CHAPTER 3
CHARTING THE **FLOWS**: SUSTAINING TRENDS

SUMMARY

In 2007, as was the case in 2006, aid for trade grew by more than 10% in real terms. Total new commitments from bilateral and multilateral donors in 2007 stood at USD 25.4 billion, while non-concessional lending provided an extra USD 27.3 billion in trade-related financing. The increase of USD 4.3 billion in aid for trade was not at the cost of social sector programmes, such as health or education. Furthermore, prima facie evidence indicates that a very large majority of commitments do result in actual disbursements.

The distribution of aid over the different trade-related categories remained relatively stable. Similar increases in support were recorded for trade-related infrastructure and building productive capacity, with strong growth for trade development programmes and declining technical support for building human and institutional capacity in trade policy and regulations. Support for trade-related adjustment, while currently relatively small, is expected to increase over the medium term as a consequence of the economic crisis.

The largest share of aid for trade goes to Asia, although Africa and especially sub-Saharan Africa received most of the additional funds in 2007. With the exception of Europe, other regions (*i.e.* Latin America and the Caribbean and Oceania) also saw their volumes of aid for trade increase. Flows to low income countries are increasing faster than to any other income group.

Most aid for trade to low income countries is spent on addressing their infrastructure needs (*i.e.* transport and power), whereas middle income developing countries prioritise building their productive capacity. Multi-country and regional programmes doubled in volume.

At an aggregate level, multilateral agencies, led by the development banks, concentrate their efforts on improving and expanding infrastructure in low income countries, while bilateral donors prioritise building the productive capacities of middle income countries. The difference in focus appears to be a function of the agencies' size and their principal financing modalities.

Finally, donors are on track to meet, or have already met, their 2005 Hong Kong aid-for-trade pledges. Based on donors' indicative forward spending plans, continued growth of aid for trade is expected over the medium term.

INTRODUCTION

The Aid-for-Trade Initiative offers a framework to connect a range of development assistance activities – from training trade negotiators to connecting markets – within a coherent trade development strategy. Aid for trade is neither a new global development fund, nor a new aid category. On the contrary, aid for trade is part and parcel of regular ODA. More specifically, the WTO Aid-for-Trade Task Force considers projects and programmes as aid for trade when identified as trade-related development priorities in partner countries' national development strategies.

At the same time, clear benchmarks are necessary for reliable global monitoring of aid-for-trade flows. Consequently, the benchmarks for measuring flows and assessing additionality include ODA[1] destined for:

- *Technical assistance for trade policy and regulations:* for example, helping countries to develop trade strategies, negotiate trade agreements and implement their outcomes;
- *Trade-related infrastructure*: for example, building roads, ports and telecommunications networks to connect domestic markets to the global economy;
- *Productive capacity building* (including *trade development*): for example, supporting the private sector to exploit its comparative advantages and diversify its exports;
- *Trade-related adjustment:* helping developing countries with the costs associated with trade liberalisation, such as tariff reductions, preference erosion, or declining terms of trade; and,
- *Other trade-related needs:* if identified as trade-related development priorities in partner countries' national development strategies.

Measuring the precise amount of aid for trade is difficult because the benchmarks do not match exactly the categories under which aid flows are reported to the OECD CRS and because some expenditures are not exclusively trade related. For instance, the CRS category for economic infrastructure, which is used as a proxy for trade-related infrastructure, includes projects that are not primarily aimed at improving trade capacity, such as connecting poor, isolated rural communities to the power grid, as opposed to addressing power shortages in areas with industrial activities, which does have a significant impact on trade. Despite this potential mismatch, the CRS still offers the best available data – covering around 90% of total ODA activities – for measuring aid for trade and, in particular, assessing additionality. Furthermore, the database allows tracking ODA commitments and disbursements and provides comparable data series across donors and partners, as well as over time.

Both partner countries and donors were asked to confirm whether their aid-for-trade CRS data profile adequately reflected their respective national data. Most partner countries were unable to respond either way, while the remainder either confirmed or rejected their profile (see Chapter 2). Donors, on the other hand, recognised their data, but half of them considered that it did not fully capture their efforts, particularly in the area of trade development.[2] Consequently, a number of them intend to improve their own monitoring arrangements to comprehensively capture the trade-related elements of their aid programmes. The United States and the World Bank already independently track their trade capacity-building programmes and trade-related infrastructure projects.[3]

The remainder of this chapter analyses the aid flows that are most closely related to aid for trade. The following section provides an overview of global trends in terms of overall volumes, additionality and disbursements. The next section discusses the distribution among the different aid-for-trade categories, as defined by the WTO Task Force. The analysis of the main beneficiaries in terms of volume and income levels, as well as the flows to global, regional and multi-country programmes is addressed subsequently. This is followed by a look at the main aid-for-trade providers and assesses the 2009 aid-for-trade outlook. The final section concludes by highlighting some of the remaining challenges.

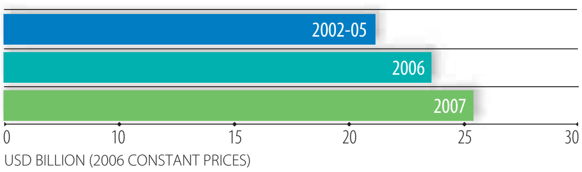
WHAT ARE THE GLOBAL TRENDS?

Aid-for-trade flows have increased significantly since the launch of the initiative at the 2005 Hong Kong WTO Ministerial Conference. In 2007, total new aid-for-trade commitments from both bilateral and multilateral donors rose to USD 25.4 billion, up by USD 4.3 billion from the 2002-2005 baseline period average. This constitutes a 21% increase in real terms (Figure 3.1). In addition, trade related non-concessional lending almost tripled to USD 27.3 billion during the same period (see Box 3.1). The remainder of this section will address in detail recent trends in aid for trade and discusses the questions of whether aid for trade is provided additionally and whether aid-for-trade commitments are disbursed.

Continued strong real growth…

The 2007 increase in aid-for-trade flows is a continuation of a longer term trend which started at the turn of this century and reversed the previous decline in aid to economic growth sectors that began at the end of the 1980s. As already noted in the *OECD-WTO Aid for Trade at a Glance 2007*, the overarching goal of poverty reduction, as enshrined in the MDGs, initially led to an orientation of development co-operation programmes towards social programmes (*e.g.* health and education) and environmental objectives. This diverted aid funds from combating poverty through programmes aimed at promoting economic growth, international trade and investment; a trend that was further accentuated by the original Heavily Indebted Poor Countries (HIPC) initiative, which prescribed the promotion of social policies as a precondition for debt relief.

Figure 3.1 Total aid-for-trade commitments

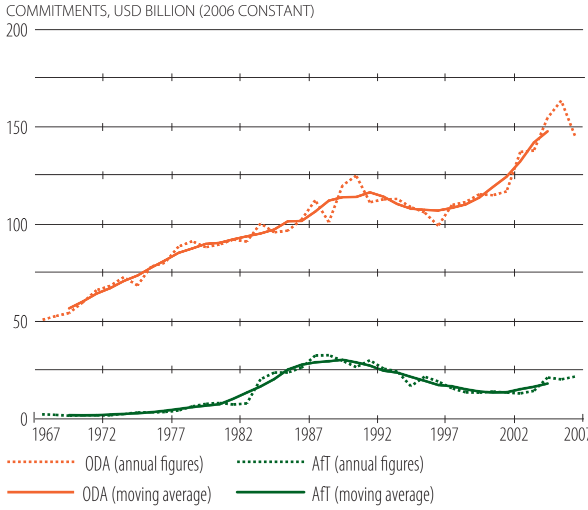


Source: OECD CRS

The reversal of the decline in aid for trade occurred when the impact of these social programmes on poverty reduction proved disappointing, and as new evidence began to show that economic growth could make sustainable inroads into poverty reduction, albeit depending on its pace and pattern (Figure 3.2).

However, the increase in the volume of aid for trade since 2000 has remained, so far, insufficient to reverse its declining share in total sector allocable ODA.[4] In 2007, the combined share of bilateral and multilateral commitments dropped further to 32%, down from 34% during the baseline period. This decline is due to the falling average share for bilateral donors (*i.e.* from 31% to 28%) which failed to offset the increasing average share for IFIs (*i.e.* from 42% to 43%). These diverging shares are mainly the consequence of the increasing number of bilateral donors that implement their aid-for-trade strategy through multilateral agencies (see Chapter 4).

Figure 3.2 Long-term trends in ODA and aid for trade



Source: OECD DAC database

…that is additional…

The declining share of aid for trade in total sector allocable ODA implies that the increase in the volume does not occur to the detriment of support for social sector programmes, but rather in the context of a growing overall aid volume. That is to say, the USD 4.3 billion increase in aid for trade is *additional*, which is one of the criteria by which to judge the success of the initiative. However, despite the significant level of additional funding, Gamberoni and Newfarmer (2008) suggest that a number of countries still under-perform in trade (*i.e.* in terms of export growth, market share, competitiveness and concentration) and receive less aid for trade than their global performance would suggest.[5] Moreover, several less efficient suppliers to global markets are at risk of seeing their recent gains severely eroded by the global economic recession. Consequently, they suggest that these countries may wish to give greater attention to trade in their county development strategies and to request that donors support their priorities through more aid for trade.

Box 3.1 "Other official flows" for trade

The data in this report is only based on ODA, which is defined as those flows to countries and territories on the DAC list of ODA recipients and to multilateral development institutions, which are (i) provided by official agencies, including state and local governments, or by their executive agencies; and (ii) each transaction of which: (a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (b) is concessional in character and conveys a grant element of at least 25% (calculated at a discount rate of 10%).

Hence, the large volume of non-ODA and low-concessional financing, such as other official flows (OOF), is excluded from the global monitoring of aid-for-trade flows. Nonetheless, it is important to highlight the crucial role that such loans provide in financing trade-related activities (see table below).

Financing for trade, commitments (USD millions current)

	2002	2003	2004	2005	2006	2007
AfT OOF	11 412	11 904	9 986	14 176	20 234	27 305
AfT ODA	14 316	17 855	23 768	21 976	23 589	27 084

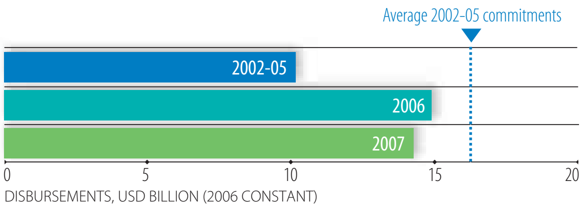
Source: OECD CRS

In 2007, almost half of the loans were provided by the IFIs, more than one third by the EC and the remainder mainly by Japan (USD 2.6 billion), Korea (USD 2.2 billion) and Germany (USD 1.7 billion). Although most providers increased their loan portfolio, the EC almost doubled it to USD 8.4 billion.

…and shows high disbursement rates.

Bilateral donors and the EC report on their aid flows both in terms of commitments and disbursements.[6] Analysing the relation between commitments and disbursements provides useful insights on aid delivery. Commitments are firm, written obligations, backed by the appropriation of the necessary funds, to provide development assistance. They measure the donors' intentions and allow monitoring of aid targeted for specific purposes. They reflect how donors' pledges and promises translate into action. Put differently, they provide a firm indication about future aid flows. Disbursements show actual financial payments and, thus, the realisation of donors' intentions and the implementation of their policies. Commitments are often multi-year with subsequent disbursements spread over several years (with, on average, investment projects taking the longest time to implement, lasting from five to eight years). Consequently, disbursements will almost always lag commitments.

Figure 3.3 Bilateral and EC aid-for-trade commitments and disbursements



Source: OECD CRS

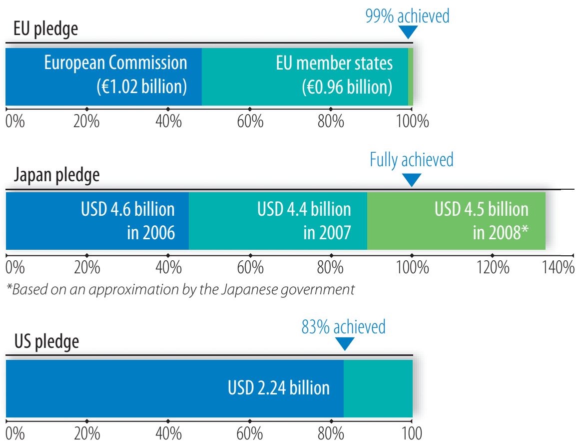
Aid-for-trade disbursements from bilateral donors and the EC (*i.e.* excluding other multilateral donors) were USD 14.9 billion in 2006 and USD 14.3 billion in 2007, much higher than the average annual disbursement rate of USD 10.1 billion during the baseline period. A precise estimate of the share of commitments that result in disbursements would require matching individual donor commitments at the project level with their corresponding disbursement schedule. This would be extremely time consuming and would go well beyond the scope of this report which provides 'at a glance' aid-for-trade data. A less precise but nonetheless illustrative approach is to compare the 2006 and 2007 bilateral disbursements (including the EC) with the commitments during the baseline period. Such a calculation suggests disbursement rates of 92% for 2006 and 88% for 2007 (Figure 3.3).

The reasons why some commitments do not result in disbursement are manifold. For instance, a change of government in a partner country often leads to a change in priorities. Reassigning existing commitments to newly established priorities takes time to negotiate with donors, and will very likely extend disbursement schedules. Furthermore, the requirements for the release of some donor funds have proven to be burdensome, resulting in very low disbursement rates for these programmes. Finally, numerous delays in disbursements are related to the low absorption capacity of partner countries.

Donors are on track to meet their aid-for-trade pledges…

At the 2005 Hong Kong WTO Ministerial Conference a number of donors pledged to increase their aid for trade by 2010. For instance, all EU donors committed themselves to fulfilling the joint EC-EU member states pledge on scaling up trade-related assistance. Some bilateral donors (*e.g.* Denmark, Finland and the United Kingdom) as well as the EC report that they have already met or are close to fully meeting their delegated shares of the joint pledge.

Figure 3.4 Hong Kong meeting pledges



Source : European Commission SEC(2009)442/2, OECD-WTO Donor Questionnaire

Other countries – such as Australia, Japan, Norway and the US – also report that they are either on track to meet, or have met and expect to exceed, their initial pledges (Figure 3.4). The United States, however, cautions that fulfilment of its pledge also relies on developing country partners consistently prioritising trade needs in their national development plans. Several donors (*e.g.* Canada, Estonia, Hungary, Korea and Switzerland) also note progress towards delivering their earmarked contributions to the EIF.

….and indicative forward spending plans show continued growth.

Improving transparency and predictability of aid flows is one of the core principles of aid effectiveness and is *"fundamental for fulfilling the aid-for-trade mandate"* (WTO Task Force, 2006). Furthermore, most partner countries highlight predictability as one of their priorities to improve the effectiveness of aid for trade. Against this background it is encouraging to note that almost half of the bilateral donors have indicative forward spending plans over the medium term (*e.g.* a three-year budget plan) that include aid-for-trade estimates (Table 3.2).

Several countries (*i.e.* Australia, the Czech Republic, Denmark, Norway) have provided forward data for total aid-for-trade expenditure per annum over 2009-2011, all exhibiting an upward trend. New Zealand also produced forward plans, which, however, are not formulated in sufficient detail to present indicative future aid-for-trade spending. Ireland plans to develop a forward spending plan in conjunction with the revision of its aid-for-trade strategy in 2009. The Netherlands has set a minimum spending target of € 500 million per year towards aid-for-trade activities, a level sustained on average during the 2002 – 2005 baseline. The United States sets aside Millennium Challenge Cooperation (MCC) funds – based on budgets agreed with partner countries – to finance a multi-year programme in its entirety to ensure aid predictability. Other countries expect to maintain their current level of funding for coming years (*e.g.* Austria, Singapore), or are scaling up levels to meet their respective time-bound spending targets (*e.g.* Canada, Finland, the UK).

The EC recently carried out a 2008-2013 multi-year programming exercise for the ACP countries in which a total of € 22.7 billion was set aside to implement various activities, including aid for trade, at national, regional and multi-regional levels. The African Development Fund, the concessional lending arm of the AfDB Group, has greatly increased replenishment of USD 8.9 billion to cover lending in 2008-11, with core strategic priorities including infrastructure, regional trade and economic integration (earmarked at a 17.5% share). In addition, the AfDB's Technical Assistance Fund for Middle Income Countries has also been expanded. The IADB launched a new multi-donor trust fund, the Strategic Thematic Fund on Aid for Trade, to support the implementation of trade-related priorities in the Latin America and the Caribbean region. This will boost the IADB's financing of aid-for-trade activities through non-core, earmarked resources (presently standing at 7% of total expenditure).

Table 3.1 Indicative forward aid-for-trade spending plan

	DONOR	INDICATIVE FORWARD AID-FOR-TRADE SPENDING PLAN
BILATERAL	**Australia**	Total aid-for-trade funding will rise to A$384 million in 2008-09, increasing further to around A$400 million in 2009-10.
	Canada	Canada allocated an additional CAN$14 million per year for aid-for-trade activities over five years in Budget 2007-08.
	Czech Republic	Aid-for-trade budgets planned for the next three years: 2 million CZK in 2009, 3 million CZK in 2010 and 4 million CZK in 2011.
	Denmark	According to the current planning, the commitments and disbursements will be 55 million DKR for the next three years.
	Finland	Finland intends to reach the level of €10 million in multilateral aid for trade by 2010.
	France	Total aid-for-trade funding will rise to €500 million in 2008, increasing further to €2.4 billion in 2009 and close to €1 billion in 2010.
	Lithuania	Lithuania's total aid-for-trade funding has steadily increased from €176,541 in 2006, to €393,119 in 2007 and further to €877,178 in 2008, and is expected to grow further in the coming years.
	Luxembourg	Luxembourg's contributions include €500,000 to the WTO DDA Global Trust Fund and €1.5 million to the Enhanced IF Trust Fund in 2008; and additional €500,000 to the WTO DDA Global Trust Fund and €2 million to the Enhanced IF Trust Fund in 2009.
	The Netherlands	The Netherlands intends to spend at least €550 million per year on aid for trade, including around €100 million per year on activities in the categories of Trade Policy and Regulations and Trade Development.
	Norway	NOK 120 million per year on Trade Policy and Regulations for 2009 and 2010.
	Singapore	As much as 80% of the Singapore Cooperation Programme (SCP), totalling USD15 million per year, has a direct or indirect contribution to aid for trade. Singapore remains committed to maintain its current SCP budget for aid-for-trade programmes in 2009a.
	United Kingdom	UK pledged to increase its annual spending to £100 million (based on a narrow definition) and £409 million (based on a broader definition) by 2010.
MULTILATERAL	**AfDB**	The 11th Resources Replenishment (AFD-11) for the African Development Fund's activity in 2008-10 has a total budget of USD 8.9 billion, of which 17.5% earmarked for infrastructure and regional trade and economic integration activities.
	AITIC	AITIC's budget estimate for programmes that fit the aid-for-trade categories in 2009 is USD 1,976,700.
	EC	Of the total of €22.7 billion set aside for the ACP countries over the period 2008-13, between €4 and €5 billion of the allocations at national level will fall in an aid-for-trade category; a total of €1.78 billion will be made available in support of ACP integration efforts at regional level; and a total of around €1.16 billion concerns the aid-for-trade agenda at multi-regional level.
	UNDP	During the current strategic plan of 2008-11, support to Trade Policy and Regulations through global, regional and country programmes is estimated at between USD8 and USD10 million per year.
	UN-ECA	UN-ECA provides support in trade policy and regulations and trade-related adjustment through the African Trade Policy Centre Project and its sub-programmes encompassing trade. Total aid-for-trade funding will increase from USD 1.13 million in 2008 to USD 2 million in 2009.
	UN-ESCAP	UN-ESCAP's 2008-09 regular budget plan for its sub-programme on trade and investment is USD 61,000 for 2008 and USD 8,200 for 2009.
	UNIDO	The budget for implementing ongoing projects including the future disbursements for hard-pipeline projects for the period 2009-12 amounts to USD 102 million.

Source: OECD-WTO donor questionnaire

WHAT IS THE DISTRIBUTION?

The sectoral distribution of aid for trade has remained relatively stable between the baseline period and 2006 and 2007. Economic infrastructure (*i.e.* transport and storage, communications and energy), which serves as a proxy for trade-related infrastructure, dominates overall volumes with a share of around 54% of total aid for trade. Building productive capacities (*i.e.* banking and financial services, business and other services, agriculture, forestry, industry, mineral resources and mining and tourism) is the second main outlay, attracting an average share of 43% between 2002 and 2007. Furthermore, over one-third of the productive capacity building programmes either had a primary or a secondary focus on developing trade. Trade-related technical assistance programmes accounted for only 3% of total aid-for-trade flows in 2007. The remainder of this section analyses in more detail the different aid-for-trade categories and their contribution to improving trade capacity.

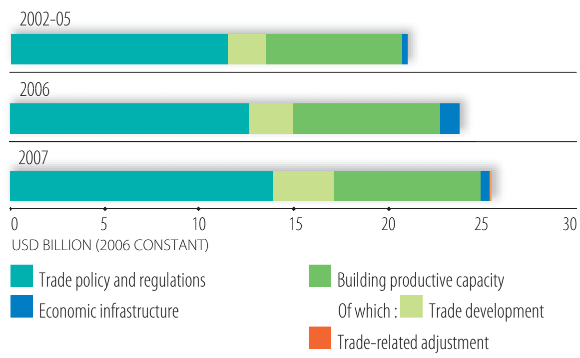
Similar increases in support for infrastructure …

Support to improve *economic infrastructure* increased by USD 2.4 billion (up 21%) in real terms between the baseline period and 2007. The two main sub-categories, *i.e.* transport and storage and energy, which captured respectively 53% and 44% of total aid to this category, experienced growth rates of more than 20%. However, concessional financing for communication (3% of total support to this category) declined by 8%. This probably reflects the relative ease with which enterprises in the telecommunications sector are able to attract commercial loans to finance their operation and expansion.

The predominant share of economic infrastructure in total aid for trade should not come as a surprise. In low income countries, for instance, a number of constraints are slowing the emergence of a vibrant and competitive business sector. Most obvious and immediate is the need to improve the poor quality of infrastructure services—power especially, but also transport. Indeed, reliable and efficient infrastructure is essential for economic growth; it reduces production and transaction costs, increases private investment and raises agricultural and industrial productivity. In addition, it can help create larger, more connected markets and remove bottlenecks, which impede asset accumulation. In short, good infrastructure reduces the cost of doing business.

The many benefits of infrastructure have been highlighted by, among others, the Commission on Growth and Development (2008), which noted that public spending on infrastructure – roads, ports, airports and power – is crucial to structural transformation and export diversification. The DAC report on infrastructure and pro-poor growth shows how infrastructure is important not only for the pace but also the pattern of economic growth—both of which influence its impact on poverty reduction.[7] Furthermore, firms in low income countries bear a heavy burden of indirect costs and losses—many related to infrastructure deficiencies—that make their overall profitability lower than might be expected on the basis of their factory-floor productivity. Despite their often cited low productivity and skill deficiencies, unit labour costs are not the main binding constraint in these countries. In fact, many firms are quite productive, and the question is often how to bring down indirect costs to enable higher-value added production to generate profits that feed into investment and higher pay for the workforce.

Figure 3.5 Total aid for trade: sector distribution



Source: OECD CRS

…and building productive capacity…

Aid to *building productive capacity*, including targeted *trade development* programmes, grew in 2007 by 21% in real terms compared to the baseline. Since agriculture remains the predominant economic sector in most developing counties, this sub-sector attracted 21% of support, the largest share, while the banking sector received 8% and the general business sectors received 7%. These three sectors were also the most dynamic and increased repectively and on average by 32%, 33% and 11% in real terms. On the other hand, support to the mining sector dropped by 66%, which likely reflects easier access to private capital due to, at that time, relatively high world market prices for raw materials.

The focus on building productive capacity to expand trade is clearly justified, especially for countries that have addressed their most pressing infrastructure needs. The development community has a strong interest in fostering a business environment that increases productivity and enables the private sector to flourish and fulfil its role as the main engine of economic growth. These programmes provide incentives for entrepreneurs to respond to price signals and market forces, while at the same time mitigating risks.

…with strong growth in trade development programmes…

In 2007, a *trade development marker* was introduced in the CRS to provide added transparency, especially regarding the MDG indicator relating to trade capacity building (of which trade development is a part). The marker identifies an activity as trade development if it is intended to enhance the ability of the recipient country to: (i) formulate and implement a trade development strategy and create an enabling environment for increasing the volume and value-added of exports, diversifying export products and markets and increasing foreign investment to generate jobs and trade; or (ii) stimulate trade by domestic firms and encourage investment in trade-oriented industries. For each programme falling under productive capacity building, donors are asked to report whether trade development is the "principal" objective or a "significant" objective.

In 2007, the trade development marker was used by 13 DAC donors (*i.e.* Austria, Belgium, Denmark, the EC, Greece, Italy, Japan, New Zealand, Spain, Sweden, Switzerland, the United Kingdom and the United States). Their combined contribution to building productive capacity amounted to USD 5.9 billion, out of the total USD 11.1 billion. Together they allocated USD 1.8 billion to programmes whose principal objective was trade development and USD 1.4 billion to programmes with trade development as a significant objective. Thus, in total, more than 60% of their productive capacity building programmes had either a primary or a secondary focus on developing trade.

The total reported volume of USD 3.2 billion in *trade development* assistance suggests an increase of more than 60% in real terms since the 2002-2005 baseline, extracted from the now defunct joint OECD/WTO Doha Development Agenda Trade Capacity Building Database. Moreover, since not all donors reported their trade development programmes to the CRS, it is safe to assume that the actual volume is even higher. This is evidence of the trend among donors to focus on those productive capacity building programmes that also strengthen international linkages to allow partner countries to benefit from access to larger markets and new technologies.

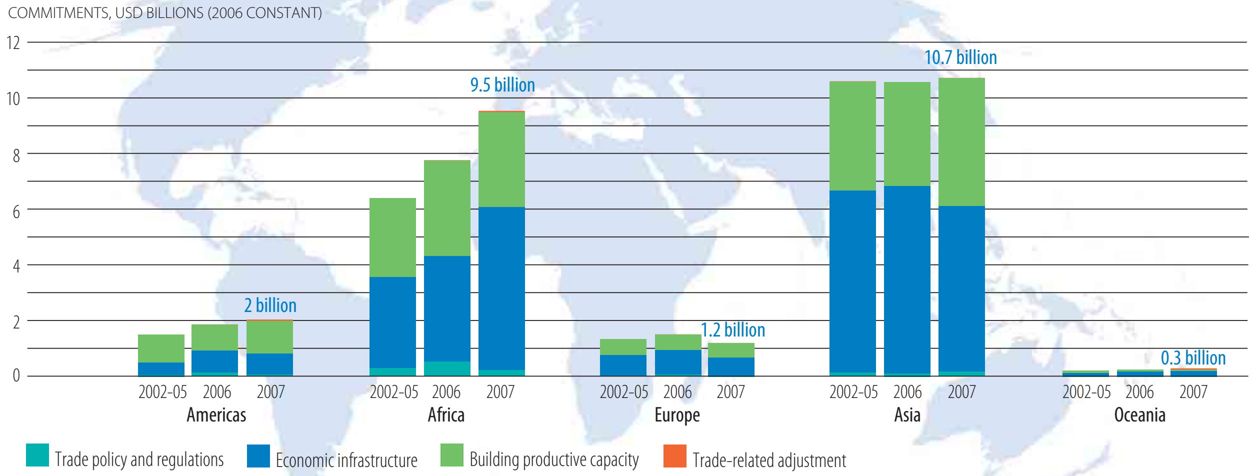
…declining technical support for trade policy…

Support to *trade policy and regulation* helps low income countries to develop trade strategies, negotiate trade agreements and implement their outcomes. In general, technical assistance programmes aimed at building trade-related institutional and human capacities are relatively inexpensive compared with capital intensive projects, such as infrastructure development. Consequently, the share of this category in total aid for trade is only 3%. The almost 60% surge in 2006 proved to be exceptional and was likely due to the inclusion of the aid-for-trade mandate in the 2005 Hong Kong WTO Ministerial Declaration. Subsequently, the volume of this type of support nearly fell back in 2007 to its baseline level, at USD 685 million.

…and likely increase of trade-related adjustment over the medium term.

Trade-related adjustment was introduced in 2007 as a separate CRS category to allow reporting of contributions to recipient governments' budgets aimed at assisting them in implementing trade reforms and adjustments, and in managing shortfalls in their balance of payments due to changes in the world trading environment. During the 2008 reporting on 2007 flows, only Canada and the EC reported their trade-related structural adjustment programmes, which amounted to USD 0.3 million and USD 17.4 million respectively. The low level of reporting is mostly due to the recent introduction of this new category. On the assumption that reporting will improve, and against the background of the current economic crisis, it is expected that support for trade-related adjustment will increase significantly over the medium term.

Figure 3.6 Aid for trade: regional distribution



Source: OECD CRS

WHO ARE THE MAIN RECIPIENTS?

Asia is the biggest recipient of aid for trade, with India, Viet Nam, Afghanistan and Iraq receiving particularly large sums. Africa comes a close second, with most of the increase going to infrastructure projects in sub-Saharan Africa. Regional and multi-country programmes in Africa also show strong growth in funding. In terms of income group trends, most of the increase in funding went to improving infrastructure in low income countries and building productive capacity in middle income countries. With these significant inflows of new funds, it is essential that aid is delivered effectively. Failure to do so could have the perverse effect of undermining productivity and international competitiveness – the very objectives aid for trade tries to achieve. The remainder of this section addresses in more detail the distribution of aid for trade per region, per capita, per income group and per country.

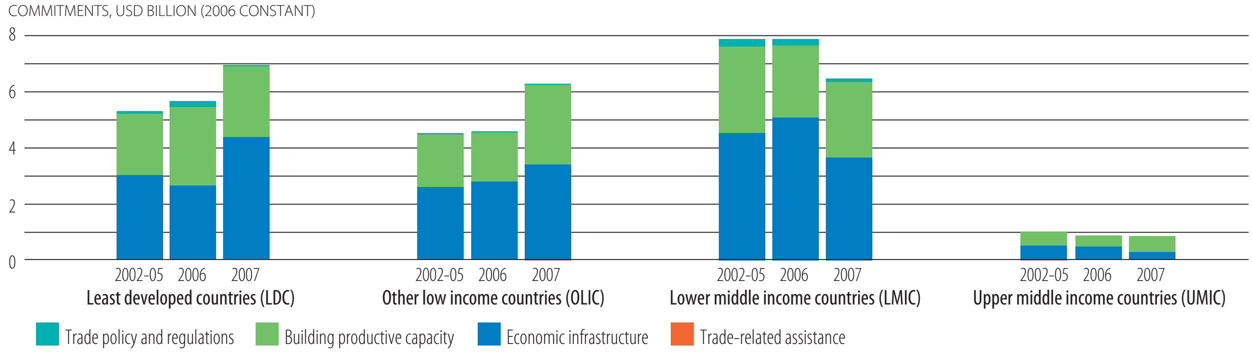
Asia received most…

Asia and Africa, home to the largest number of poor people (*i.e.* people living on less than one dollar a day), receive most of aid for trade. In 2007, Asia received USD 10.7 billion, followed by Africa with USD 9.5 billion. Flows to the other regions were substantially smaller, with USD 2 billion going to Latin America and the Caribbean, USD 1.6 billion to Oceania and USD 1.2 billion to Europe. While the volume of aid for trade going to Asia remained relatively stable, Asia's share in total aid for trade dropped from 50% during the baseline period to 42% in 2007. Africa's share, on the other hand, increased from 30% to 38% over the same period. Other regions' shares remained relatively stable (Figure 3.6).

Within Asia, South and Central Asia's dominance of aid-for-trade receipts was reinforced in 2007. Aid for trade to that sub-region increased from USD 4.2 billion to USD 5.7 billion (up 35%), accounting for well over half of Asia's total. Flows to the Far East and Middle East sub-regions fell to USD 3.4 billion (down 17%) and USD 1.5 billion (down 32%) respectively. South and Central Asia's dominance is explained by two factors: (i) two of the top three recipients are located in the sub-region (*e.g.* India and Afghanistan), and (ii) a large share of the countries in the sub-region belong to the low income group.

The Asian intra-regional distribution is in line with the global trend of increasing aid-for-trade flows to low income countries. This is also true for sector distribution. While support for economic infrastructure to South and Central Asia increased (up USD 0.5 billion), it decreased to Far East Asia (down USD 0.7 billion) and the Middle East (down USD 0.3 billion). This shift reflects the relative income levels and associated barriers to trade in the three main sub-regions, with low income countries spending a larger share of aid for trade on infrastructure, while more prosperous developing countries devote a larger share to building productive capacities (see also Section 3.3).

Figure 3.7 Aid for trade per income group and category



NOTES:

Least developed countries

Other low income countries (per capita GNI < USD 825 in 2004)

Lower middle income countries (USD 826 < per capita GNI > USD 3 255 in 2004)

Upper middle income countries (USD 3 256 < per capita GNI > USD 10 065 in 2004)

Source: OECD CRS

…while flows to Africa grew the fastest…

In 2007, most of the total increase in aid for trade went to sub-Saharan Africa (up USD 2.9 billion) compared to the baseline. This translates in a 59% increase in aid for trade to this sub-region and a 49% increase for the whole African continent. This impressive growth appears to reflect the 2005 Gleneagles G8 Summit pledge to double aid to Africa by 2010. Most of the additional funds (USD 2.6 billion) were devoted to addressing Africa's infrastructure needs, which have been identified as one of the two root causes of Africa's poor development performance (the other being governance). For instance, it has been pointed out that landlocked developing countries, in which more than a quarter of Africa's population lives, face a substantial competitive disadvantage with 50% higher transport costs and 50% lower trade volumes than similar coastal countries. Consequently, Africa requires significant investments in infrastructure to support the continent's regional, national, urban and rural infrastructure priorities – ranging from rural roads and power plants, to information and communications technology (ICT) and other economic infrastructure – to support greater integration and to enable countries to break into world markets.

…and other regions, with the exception of Europe, also received more.

Aid for trade to Latin America and the Caribbean also increased substantially (up 35%) between the baseline and 2007, although from a modest baseline of USD 1.5 billion. Nearly two-thirds of the increase was the result of additional spending on infrastructure.

In 2007, aid for trade to Oceania also increased significantly, up by 31% to USD 274.3 million. Volumes to Eastern Europe declined slightly from USD 1.3 billion in 2002-2005 to USD 1.2 billion in 2007, a sign of reduced transfers to the former transition economies that joined the EU.

Flows to low income countries are concentrated on infrastructure...

Aid for trade goes predominantly to low income countries and their share grew from 47% during the baseline period to 54% in 2007. Aid for trade to low income countries (*i.e.* 49 LDCs and 18 OLICs) is increasingly focused on improving the quality of infrastructure. In 2007, low income countries spent USD 8 billion, or almost 60% of their total aid for trade, on infrastructure—an increase of USD 2.5 billion compared to the baseline. In fact, more than 70% of the additional USD 3.3 billion in aid for trade to these low income countries went to addressing their binding infrastructure constraints (Figure 3.7).

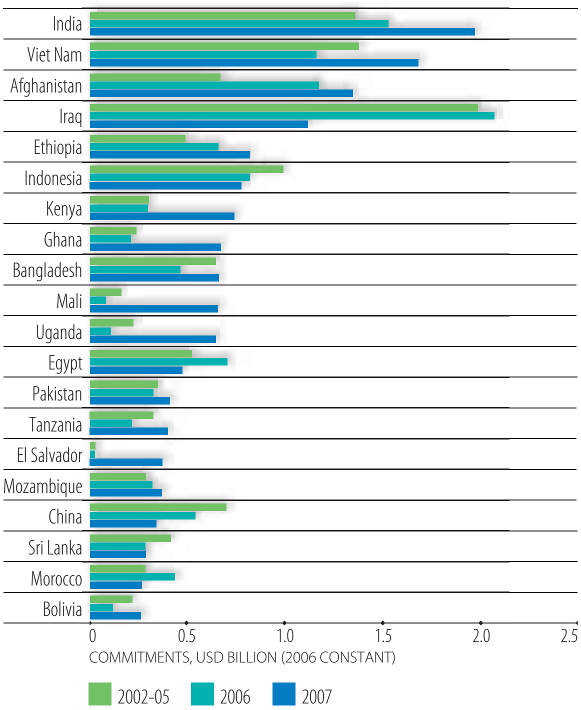
…while middle income countries focus on the private sector.

Aid for trade to middle income developing countries (*i.e.* 50 LMICs and 36 UMICs continued to decline in 2007). In particular, flows to the LMICs declined sharply from USD 8 billion in 2006 to USD 6.5 billion in 2007, while those to the UMICs remained relatively stable at around USD 800 million. In terms of distribution among the different aid-for-trade categories, relatively richer developing countries devote more to building productive capacities and trade-related technical assistance.

Country distribution remains stable

In 2007, more than 55% of total aid for trade went to 20 countries. A majority of these are either LDCs (7) or OLICs (5). The composition of the top recipients changed in 2007 to include nine Asian and nine African countries (with the remaining two located in Latin America). The new entrants are Bolivia, El Salvador, Ghana, Mali and Uganda. Almost all of top 20 recipients are populous developing countries, a factor that contributed significantly to their high aid-for-trade volumes (Figure 3.8).

Figure 3.8 Top 20 recipients of aid for trade



Source: OECD CRS

Three of the top four recipients during the baseline period stayed in that category in 2007, albeit in a different order. India received almost USD 2 billion benefiting from a 45% increase in aid for trade and overtook Viet Nam (USD 1.6 billion) and Iraq (USD 1.1 billion) – the top recipient in 2002-2005 – to become the largest recipient. Afghanistan saw its aid for trade more than double to reach USD 1.3 billion. Together, India, Viet Nam, Afghanistan and Iraq received 20% of all aid for trade in 2007. These top four recipients received nearly half of the Asia's total aid for trade, which partly explains the high overall volume for this region.

Tracking aid-for-trade flows on a country-by-country basis clearly shows that in some cases objectives other than building trade capacities are driving aid flows. The 2007 publication already noted that the high volume of aid destined for Afghanistan and Iraq had more to do with reconstruction efforts (particular in the area of infrastructure) than with improving trade capacity. These objectives most likely also explain the significant increase in aid-for-trade related flows to El Salvador and Lebanon, while the significant drop for Sri Lanka should be assessed against the background of the massive support effort after the 2004 Tsunami. The halving of the volume of aid for trade to China, which occupied a top four spot during the baseline period, is most likely explained by China's impressive export performance and the diminished need for support to build trade capacity.

Global, regional and multi-country programmes are on the rise…

Global, regional and multi-country programmes (including country unallocated) are playing an increasingly important role in aid for trade, more than doubling in volume from an average of USD 2.1 billion during 2002-2005 to USD 4.3 billion in 2007. As a result, the share of these programmes in total aid for trade increased from 10% to 16%. Global, regional and multi-county programmes recorded rises in all three main aid-for-trade categories from the baseline to 2007: economic infrastructure programmes more than tripled (from 3% during the baseline period to 10% in 2007), support for trade policy and regulation nearly doubled, while building productive capacities increased by more than a third.

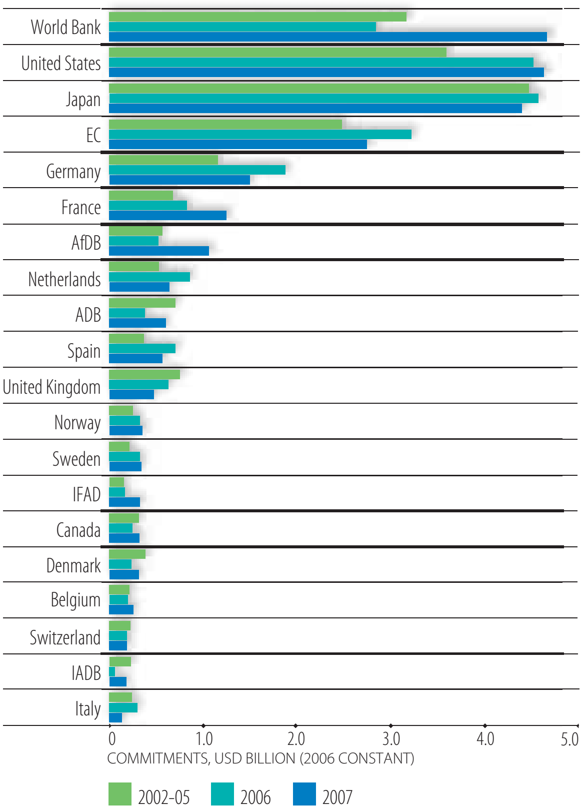
…particularly in Africa.

Africa was the main beneficiary of this rise and saw its volume of regional and multi-country programmes increase sharply from USD 0.7 billion to USD 1.8 billion, resulting in a doubling of the share of these programmes in the region, now reaching 20%. Latin America and the Caribbean, as well as Europe, also saw strong increases in their regional and multi-country programmes, although from a much lower volume base. In 2007, these programmes represented respectively 19.4% and 14% of their total aid for trade. In Oceania, this share fell from 11.5% to 7.6%, while it remained relatively stable in Asia but at a much lower level of USD 0.2 billion.

WHO ARE THE MAIN PROVIDERS?

Four donors, which are also the largest providers of total ODA (*i.e.* the World Bank, the United States, Japan and the European Commission), continue to dominate aid-for-trade flows in 2007. Other important bilateral donors include Germany (5.9%), France (4.9%), the Netherlands (2.5%) and Spain (2.2%). The other two donors which make up the top ten are the AfDB and the Asian Development Bank (ADB). Taken together, the ten largest donors currently fund 87% of global aid for trade. The United Kingdom, the eleventh largest, saw its bilateral aid for trade drop by 37% but noted that a large share of its aid-for-trade programme is provided as general budget support, which do not appear as trade-related in the CRS (Figure 3.9).[8]

Figure 3.9 Top 20 donors of aid for trade



Source: OECD CRS

In 2007, the World Bank increased its aid for trade by more than 50% and became the largest donor with USD 4.7 billion (with 18.7% of total aid for trade). This significant scaling up of resources clearly bodes well for the increased engagement of the World Bank in the initiative as announced by its president during the first Global Aid-for-Trade Review in 2007.[9] The same applies for the United States (up USD 1 billion) which overtook Japan as the largest bilateral donor (with 17.6% of total aid for trade). Japan's aid for trade, now totalling USD 4.4 billion, decreased marginally, in line with the decline of its overall ODA (16% of total aid for trade). The EC, the fourth largest donor, increased its volume by 11% and now provides USD 2.7 billion. The European Union, *i.e.* EC and the EU member states collectively, provided USD 8.5 billion, or more than one third of total aid for trade in 2007.

The regional development banks, *i.e.* the AfDB, the ADB and the IADB, all provide large parts of their lending programmes to sectors that are closely linked to aid-for-trade categories, and in particular to economic infrastructure. Within their respective regions, they are among the main providers of aid for trade; and overall they rank among the top 20 donors.

Four bilateral donors cut their aid-for-trade support according to CRS data, *i.e.* Australia, Denmark, Italy and Switzerland. For Denmark and Italy this is a reflection of their overall decline in ODA, while Australia and Switzerland are increasingly implementing their aid-for-trade strategy via multilateral agencies.

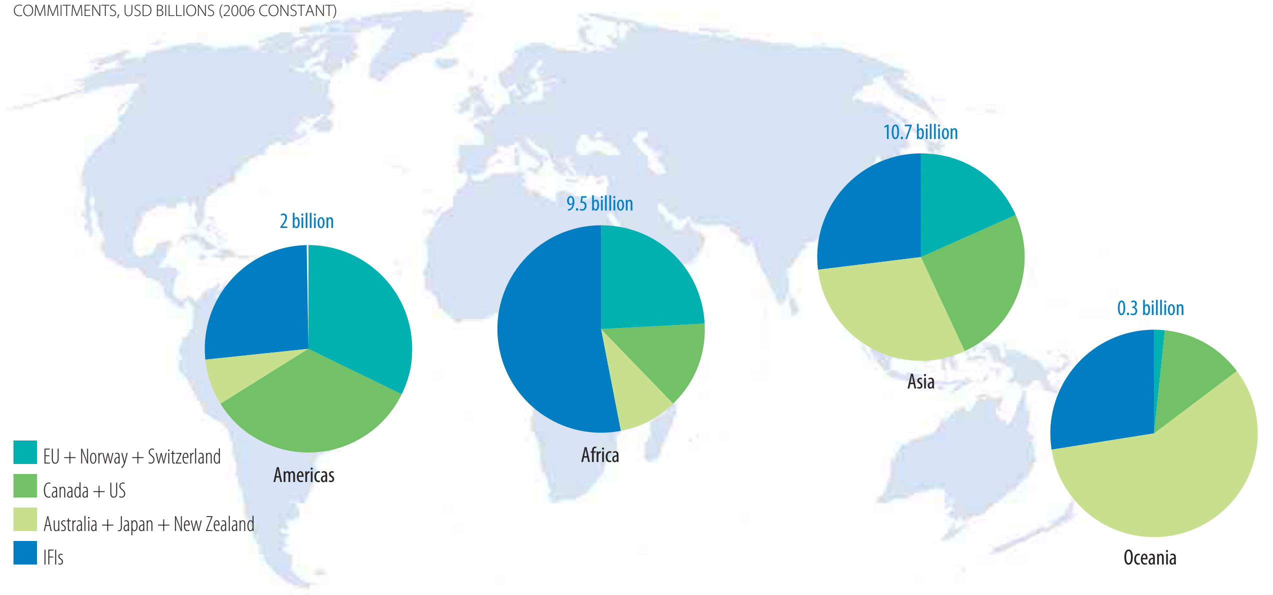
Donors focus on different priorities and…

At an aggregate level, there are a number of noteworthy differences between bilateral and multilateral providers of aid for trade. These differences are a function of the size and mandates of the different multilateral and bilateral agencies, and their main financing modalities (loans versus grants). The difference in geographic orientation is a function of existing aid relationships, which are often based on former colonial links.

- Bilateral donors provided USD 15.8 billion in aid for trade during 2007, well over 60% of the total aid-for-trade flows for that year. However, multilateral donors tended to allocate a significantly higher share (43%) of their sector allocable ODA to aid for trade than bilateral donors (28%).
- Furthermore, while bilateral donors' share of aid for trade in sector-allocable ODA decreased from 31% to 28% between 2002-2005 and 2007, multilateral donors' share increased from 42% to 43%. Multilateral aid for trade (up 31%) increased more than twice as fast as bilateral aid for trade (up 15%). This reflects the fact that a number of donors are increasingly using multilateral channels or general budget support (*i.e.* Finland, Ireland, Norway, the United Kingdom) to deliver their trade-related programme.
- Multilateral agencies concentrate their efforts more on low income countries, while bilateral agencies focus more on middle income countries. The multilateral agencies allocated more than 60% of their aid for trade to the poorest developing countries, while among bilateral agencies less than half went to low income countries.

Figure 3.10 Regional distribution of aid for trade (2007)

COMMITMENTS, USD BILLIONS (2006 CONSTANT)



Source: OECD CRS

▶ Finally, multilateral agencies concentrate their aid for trade more on infrastructure projects than bilateral agencies. In 2007, IFIs committed over 60% of their support to economic infrastructure projects, while bilateral agencies allocated equal shares (48%) to these projects and to building productive capacities.

…different regions

Not surprisingly, Asia and Africa are the top two destinations for aid for trade from most donors (Figure 3.10). In 2007, Australia, Japan and New Zealand combined allocated almost three-quarters of their aid to Asia. Canada and the United States allocate over half of their aid-for-trade commitments to Asia, while Europe (*i.e.* EC, EU member states, Norway and Switzerland) committed a quarter of their combined aid to that region. The multilaterals committed one-third of their funds to Asia. Almost 40% of the combined aid for trade from Europe is destined for Africa, while Canada and the United States directed a quarter of their aid for trade to that continent, and Australia, Japan and New Zealand one-fifth. In addition, the IFIs allocated over half of their aid for trade to Africa. Furthermore, European donors provide two-thirds of all the aid for trade for European countries. Australia, Japan and in particular New Zealand are the main donors in Oceania. In Latin-America and the Caribbean half of the support comes from Europe, a third from Canada and the United States, and less than 10% from the remaining donors.

CONCLUSIONS

Since the 2005 Hong Kong WTO Ministerial Conference, the Aid-for-Trade Initiative has proven to be quite successful in generating commitments for additional concessional support for the aid categories that are most closely related to the objective of building trade capacities in developing countries. With the exception of technical support for trade-related institutional and human capacity building, ODA commitments to all other categories increased for most regions and, in particular, for the low income countries in these regions. Financial support for trade-related global, regional and multi-country programmes – which were identified as one of the challenges during the first Global Aid-for-Trade Review – also increased in 2006 and 2007. This implies that donors are honouring the aid-for-trade pledges made during the Hong Kong WTO Ministerial Conference and indicative forward spending plans show continued growth. Finally, calculation suggests disbursement rates of 92% for 2006 and 88% for 2007.

Maintaining the momentum behind the initiative and sustaining the associated real growth rates in the volume of aid-for-trade requires continued demand from partner countries for trade-related support, but also clear evidence that programmes are having a positive impact on trade performance and poverty reductions (see Chapter 6). These challenges are becoming even more pressing in the context of the global economic crisis, when demand for aid is increasing, but aid budgets are coming under growing pressure in the medium term. ■

NOTES

1. Measurement of aid-for-trade flows is based exclusively on ODA assistance. Hence, non-concessional financing (*e.g.* Other Official Flows) is excluded from the monitoring.

2. For more discussion, see the methodology section in the Annex.

3. As opposed to counting all economic infrastructure projects in the case of the CRS. The USAID Trade Capacity Building Database: http://qesdb.usaid.gov/tcb/index.html. The World Bank Projects and Operations Database: http://go.worldbank.org/0FRO32VEI0.

4. Sector allocable aid is aid that is spent on specific economic or social sectors as opposed to aid allocated to debt relief, emergency aid, administrative costs and refugees.

5. Gamberoni and Newfarmer (2008) *Aid for Trade: Matching Potential Demand with Supply,* World Bank, Washington, D.C.

6. The IFIs do not report their disbursements to the CRS.

7. P*romoting Pro-Poor Growth: Infrastructure* (http://www.oecd.org/dataoecd/1/18/37852588.pdf).

8. The United Kingdom provides a detailed analysis of it's aid–for-trade activities at the multilateral level, including information on general budget support that can be indicatively attributed to aid for trade in a separate self-assessment report attached to their questionnaire response which is included on the accompanying CD-ROM.

9. The World Bank has recently conducted own analysis of its aid-for-trade flows. This shows good overall agreement with the CRS aggregates for most recent years, but noticeable divergence in 2002-04. The World Bank and the OECD are working together to develop a robust methodology for the World Bank's CRS reporting.