is jointly financed with three other donors (Belgium, Denmark and Sweden). Sweden has signed a joint financing agreement with the UNECA. Korea has approved 21 co-financing projects covering 15 partner countries, which amount to a total of USD 789 million. Australia, the EU, and New Zealand are using common funding arrangements to support the Oceania Customs Organisation. Singapore has forged international (triangular) partnerships with numerous donors in carrying out its Third Country Training Programme to deliver aid for trade.

A number of donors (*e.g.* Australia, Korea, the UK) also highlight the importance of channelling aid-for-trade contributions through multilateral programmes (*e.g.* ITC, EIF) or multi-donor trust funds (*e.g.* WTO Global Trust Fund) as an important part of their efforts towards donor harmonisation – in terms of needs assessments, programme implementation and monitoring and evaluation. However, unlike support to social sectors – where most often one line ministry (*e.g.* education or health) controls and spends the bulk of the pooled assistance – cross-sectoral aid for trade requires much more complicated institutional arrangements, involving many ministries as well as the private sector (Voionmaa and Brüntrup, 2009). This is one of the reasons why, in general terms, these types of instruments such as sector-wide approaches, basket funding of budget support have not been employed. However, some partner countries and donors are exploring this approach. For example, Cambodia has adopted a trade sector-wide approach (Trade SWAp) by building on the EIF structures. Several other countries, like Lao PDR and Nepal, are also working towards adopting the Trade SWAp concept.

Table 3.2 Donor facilitators for the EU Fast Track Initiative and EIF partner countries

EU-FTI-DoL	Lead Facilitator	Enhanced IF	Donor Facilitator
Albania	Italy	Afghanistan	Germany
Bangladesh	EC and Netherlands	Angola	tbd
Benin	Denmark	Bangladesh	EC
Bolivia	Denmark and Spain	Benin	Denmark
Burkina Faso	Germany	Bhutan	tbd
Burundi	Belgium	Burkina Faso	AfDB
Cambodia	Germany	Burundi	USAID
Cameroon	France	Cambodia	UNDP
Central African Republic	France	Cape Verde	tbd
Ethiopia	EC	Central African Republic	EC
FYROM	Slovenia	Chad	UNDP
Ghana	Germany	Comoros	France
Haiti	Spain	Congo, Dem. Rep.	EC
Kenya	Denmark	Djibouti	UNDP
Kyrgyz Republic	UK	Equatorial Guinea	tbd
Lao PDR	tbd	Eritrea	tbd
Madagascar	France	Ethiopia	EC
Malawi	tbd	Gambia, The	EC
Mali	France and Netherlands	Guinea	World Bank
Moldova	Sweden	Guinea-Bissau	Spain
Mongolia	tbd	Haiti	IADB
Mozambique	Netherlands	Kiribati	UNDP
Nicaragua	EC	Lao PDR	EC
Rwanda	EC	Lesotho	UK
Senegal	EC	Liberia	World Bank
Serbia	Sweden	Madagascar	World Bank
Sierra Leone	Denmark and Ireland	Malawi	EC
Tanzania	EC	Maldives	tbd
Uganda	tbd	Mali	USAID
Ukraine	Sweden	Mauritania	EC
Vietnam	EC	Mozambique	EC
Zambia	Denmark	Sudan (North & South)	EC
-		Nepal	Germany
		Niger	EC
		Rwanda	DFID
		Samoa	Samoa
		São Tomé & Príncipe	UNDP
		Senegal	EC
		Sierra Leone	UNDP
		Solomon Islands	EC
		Tanzania	Sweden
		Timore-Leste	World Bank
		Togo	UNDP
		Tuvalu	UNDP
		Uganda	EC
		Vanuatu	EC
		Yemen	EC
		Zambia	Finland

EU-FTI-DoL: EU Fast Track Initiative on Division of Labour and Complementarity; EIF: Enhanced Integrated Framework
Source: European Commission (2011)
http://www.enhancedif.org/documents/EIF%20toolbox/EIF%20Donor%20Facilitators.pdf

For many EU donors, the joint EU Aid for Trade Strategy – alongside the EU Code of Conduct on Complementarity and Division of Labour – has provided the context for their aid-for-trade approach, priorities and delivery mechanisms (Box 3.2). Belgium participated in the elaboration of the EPA Programme for Development (PAPED) for West Africa, the EU's first regional aid-for-trade package within the framework of the Regional Preparatory Task Force (RPTF). Germany is currently devising its own comprehensive aid-for-trade strategy to position the principles and objectives enshrined in the EU Aid for Trade Strategy into the German national context. France, Portugal, Spain and Sweden, too, highlight that their aid-for-trade strategies are aligned with the EU Strategy.

The UN Agencies, such as the UNDP and the UNECE, work through the activities of the UN Chief Executives Board (CEB) Inter-Agency Cluster on Trade and Productive Capacity, which is coordinated by UNCTAD, to ensure proper harmonisation of their trade-related technical assistance projects at the country level. Joint programmes, designed through the CEB Inter-Agency Cluster, have been implemented in four of the UN "Deliver as One" pilot countries (Cape Verde, Mozambique, Rwanda and Vietnam), and are being formulated in further three pilot countries (Albania, Tanzania and Uruguay).

In Ghana, different sectoral working groups have been established to bring together the government and donors on a quarterly basis and to help build on ownership and mutual accountability. Each sectoral working group is chaired by the government and the lead donor in the sector. The Trade Sector Working Group is the main platform for discussion on matters ranging from trade-sector strategic plans, financing needs and outcomes, performance monitoring, and implementing harmonisation agreements. The Laotian government also reports significant improvements in donor harmonisation through the Trade Development Facility, the Multi Donor Trust Fund and the EIF, with the help of the World Bank, Australia (AusAID) and Switzerland. However, Lao PDR reports that other donor-funded programmes have been less well harmonised. One donor appears to agree with this assessment. Reflecting on its experience in Lao PDR, Australia admits that even greater efforts could be made to better harmonise its aid-for-trade operations with other donors. Kenya, while noting moderate improvements in donor harmonisation, is concerned with donors' continued tendency to fund discrete activities and work through their own delivery frameworks. Uganda explains that some donors have specific interests which may diverge from those of other donors and therefore decide to pursue them independently.

WHAT ARE THE REMAINING CHALLENGES?

This chapter has shown that while consultative processes and aid implementation practices continue to improve, both donors and partner countries need to do more to ensure that aid for trade is effective and consistent. There is still room for improvement in harmonising donor procedures, aligning donors around partner countries' priorities, and strengthening consultation and co-ordination within partner countries themselves. Ecuador, for example, points to the lack of implementation of the Paris Declaration on aid effectiveness and the lack of co-ordination within providers of South-South co-operation. In Bangladesh, the main reasons for the Paris Declaration process not making much impact are the lack of awareness of the Paris principles among officials and the failure of both the government and donors to translate the principles into actual behavioural changes and operational practices (Choudhury *et al.*, 2010). However, while many of the issues highlighted in this chapter would be addressed through better implementation of the Paris principles, there is a question about how many of these points should be discussed by the aid-for-trade communities specifically or whether aid for trade should attempt to bring these concerns to broader fora addressing aid effectiveness, including the Fourth High Level Meeting on Aid Effectiveness to be held in Busan, South Korea, in November 2011. There is also the issue of measuring results. Recent changes in the global landscape of development assistance have led to a greater focus on transparency and accountability for the use of development resources. The Paris Declaration orients the aid relationship towards genuine partnerships which are focused on results for which recipient countries and donors are mutually accountable. Improved mutual accountability is widely seen as an effective way to establishing incentives to help strengthen country ownership and achieve better development results. As previously noted, donors and partners alike are often confronted with the basic problem of attribution, *i.e.* what part of the observed changes have resulted from aid-for-trade activities at the project level? However, as the concluding chapter will argue, measuring results and being accountable for them are essential in order to show progress towards the goals of the Aid-for-Trade Initiative. ■

NOTES

1 *Policy autonomy* is a much broader task than donor management, involving the execution of development policies themselves, of which the mobilization of aid is only a small part (Shimomura and Ohno, 2005).

2 Donors might have also contributed to the neglect of trade issues in first-generation PRSPs which typically gave priority to social sectors over productive sectors. Turner (2008) argues that while the influence of donors on the content of national development strategies has generally diminished, there is still evidence of partner countries' tendency to adapt their PRSPs to the preferences of donors. In effect, donors aligning with PRSPs may well be aligning with some of their own priorities.

3 While the EIF is invaluable, some LDCs are not yet making sufficient use of the mechanism as a means of attracting and managing aid for trade (OECD/WTO, 2011).

4 See Global Mechanism (2011), *Towards a Common Agenda on Trade and Agriculture: Lessons from the Uganda and Mali Experience.*

5 See OECD/WTO (2011), *Aid for Trade and LDCs: Starting to Show Results.*

6 In 2008/09, 62% of the respondents (51 out of 82) indicated their Trade Ministry as the main body for the co-ordination of trade activities (OECD/WTO, 2009).

7 This may not always be the case. Sierra Leone, for example, where trade-related support was previously coordinated through an inter-ministerial mechanism, transferred the co-ordination role to the line ministries partly due to the weak institutional capacity and other organisational shortcomings of the national-committee approach (OECD/WTO, 2009).

8 The EIF programme currently helps 47 countries (46 LDCs and a former LDC, Cape Verde).

9 The WTO's Trade Policy Reviews of the LDCs, for example, report that the experience of the LDCs, in most cases, has been positive with respect to the IF/EIF's establishment of Implementation Units to coordinate related work on aid for trade at the domestic level. However, in some cases, the Implementation Units are not yet fully operational. Even in cases where the Implementation Units are working, there is a need to ensure fuller co-ordination with other official bodies and fuller consultation with civil society.

10 The solution which emerged was to integrate the IF/EIF process with the country's Private Sector Development Programme (OECD/WTO, 2011).

11 In 2008/9, almost all countries were regularly engaged in dialogue with the private sector and other local stakeholders about the formulation and implementation of their trade strategies. However, the frequency of these dialogues varied widely among countries. Moreover, national dialogues appeared to occur more frequently in middle income and in Latin America countries (OECD/WTO, 2009).

12 First, many of the multilateral donors surveyed are specialised agencies whose core activities are (or are closely related to) aid for trade. Naturally for these donors, aid-for-trade concerns form the basis of their policy dialogue with many of the partner countries they support. Second, it is not surprising to find that trade concerns are less pronounced or even sidelined in donors' policy dialogues if the partner countries are post-conflict or fragile states. Similarly, some donors choose not to be active in aid for trade because they do not have a comparative advantage in this area – in accordance with the principles of complementarity and division of labour – and, thus, logically do not include trade concerns as part of their policy dialogue with the partner countries they support (OECD/WTO, 2009: 73).

13 These are: the Organisation of Eastern Caribbean States (OECS), the Caribbean Community (CARICOM), the Community of Sahel-Saharan States (CEN-SAD), the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), the West African Economic and Monetary Union (WAEMU), and the Transit Transport Coordinating Authority of the Northern Corridor (TTCA-NC).

14 http://rodrik.typepad.com/dani_rodriks_weblog/2008/09/a-manual-for-growth-diagnostics.html

15 The Third High Level Forum on Aid Effectiveness (Accra, Ghana) closed with a commitment by donors to "use country systems as the first option" and agreed on a new target to channel at least 50% of government-to-government aid through country fiduciary systems (GMF-Eurodad, 2008).

16 In the 2009 surveys, both partner countries and donors highlighted the EIF as a successful example of efforts to align assistance with national systems (OECD/WTO, 2009).

17 The 2009 surveys showed that some 30% of partner countries reported that donors were regularly coordinating and aligning their actions in a more effective way, whereas 40% indicated only sometimes. Joint needs assessment and joint monitoring and evaluation were most commonly used approaches to promote co-ordination and alignment, followed by sectoral approaches (OECD/WTO, 2009).

18 In several cases, such co-ordination is still in the planning stages.

19 The Six Banks are the ADB, the Japan Bank for International Co-operation (now Japan International Co-operation Agency), the World Bank, the Kreditanstalt für Wiederaufbau (KfW), the Agence Française de Développement and the Korea Export-Import Bank (KEXIM).

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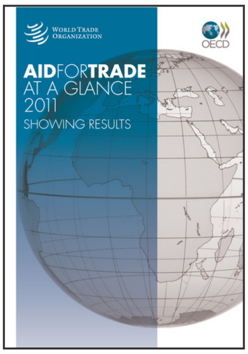

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