

## Key elements of best practice in Aid for Trade

Best practice in Aid for Trade has been mostly developed for the implementation of traditional trade-related assistance, i.e. trade policy formulation and implementation. There is a larger body of best practice literature on aid to infrastructure and productive sectors, but this has not yet been re-examined from the angle of trade development objectives. Aid for Trade will also face the same challenges inherent to all aid delivery and management, and the application of the principles contained in the Paris Declaration on Aid Effectiveness is particularly relevant. This note highlights three implementation challenges directly pertinent to Aid for Trade programs and summarizes the principles of the Paris Declaration.

### Getting the diagnosis right: from needs to binding constraints.

Developing countries are likelier to suffer from multifaceted supply-side constraints (such as poor infrastructure, limited access to finance and technology, lack of capacities, etc.). It is usually unrealistic to address all the needs identified in diagnostic studies at the same time, both for political economy and financial reasons. In fact, even when external finance is available, domestic absorption capacity is often constrained, particularly in countries already receiving large amounts of ODA. It is imperative that the binding constraints to trade development are identified and that Aid for Trade focuses on releasing the bottlenecks that seem most likely to lift productivity. Maximizing the effectiveness of Aid for Trade might also help to avoid additional pressures on exchange rates that can undermine economic competitiveness. This demands a good knowledge of the domestic economy and is likely to require joined-up analytical work by government officials, private sector representatives, academics and if necessary external consultants.

### Getting the coordination right: mainstreaming trade into national development plans

Trade affects all sectors of the economy. The complexity and interdependence of trade with a country's overall development strategy of a country makes mainstreaming essential, both for the trade development strategy and for the aid-for-trade agenda that supports it. A minimum of joined-up government and effective dialogue with stakeholders is necessary to formulate a trade development policy, and identify synergies and potential incoherencies between the trade development agenda and other economic and social areas. In addition, mainstreaming trade into poverty reduction strategies and national development plans is a crucial step to signal to the donor community the recipient's priorities and commitments to trade development.

### Getting the political economy right: feasibility of reforms

Trade reforms have great potential to undermine the economic power of political elites and other vested interests. A successful integration into the world economy often demands considerable reforms; there are very few countries where the binding constraints are solely of a physical nature, solvable by a few hefty investments in infrastructure. This means that full country ownership is not always possible, making mainstreaming a very challengeable exercise. In these cases, reformers should include in their aid-for-trade strategies the objective of strengthening the constituency for reform. Issues such as the sequencing of reforms, piloting projects to showcase the benefits, and accompanying reforms with adjustment support need to be fully integrated into implementation plans in order to ensure the effectiveness of aid for trade.

## Getting the delivery right: aid effectiveness principles

The Paris Declaration on Aid Effectiveness is built around five broad principles on how to deliver and manage aid accompanied by monitorable action plans in order to increase the impact of aid on poverty and inequality, increased growth, building capacity and accelerating achievement of the Millennium Development Goals. These principles are:

**Ownership.** The development community will respect the right—and responsibility—of the partner country to exercise effective leadership over its development policies and strategies, and coordinate development actions.

**Alignment.** Donors will align their development assistance with the development priorities and results-oriented strategies set out by the partner country. In delivering this assistance, donors will progressively depend on partner countries' own systems, providing capacity-building support to improve these systems, rather than establishing parallel systems of their own. Partner countries will undertake the necessary reforms that would enable donors to rely on their country systems.

**Harmonization.** Donors will implement good practice principles in development assistance delivery. They will streamline and harmonize their policies, procedures, and practices; intensify delegated cooperation; increase the flexibility of country-based staff to manage country programs and projects more effectively; and develop incentives within their agencies to foster management and staff recognition of the benefits of harmonization.

**Managing for Results.** Partner countries will embrace the principles of managing for results, starting with their own results-oriented strategies and continuing to focus on results at all stages of the development cycle—from planning through implementation to evaluation. Donors will rely on and support partner countries' own priorities, objectives, and results, and work in coordination with other donors to strengthen partner countries' institutions, systems, and capabilities to plan and implement projects and programs, report on results, and evaluate their development processes and outcomes (avoiding parallel donor-driven mechanisms).

**Mutual accountability.** Donors and partners are committed to enhance mutual accountability and transparency in the use of development resources. Partner countries will reinforce participatory processes by systematically involving a broad range of development partners when formulating and assessing progress in the implementation of national development strategies. Donors will provide timely, transparent and comprehensive information on aid flows.

## Additional information

*OECD (2001) "The DAC Guidelines: Strengthening Trade Capacity for Development"*

*OECD (2006) "Making Aid for Trade Effective"*

*OECD (2006) "The Challenge of Capacity Development: Working Towards Good Practice"*

*OECD (2006) "2006 Survey on Monitoring the Paris Declaration - Overview of the results"*

*OECD (2007) "Promoting Pro-Poor Growth: Policy Guidance for Donors" DAC Guidelines and Reference Series (a compendium of the POVNET papers on agriculture, private sector development and infrastructure)"*

*OECD Development Centre (2007) "Business for Development: Fostering the Private Sector"*