Chapter 1
Global Aid for Trade Flows

1. Introduction

This chapter provides an overview of global aid flows in the aid categories that are most closely related to the definition of aid for trade recommended by the WTO Task Force and subsequently endorsed by the WTO General Council. Data on these categories are thus referred to as "aid for trade" in this report. The chapter highlights longer-term trends and the prospects for additional aid for trade. It identifies the main providers of aid for trade (including non-DAC donors where data are available) in volume terms and in terms of the shares of each donors' sector allocable aid. Finally, it considers the main recipients of aid for trade and analyses aid-for-trade patterns across regions and income groups.

The WTO Task Force defines aid for trade in terms broad enough to reflect the diverse trade needs identified by developing countries, and clear enough to establish a boundary between aid for trade and other development assistance of which it is a part. More specifically, projects and programmes should be considered as aid for trade if they have been identified as trade-related development priorities in the national development strategies of the recipient country. At the same time, clear and agreed benchmarks are necessary for reliable global monitoring of aid-for-trade efforts. Consequently, the Task Force has concluded that aid for trade comprises the following six categories:

(a) Trade policy and regulations;

(b) Trade development;

(c) Trade-related infrastructure;

(d) Building productive capacity;

(e) Trade-related adjustment; and

(f) Other trade-related needs.

In order to assess additionality and the adequacy of funding, the Task Force emphasised the need to establish a clear baseline measure of what is being done today. The baseline period of 2002-05 starts with the launch of the Doha Development Round in November 2001 and ends with the 2005 Hong Kong WTO Ministerial Conference. The latest year for which data are available is 2005. Data for 2006 will become available during 2008.

Measuring aid for trade is difficult:

- Almost by definition, data on global aid for trade present a significant over-estimation of the actual volume. For instance, economic infrastructure, which is used throughout this report as a proxy for trade-related infrastructure, includes many infrastructure projects aimed at improving the welfare of the domestic population and not the country's trade capacity. As explained in Annex II, it is almost impossible at the global level to provide a sound criterion that differentiates between trade-related infrastructure and general economic infrastructure.

- The CRS categories included in this report are unable to capture volumes of trade-related adjustment and other trade-related needs as defined by the WTO Task Force. There is no suitable proxy for other trade-related needs. The only available proxy for trade-related adjustment is general budget support, but as this includes funding for many objectives that are not trade specific, it has been decided to exclude it from the core analysis. Data on general budget support are included in Annex II. However, donors reporting to the OECD database have agreed that starting in 2008 they will collect specific trade-related structural adjustment data for 2006. After that, further monitoring reports will contain data on trade-related adjustment.

- Finally, it should also be noted that the data cited in this report cover aid commitments. Data on commitments reflect donors' current aid priorities, but they are larger in volume terms than disbursements and commitments made today are not usually implemented until sometime in the future. Furthermore, it is important to highlight that the data in this chapter only covers ODA flows up to 2005 and cannot therefore track progress on the pledges made in the 2005 at Gleneagles and Hong Kong. Future reports will contain actual disbursement data and track progress made towards meeting these pledges.

Since aid for trade consists of those projects and programmes that have been identified as such by partner countries in their development strategy, only the partner countries and to some extent the donors can provide a more accurate picture of the true aid-for-trade volume. The donor and partner questionnaires aim to collect this information by asking both donors and partners to identify which projects in the overall aid-for-trade envelope they consider to be primarily aimed at promoting capacities to trade. Additional key data and methodological issues are discussed further in Annex II.

Box 1. "Other Official Flows" for Trade

The data in this report include only Official Development Assistance (ODA). ODA 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 rate of discount 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 funding provides to the financing of trade-related activities. During the 2002-05 baseline period, OOF resources were equivalent to grants and concessional lending financing.

Financing for Trade
Commitments in billions USD 2005 constant prices

	2002	2003	2004	2005	Average 2002-2005
Non/low concessional lending (OOF)	12,2	11	9,2	10,1	10,6
Concessional lending	9,9	9,9	10,3	10,1	10,1
Grants	7,9	9,7	13,7	11,5	10,7

Source: Creditor Reporting System

Moreover, OOF is provided only by a few actors with five IFIs accounting for 99% of the funding. The IBRD, the financing arm of the World Bank is by far the largest source of OOF with an average of USD 3.6 Billion committed per year during the baseline period. The Asian Development Bank (ADB) has been steadily increasing its commitments from USD 2.8 Billion in 2002 to 3.2 Billion in 2005. The European Commission was also a major provider of OOF in 2002 and in 2003 but stopped reporting in 2004 and 2005. Financing from the Inter-American Development Bank (IADB) seems to fluctuate considerably over the years passing for example from over USD 2 billion in 2002 to barely reach USD 1 billion in 2004. The African Development Bank (AfDB) is the smaller of the big players with OOF figures fluctuating around the USD 1 billion mark during the baseline period.

2. What is the trend?

i) *Strong real growth in aid for trade*

Between 2002 and 2005 total aid-for-trade commitments from bilateral and multilateral donors rose by 22% in real terms, from USD 17.8 billion to USD 21.7 billion. This represents an annual rate of growth of 6.8% and a welcome contrast with the long-term declining trends present since the mid 1970s.

For example, in 1988, spending on building productive capacity reached over USD 16 billion in 2005 constant prices compared with the barely USD 9 billion during the 2002-05 baseline period. This decline was far from compensated by aid to economic infrastructure which remained around USD 10-12 billion per year since its peak in the early 1990s or by assistance to Trade Policy and Regulation, which entails much smaller financial flows.

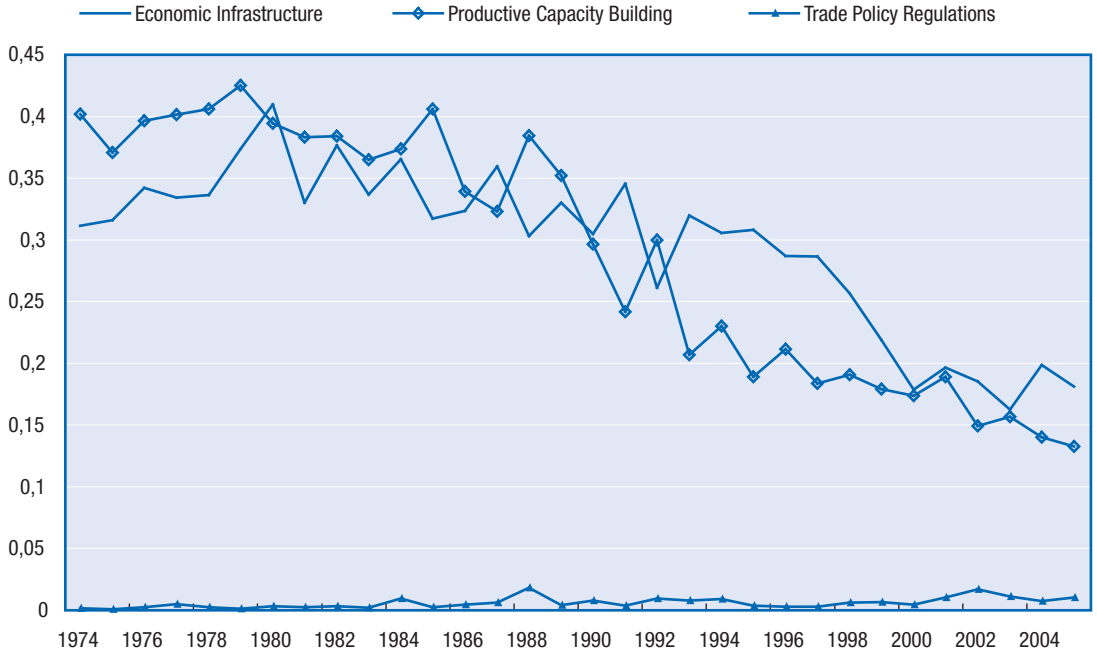
The increase in flows during 2002-05 has however been insufficient to reverse the declining trend of aid for trade as a share of total sector allocable ODA. Indeed, over that same period total sector allocable ODA increased by 27%, from USD 51 billion to USD 67.5 billion. Consequently, aid for trade as a share of total sector allocable ODA fell from 35% in 2002 to 32% in 2005 (Table A1.1, Annex I).[2] Many factors lie behind this relative shifting of resources. For instance, during the 1990s, political support for the public ownership model for utilities declined in many OECD countries, with a concomitant expansion of public-private partnerships. This development has probably contributed to donors reducing aid for economic infrastructure, on the assumption that private-sector actors would fill the funding gap (an assumption that has, with hindsight, largely proved mistaken).

2. For an updated overview of global aid for trade flows, see: http://www.oecd.org/document/17/0,3343,en_2649_34447_38341265_1_1_1_1,00.html

At the same time it is interesting to note that until 1990, aid for building productive capacity was larger than assistance to economic infrastructure projects. As Figure 2 shows, there is no doubt that a major change in the aid policies took place in the 1990s with aid priorities shifting from economic infrastructure and building productive capacity (which together accounted for nearly 80% of sector allocable ODA during the 1970 and the 1980) to social sectors such as education and health.

Figure 2. Long term evolution of Aid for Trade Categories

Share of Sector Allocable ODA (in commitments)



Source: Creditor Reporting System

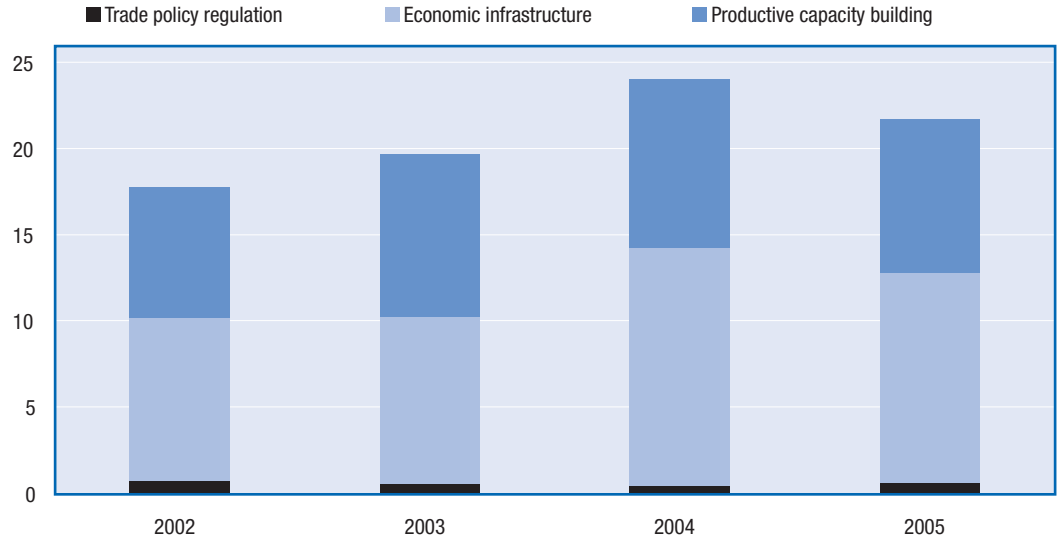
In addition, the overarching goal of poverty reduction enshrined in the Millennium Development Goals (MDGs) has accentuated this trend and further shaped the programmes of the development community towards social sectors. The ensuing social focus in many partner countries' Poverty Reduction Strategy Papers (PRSP) has oriented aid towards social sectors and away from tackling poverty *via* growth, trade, investment and employment. Furthermore, the original Heavily Indebted Poor Countries (HIPC) initiative also focused on promoting social sectors as a precondition for debt relief. These and other considerations need to be factored into an exploration of donor motivations and conditions in partner countries, that underlie the relative decline in aid for trade as a share of sector allocable aid.

iii) *Infrastructure is the dominant and most dynamic aid for trade category.*

The main categories of bilateral and multilateral commitments to aid for trade during 2002-05 are shown in Figure 3 and Table A1.1 (Annex I). Given the large size of typical infrastructure projects, aid to support the development of economic infrastructure naturally dominates overall volumes of aid for trade, at 54%. Indeed, aid to economic infrastructure (transport and storage, communications and energy) – a proxy for the WTO Task Force category 'trade-related infrastructure' – has been growing at over 12% annually between 2002 and 2005, making this both the largest and most dynamic category of aid for trade.

Data on economic infrastructure serves as a proxy for trade-related infrastructure because a given form of infrastructure might be trade-related in one context but unrelated to trade in another. An energy project might have a significant impact on trade in one context – if primarily servicing a tourism complex for example – but have limited or no trade impact in another, if bringing electricity to rundown urban neighbourhoods. In order to know how closely the data on economic infrastructure match the true numbers on trade-related infrastructure, comparison is necessary with donors' knowledge of the specific features of their infrastructure aid.

Figure 3. Aid for trade (bilateral and multilateral) by category (2002-05)
Commitments, USD billion (2005 constant prices)



Source: OECD DAC and Creditor Reporting System.

By contrast, aid-for-trade policy and regulations, usually delivered through technical assistance, accounts for the smallest share of aid-for-trade flows, at 3%. Trade policy and regulations (TPR) covers activities that support the effective participation of developing countries in the multilateral trading system. This type of support builds local capacities to: (i) formulate a broadly-supported national trade policy; (ii) participate in trade negotiations; and (iii) implement trade agreements. According to CRS data, TPR has decreased 20% during 2002-05. However, according to the joint WTO/OECD database[3], the annual growth rate over the baseline period is 3%. This probably reflects the growing importance of Trade Capacity Building Trust Funds (see Box 2) as well as increased support from non-DAC donors.

Aid flows towards Trade policy and regulations are too small to discern a clear trend (see Figure 2). However, the underlying data shows two clear peaks. The first peak occurred in 1988 – two years after the launch of the Uruguay Round - when more than USD 700 million was committed to TPR instead of the usual figure in tens of millions prevalent during the previous decade. The impact of the GATT negotiations is noticeable with rapid increases starting to take place from 1986, peaking in 1988, and declining rapidly until negotiations resumed in 1992. A very similar pattern emerges since 2000, with

3. This report is based on the CRS records and not the joint OECD/WTO database. Unfortunately, while this choice ensures consistency in the data throughout this report, it means that non-DAC donors are not covered in the bulk of the report. Specific mention of their contributions is made in section 4 and in Box 2 on Trade-Related Technical Assistance Database.

a strong peak of assistance to trade policy and regulation occurring in 2002 in response to the launch of the Doha Development Agenda and a slow decline since. This close link with the multilateral trade agenda might not reflect as closely as it would seem partner countries' needs which also depend on their bilateral and regional trade policy agenda.

Activities to enhance productive capacities are captured in the CRS under the following categories: banking and financial services; business and other services; agriculture; forestry; fishing; industry; mining; and tourism.[4] These categories include, but do not record separately, trade-specific components. Thus, in this report, trade development is not reported as a separate category (except in Box 2, which summarises the available data). During 2002-05, annual bilateral and multilateral commitments to productive capacity building (PCB) averaged USD 8.9 billion (Table A1.1, Annex I) and grew at just above 2% annually in real terms. Agriculture – which captures around half of the assistance in this category – and mining were the most dynamic sectors, growing above 7% annually in real terms. This growth might be a response to the upturn in international commodities prices, which could increase the incentives to invest in productivity enhancement.

3. Will there be additional aid for trade?

In 2006, total ODA stood at USD 103.9 billion, down by 5.1% from 2005. This fall was predicted. ODA was exceptionally high in 2005 due to large debt relief operations (notably for Iraq and Nigeria) which boosted ODA to its highest level ever at USD 106.8 billion. In 2006, net debt relief grants still represented a substantial share of net ODA, as members implemented further phases of debt relief agreements, providing a little over USD 3 billion for Iraq and nearly USD 11 billion for Nigeria. Excluding debt relief, ODA fell by 1.8%. ODA is expected to fall back slightly again in 2007 as debt relief for Nigeria and Iraq tapers off. Other types of aid should then increase as donors fulfil their more recent pledges.

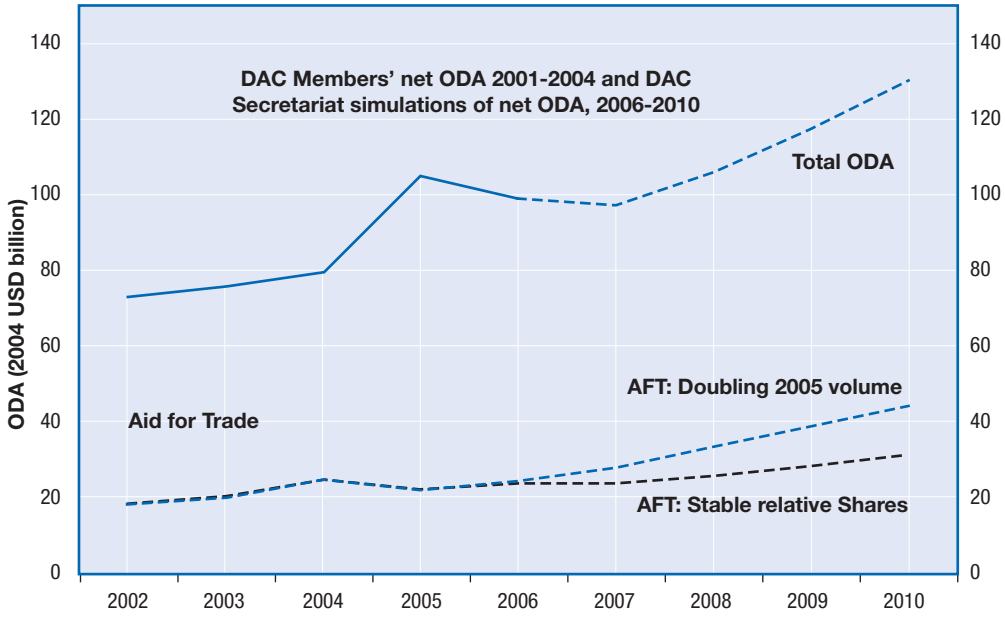
A range of financial support will clearly be necessary to increase the capacity of less-advanced developing countries to become more dynamic players in the global economy. The scaling up of aid potentially provides scope for this. If all donor commitments are met, total ODA will increase to USD 130 billion by 2010, that is USD 50 billion above its 2004 level and twice the amount spent in 2000. With renewed donor attention to the broader economic growth agenda and commitments signalled by, for example, the United States, Japan, the European Commission, the United Kingdom, Finland and other European countries[5], it seems reasonable to assume that the volume of ODA to help developing countries participate more effectively in international trade could also rise.

On the basis of the Secretariat's simulations of the scaling up of aid[6], two scenarios for additional aid for trade have been developed for 2005-10, as illustrated in Figure 4. The scaling-up effect alone (*e.g.* keeping the aid-for-trade share over net ODA constant) could deliver an additional USD 8.5 billion, a 48% increase over the 2002 total of USD 17.8 billion. Doubling the 2005 volume of aid for trade, to USD 43.4 billion, would result in aid for trade accounting for 33% of total ODA. Simply extrapolating

4. Note that data on support to productive capacity building include the data on assistance to trade development.
5. The United States confirmed its announcement in Hong Kong of plans to more than double its contribution to trade-related assistance from USD 1.3 billion in 2005 to USD 2.7 billion by 2010. Japan confirmed its Hong Kong pledge of providing USD 10 billion in financial assistance in trade, production, and distribution infrastructure over the period 2006-08.The European Commission confirmed its Hong Kong pledge of increasing assistance to trade policy regulation and trade development to EUR 1 billion annually by 2010. The *Joint EU Aid for Trade Strategy* entails a collective pledge to increase Member States' spending on these activities to EUR 1 billion per annum by 2010.
6. It should be stressed that these are simulations. The actual supply of ODA will depend on DAC members approving aid budgets and delivering ODA at the level indicated in their public statements on future volumes of aid.

the recent annual growth rate of aid for trade (6.8%) would deliver an extra USD 8 billion by 2010, with aid-for-trade commitments reaching USD 30 billion (at constant 2005 prices).

Figure 4. Growth scenarios in aid for trade



Source: OECD

It should be noted however, that developing countries need to take a pro-active stance to make this happen. The principle of country ownership implies that it is their responsibility to assign greater priority and clearer definitions to their trade and growth strategies in order to effectively accelerate their successful integration into the world economy, a process which donors have expressed a willingness to support financially. Furthermore, if these programmes prove to have an impact on economic growth and poverty reduction it is likely that additional aid for trade funds will become available.

4. Who are the main providers?

i) *Aid for trade volumes*

Between 2002 and 2005, four donors dominated global aid-for-trade delivery in terms of volume: Japan, the United States, the International Development Association (IDA) and the European Commission. This is not surprising since they are also the largest overall providers of ODA (Table 1).[7] Together, these four donors fund almost two thirds of all aid-for-trade activities. Other important bilateral donors by volume are Germany, the United Kingdom, France and the Netherlands. The ADB and the AfDB are sufficiently large providers of aid for trade in their respective regions to join the top-ten list globally. Taken together, the ten largest bilateral donors and multilateral agencies currently

7. Data on the aid for trade volumes provided by all DAC donors and selected multilateral donors are contained in Table A1.2 (Annex I).

fund 86% of global aid-for-trade activities. The ADB, the AfDB, the IDA and Japan all provide over 80% of their aid-for-trade commitments in the form of loans.

Table 1. Top 10 donors of aid for trade (2002-05 average)
USD millions, commitments (2005 constant prices)

	Aid-for-trade commitements	Donor's share of all aid for trade	Donor's share of loans in AfT commitments
Japan	4 764	22,8	82,0
United States	3 423	16,4	..
IDA	3 099	14,8	91,8
EC	2 403	11,5	12,8
Germany	1 140	5,4	48,1
AsDF	724	3,5	96,8
United Kingdom	711	3,4	..
France	660	3,2	60,5
AfDF	574	2,7	96,2
Netherlands	512	2,4	..

Note: .. Signifies that no loans were reported to the CRS.

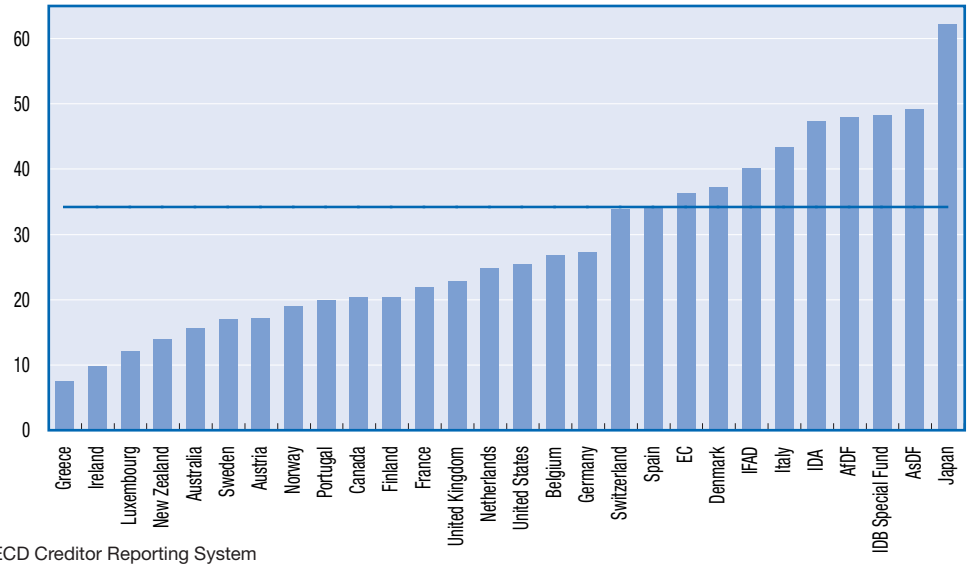
Source: OECD DAC and Creditor Reporting Systems

The predominance of a limited number of bilateral donors and international financial organisations is due to the fact that these are important providers of support for capital-intensive activities such as economic infrastructure and building productive capacity. For example, Japan is by far the largest provider (33% of the total) of support to building economic infrastructure, while the "big four" share equally in over half of the support for building productive capacity in developing countries. The European Commission and the United States provide nearly two thirds of total donor support for improving the understanding of trade policy and regulations. IDA and Japan are less dominant in this area, which is of course much less capital-intensive. Medium-sized donors such as Canada and Australia join the ranks of the ten largest bilateral donors supporting trade policy and regulations.

ii) *Aid for trade shares in donors' programmes*

The ranking of donors changes significantly however, when they are placed according to the share of aid for trade in total sector allocable aid. While Japan, IDA and the regional development banks have the highest aid for trade as a proportion of their sector-allocable programmes (between 47% and 62%), a number of medium-sized donors such as Denmark, Italy and Spain also display high shares (between 37% and 43%; see Figure 5). These donors, who provide relatively large volumes of support for economic infrastructure and productive capacity building, appear among the top ten in terms of aid for trade as a share of their sector allocable programmes. The lowest share is found among the smaller bilateral donors, such as Greece (7.6%) and Ireland (9.7%), while among the G-8 donors Canada, France, Germany, the United Kingdom and the United States have shares below 30%.

Figure 5. Aid for trade as a share of bilateral and selected multilateral donors' sector allocable ODA
2002-05 average



Source: OECD Creditor Reporting System

iii) *Non-DAC donors*

Seven non-DAC bilateral donors have reported activities to the WTO/OECD database: in particular China, Hungary, Iceland, India, Korea, Kuwait and Thailand. However, China reported only in 2001. In total they reported USD 11 million in support of trade policy and regulations and trade development. Hungary, India and Kuwait only reported their contributions to trade policy and regulations, while China and Iceland reported their support only to the trade development category. Korea and Thailand reported to both categories. The 2002-05 annual average volume of Korea's aid for trade is USD 1.7 million, equally divided between the two categories of trade policy and regulations and trade development. The main destination is Asia, but there are also funds aimed at the other regions. Korea also contributed to the International Trade Centre (ITC) and the WTO trust funds. Iceland, China and India reported support to the WTO trust fund. In view of China's and India's rapidly increasing aid and trade-related presence in Africa and elsewhere, it would be valuable if relevant activities were reported more comprehensively and regularly. However, these donors do not report to the CRS and therefore are not included in this report. The questionnaires used for monitoring of aid for trade could be employed in future to obtain data on the aid-for-trade flows provided by these and other non-DAC donors.

5. Who are the main recipients?

i) *Countries*

The top ten recipients of aid for trade receive 46% of total aid for trade (Table 2).[8] With the exception of Serbia, the top ten recipients are populous developing economies, a factor that contributes to the

8. Afghanistan, Iraq and Turkey have been omitted from the analysis in this section. They are statistically outliers and their inclusion makes the analysis of patterns in the allocation of aid for trade biased. However, this does not imply that assistance to these countries is not trade-related. It is however driven by very specific circumstances. Afghanistan and Iraq recently received massive amounts of aid in 2003-04 to rebuild their war-torn infrastructure and Turkey has recently received a large volume of aid to finance the construction of the Istanbul metro.

high absolute volumes of aid they receive. Seven of the top ten aid-for-trade recipients are located in Asia (*i.e.* Vietnam, India, Indonesia, Pakistan, Bangladesh, China and Sri Lanka). Ethiopia, with 2.3% of total aid for trade, is the only country from sub-Saharan Africa in the top ten. It is notable is that in addition to receiving large volumes of aid for trade, many of the top recipients allocate an above-average share of their sector aid to aid for trade. Sri Lanka, Egypt, Indonesia and Viet Nam all have shares of aid for trade in sector aid above 50%, with Ethiopia having a share over 40%. Trade clearly figures highly in the priorities these countries assign to their aid needs.

Table 2. Top 10 recipients of aid for trade (2002-05)
USD millions, commitments (2005 constant prices)

Region	Income Group	2002	2003	2004	2005	Baseline average 2002-2005 (volume)	*AfT over total world AfT (%)b*	AfT over total sectoral ODA	Aid as a percentage GNI (2005)
Asia	Other Low Income	1 455	1 130	1 495	1 484	1 391	9	51	3,7
Asia	Other Low Income	1 196	1 462	1 757	1 097	1 378	9	38	0,2
Asia	Lower-Middle	596	1 366	1 322	925	1 052	7	52	0,9
Asia	Lower-Middle	858	1 070	506	399	708	4	29	0,1
Asia	Least-Developed	509	863	777	347	624	4	32	2,1
Africa	Lower-Middle	619	480	540	389	507	3	51	1,0
Africa	Least-Developed	367	542	422	564	474	3	42	17,1
Asia	Lower-Middle	591	373	336	364	416	3	54	5,1
Europe	Lower-Middle	376	369	351	364	365	2	35	..
Asia	Other Low Income	383	508	186	292	342	2	36	1,5
		6 950	**8 162**	**7 691**	**6 223**	**7 257**	**46,0**		

Note: b calculated as the average of annual shares; AfT: aid for trade; GNI: gross national income

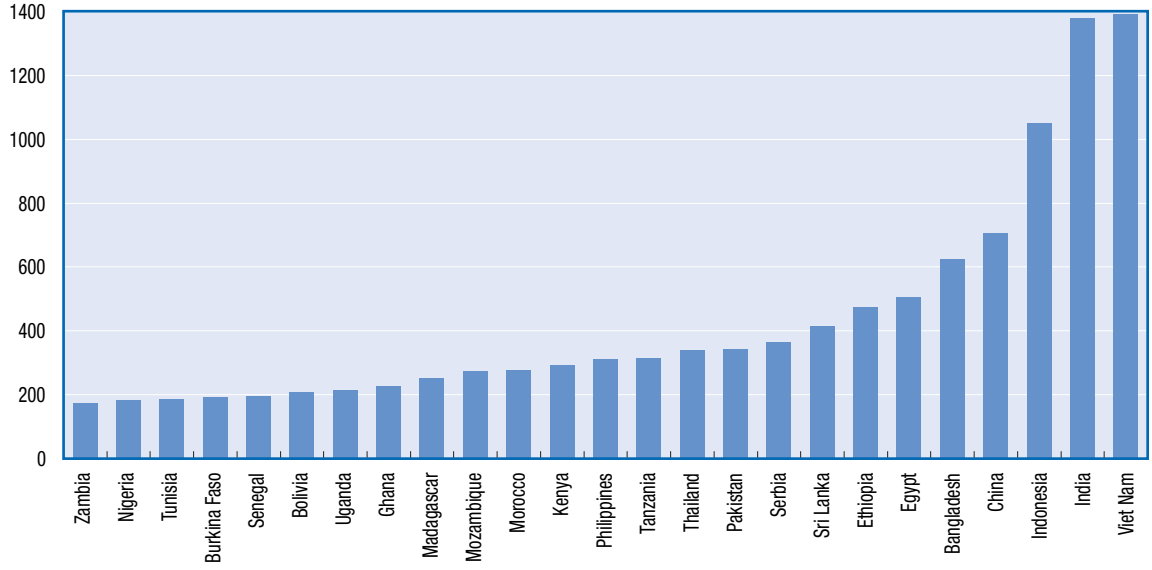
Source: OECD Creditor Reporting System and the World Development Indicators

While the total aid flow to India is smaller than that destined to China, India receives nearly twice as much aid for trade as China (respectively USD 1.3 billion versus USD 0.7 billion). Given the strong ownership of India and China over their own development strategy, this difference is likely to reflect a conscious decision on how best to allocate aid money. It is also significant that India and China are donors in their own right. Both countries, especially China, have recently started large aid programmes in Africa some of which could be categorised as aid for trade.

Nevertheless, in both China and India, aid for trade represents only a tiny proportion of national income, given the large size of their economies: just 0.17 % in India and less than 0.03% in China, the lowest shares for all of the major recipients. Clearly, for such small aid volumes – relative to national wealth – to have a significant impact on trade, it would need to be carefully targeted towards binding constraints.

The 25 highest recipients of aid for trade are shown in Figure 6. The geographic concentration is significant, with five Asian countries receiving the largest volumes of aid for trade, followed by a large number of countries receiving similar-sized smaller volumes.

Figure 6. The 25 highest recipients of aid for trade (1)
2002-05 average, USD millions (2005 constant prices)



(1) Excluding Afghanistan, Iraq and Turkey
Source: OECD Creditor Reporting System

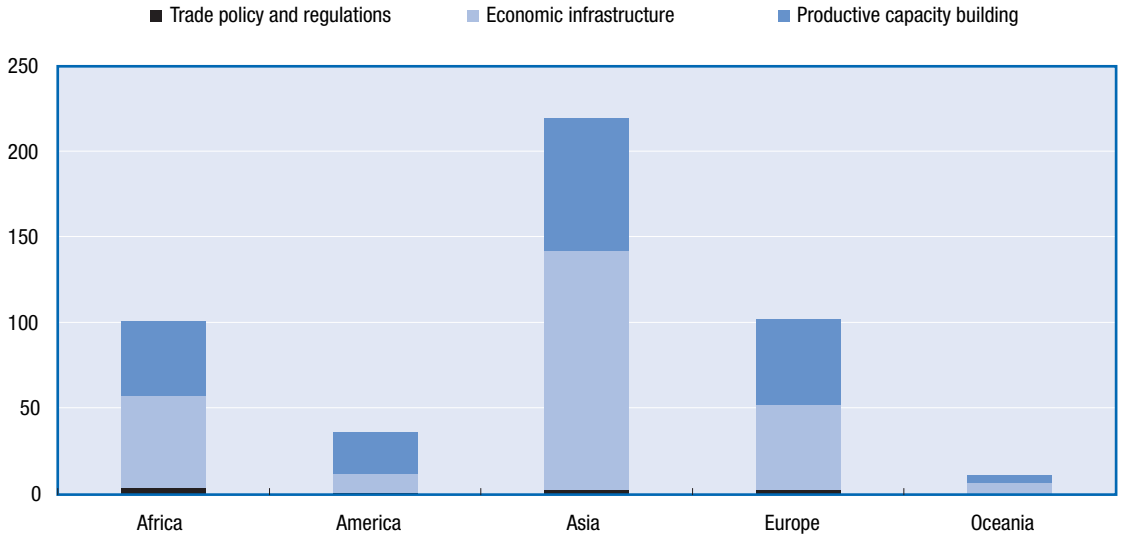
ii) *Patterns across regions and income groups*[9]

The regional breakdown of aid for trade shows that Asia receives over half (51%) of all aid for trade. Africa follows with 30%. The predominance of Asia is largely a function of the volume of aid received for economic infrastructure. Indeed, in Asia, aid for economic infrastructure alone accounts for over a third of total aid for trade (Table A1.4, Annex I). This regional breakdown also includes Afghanistan and Iraq, where reconstruction efforts have considerably increased aid flows.

Furthermore, observations on the regional distribution of aid for trade usually disregard the size (*i.e.* number of countries) of the regions and the role of multi-country programmes (see Table A1.5, Annex I). This makes meaningful comparisons across regions and income groups difficult. In order to better understand the patterns of aid-for-trade flows across regions and income groups, the metrics chosen in this section refer to the amount of aid for trade received by each country, in total and per activity (data on multi-country programmes are presented in the next section). The analysis that follows of *per country* flows excludes Afghanistan, Iraq and Turkey (for reasons described earlier).[10] On this basis, average flows per Asian country are significantly higher than anywhere else (Figure 7). In fact, the average Asian country receives more than double the aid for trade than the average African country. Even more surprising, European countries perform better on average than countries in Africa, despite Serbia being the only country in the region included in the list of top 25 recipients.

9. The income group and regional classifications are detailed in Annex III.
10. Since 2003, Iraq received nearly twice as much aid for trade as Viet Nam, the second largest recipient of aid-for-trade flows.

Figure 7. Average aid-for-trade flows per country, by region
Commitments, USD million (2005 constant prices)



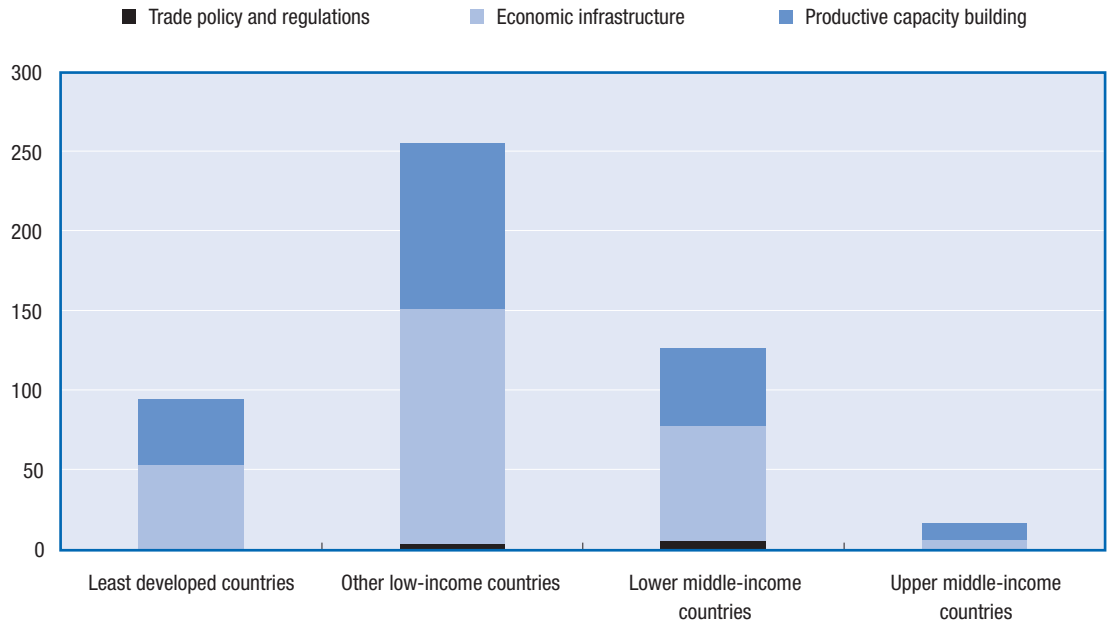
Note: Excludes Iraq, Afghanistan and Turkey.

Source: OECD DAC and Creditor Reporting Systems

It is likely, however, that the regional patterns are driven by income groups' differences. Indeed, a similar analysis, this time by income group, also reveals large differences in average aid-for-trade flows (Figure 8). During the 2002-05 baseline period, countries classified as other low-income countries (OLICs) obtained, on average, aid-for-trade flows more than two and half times larger than both the least developed countries (LDCs) and lower middle-income countries (LMICs). The top two recipients (Viet Nam and India) are both in Asia and are both classified as OLICs. As discussed above, their share of total aid for trade is particularly high, at close to 10%. Their overall weight contributes significantly to the predominance of Asia.

Further analysis of what is driving differences across income groups could shed light on the role of size, aid dependency, regional preferences and absorption capacity in determining the size and pattern of aid-for-trade flows. The fact that OLICs received such large aid-for-trade volumes per country, together with the rather modest overall flows to upper middle-income countries (UMICs), might be an indication of donors' desire to focus on the poorest countries, accompanied by absorption constraints in LDCs. Indeed, most LMICs are not IDA-only, and it is surprising to observe that average flows per county are slightly larger than those to LDCs. Absorption capacity constraints and size must surely play a role in this connection. Pursuing this analysis seems essential in determining the need to expand the Enhanced Integrated Framework to IDA-only countries, or to create a similar mechanism.

Figure 8. Aid-for-trade flows per country, by income group (2002-05)
Commitments, USD million (2005 constant prices)

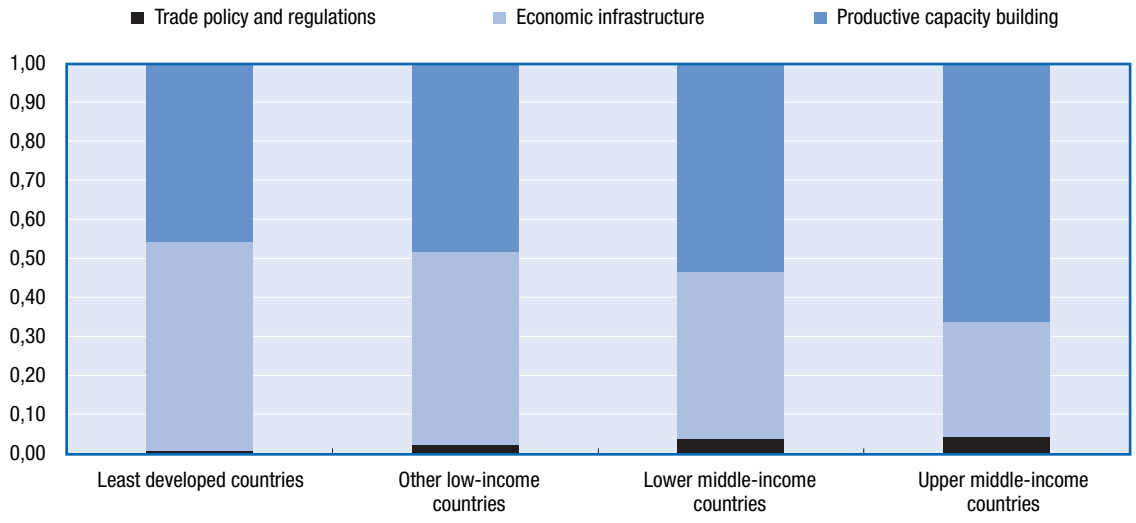


Note: Excluding Iraq, Afghanistan and Turkey.
Source: OECD DAC and Creditor Reporting Systems.

In terms of the different aid-for-trade categories, patterns across regions are similar. The averages by country in each region show similar proportions in their aid-for-trade flows: economic infrastructure stands above 50%, support for trade policy regulations scores between 2% and 5%, and building productive capacity makes up for the rest. The only noticeable feature is the propensity for Latin-American and Caribbean countries to receive a much higher share of their aid for trade as support for building productive capacity: around 66% compared with 36% in Asia and 44% in Africa. Consequently, Latin-American and Caribbean countries receive a much lower share as support for economic infrastructure.

However, this pattern might be driven by the higher income levels in Latin America and the Caribbean region. Indeed, Figure 9 shows a propensity among poorer countries to dedicate a higher share of their aid-for-trade allocations to economic infrastructure likely reflecting the size and quality of infrastructure deficits in these countries. Conversely, in richer countries, the share of aid increases for both productive capacity building and trade policy and regulations. It is however unclear whether this distribution reflects the income-sensitive nature of binding constraints on trade and economic growth, or simply the role of income in determining access to concessional loans – a key instrument for infrastructure financing. It will be interesting to compare these data with the donor and partner-country reports to the WTO, which should include information on low and non-concessional financing.

Figure 9. Aid for trade: average distribution per country, by income group (2002-05)



Note: Excluding Iraq, Afghanistan and Turkey.

Source: OECD DAC and Creditor Reporting Systems

iii) *Multi-country programmes*

Around 10% of aid for trade is channelled through regional and multi-country programmes. However, such programmes are notoriously difficult to record and are often under-reported. For instance, summing the value of all aid for national infrastructure projects will naturally leave the regional level under-reported: one country might build a road to the border, and its neighbour does the same, with the overall effort being reported as two national level programmes.

Nonetheless, the relatively low share of multi-country/regional aid for trade confirms the view that despite the obvious need for regional programmes, donors are more restrained in funding these projects. Table A1.6 (Annex I) details aid-for-trade flows to multi-country programmes by activity. Infrastructure seems to be particularly affected by this phenomenon: only around 8% of economic infrastructure spending is channelled through multi-country programmes. This is probably due to the high co-ordination costs entailed in multi-country programmes, the lack of credit standing among many regional entities, and the lack of lending and aid disbursement instruments suited to regional contexts. On the other hand, the much larger multi-country/regional focus in aid to support trade policy and regulations (37% of aid under this activity is channelled though multi-country programmes) reflects the increasing role of Trade Capacity Trust Funds (see Box 2).

Analysis shows that around 50% of the aid-for-trade volume reported under multi-country programmes is geographically unspecified, further reflecting the challenges in identifying and measuring genuine regional programmes. Only in Africa do regional programmes capture a meaningful share of aid-for-trade efforts, but even then the very high variation from year to year might indicate the importance of one-off larger projects, rather than a sustained regionally-focused strategy on the part of donors and their partner countries. (Table A1.7, Annex I)

Box 2. Trade-related Technical Assistance and Capacity Building

The last comprehensive report on Trade-related Technical Assistance and Capacity Building dates from March 2007. The joint WTO/OECD Trade Capacity Building Database (TCBDB) has not been updated since, and it was decided to base this report on CRS data which had not yet been reported. However, in order to offer a picture of aid-for-trade flows that is as comprehensive as possible, this box details key trends in trade-related technical assistance and capacity building as recorded in the joint WTO/OECD database. The database tracks two types of activities: *Trade Policy and Regulations*; and Trade Development.

Trade policy and regulations (TPR) covers activities that support the effective participation of developing countries in the multilateral trading system. This type of support builds local capacities to: (i) formulate a broadly supported national trade policy; (ii) participate in trade negotiations; and (iii) implement trade agreements. TPR has a specific code in the CRS but not all reporters to the joint WTO/OECD database also report to the CRS.

Trade development (TD) covers activities which seek to create a favourable business climate. It includes: the trade component of assistance to business support services and institutions; private sector institution building; public-private networking; legal and regulatory reform aimed at improving the business climate; e-commerce; access to trade finance; market analyses and trade promotion at national and sector levels. TD does not have a specific code in the CRS and has been included throughout this report under the category 'Building productive capacity'.

	2002	2003	2004	2005	Average 2002-2005	Annual Growth rate
	Trade Policy Regulations					
Trade Policy and Administrative Management	165	282	182	212	210	9
Trade Facilitation	196	317	353	185	263	-2
Regional Trade Agreeements	216	183	95	310	201	13
Multilateral Trade Negotiations	178	148	122	138	147	-8
Trade Education/training	64	78	55	60	64	-3
Total TPR Category	**820**	**1 008**	**807**	**905**	**885**	**3**
	Trade Developement					
Business support services and institutions	345	409	384	478	404	11
Public-private sector networking	51	117	67	26	65	-20
E-commerce	37	31	54	48	42	9
Trade finance	338	384	457	504	421	14
Trade promotion strategy and implementation	317	752	649	625	586	25
Market analysis and development	250	343	542	540	419	29
Total TD Category	**1 337**	**2 036**	**2 153**	**2 220**	**1 937**	**18**

Source: Joint WTO/OECD Trade Capacity Building Database

In contrast with the broader aid-for-trade categories, during 2002-05, Africa, and particularly sub-Saharan Africa, is the region that received most aid for TPR (28%) and TD (34%). One of the major recipients of TD in Africa recently has been South Africa, benefiting in particular from support for trade and investment financed by the European Commission and Switzerland. Madagascar also benefited from aid to the banking and financial services sector provided by the United States. Indeed, the United States has recently provided the bulk of bilateral support to TD (around USD 800 million in 2005). In TPR, the volume of multi-country and

regional projects stands out - in part due to European Commission support for such programmes in Africa (and particularly a European Commission-financed activity for regional integration in West Africa).

It is also worth noting the increasing contributions to Trade Capacity Building Trust Funds. Contributions to TRTA/CB Trust Funds increased by USD 56 million in 2005, an increase of 17% compared to 2004. This is a remarkable achievement when considering that overall volumes of TRTA/CB declined slightly. The WTO fund for technical co-operation and training benefited in particular from the increase in support. Funding for the three other dedicated trust funds remained more or less stable. Compared with the global aid-for-trade volume, the size of trust funds is relatively small: only 0.2% of the total. But trust funds are more important in the area of TPR. Bilateral donors that contributed the most to the trust funds in 2005 were Denmark – which almost tripled its contributions to USD 8.7 million – and Sweden, Norway, Switzerland, the Netherlands, Germany, Canada and the United Kingdom.

Source: WTO/OECD Trade Capacity Building Database, 2006 Joint Report