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Bringing Down the Barriers –
Creating a Dynamic Export Development Agenda

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Aid for Trade: Separating Fact from Fiction

Opening Dinner Keynote Address
Richard Manning, Chair, Development Assistance Committee, OECD

In a keynote address to the opening dinner, Richard Manning, Chair of the Development Assistance Committee of OECD, noted that the Aid for Trade programmes of OECD countries should provide assistance that reflects the priorities of recipient countries, promote cooperation in development, and encourage local ownership.

Manning organized his talk around five “facts” and “fictions” about Aid for Trade.

What Aid Can and Cannot Do

The first set of “facts” and “fictions” focused on what aid cannot do. “Though trade liberalization has lifted millions out of poverty, as in East and South Asia, many difficulties remain,” he said. The costs of manufacturing in Africa are cheaper than in China, for instance, but transportation is much more expensive in Africa, making its products uncompetitive. Many countries also tax inputs through import tariffs, thus raising costs for their exporters. Other problems include customs costs and the continually rising standards of importers.

“Government has a key role, and much of this is in the power with the support of the donors – things like exchange rate policies and infrastructure development,” Manning noted. “But it is important not to oversell what aid can do.”

Thus Manning came to his first fact-fiction dichotomy:

- Fact 1: Aid can help
- Fiction 1: “It is a fallacy to think that aid can save governments from making tough decisions.”

Priorities and Conditionality

If donor country conditions try to force recipient countries into doing something they don’t want to do, the results are usually poor, Manning noted. However, he added, “Policy conditionality can help reformers do things they want to do but which are unpopular.”

At the same time, donors need to analyze their priorities. “You can’t do it all,” Manning said. This process should include a better understanding of how aid-for-trade can improve standards of living. For instance, it is easier for donor-country policymakers to sell taxpayers the idea of medical aid, even though trade-induced prosperity might ultimately generate better health conditions than piecemeal assistance. “The quality of growth is important, and the link is usually employment,” Manning said.

- Fact 2: Trade and growth are necessary but require complementary and structured action.
- Fiction 2: That sustainable growth is possible without trade.

The Significance of the Paris Declaration

Manning outlined five principles of the 2005 Paris Declaration on Aid Effectiveness: (1) government ownership (“If the government is not serious, nothing will happen,” he said). (2) alignment – with donors supporting well-designed local policies and using local systems; (3)

harmonization – eliminate the unnecessary transaction costs of aid programmes; (4) management for results – require recipients and donors to think about outcomes; and (5) mutual accountability, including independent oversight of both donors and recipients.

For example, with education aid in most countries there is usually an overall plan into which donors plug in and work together, Manning said. With Aid for Trade, however, donors tend to act independently leading to inefficiency.

- Fact 3: Donors and recipients have a lot of work to do.
- Fiction 3: That you can be effective without paying attention to the results.

Volume of Aid for Trade

International aid figures have been rising in recent years, but much of that can be attributed to one-time actions like debt forgiveness. Aid for Trade is estimated at one-quarter of total foreign assistance, but it is often difficult to define what is and isn't Aid for Trade and to measure its effect vis à vis other kinds of aid.

- Fact 4: Aid for Trade is growing and will continue to grow
- Fiction 4: That “additionality” can be measured, that you can make assumptions about how things might have been if money earmarked for Aid for Trade had gone into other forms of assistance.

Monitoring and Accountability

“One reason why the Paris Declaration is talked about so much is because we agreed to indicators and we monitor them,” said Manning. “You can't fill out these forms without discussing these issues on the local level,” he pointed out. “It has created a whole new way of holding people accountable.”

- Fact 5: Donors will always seek to present their aid commitments with maximum hype.
- Fiction 5: That donors can escape transparent scrutiny.