Executive Summary

The value of monitoring aid for trade lies in creating incentives, through enhanced transparency, scrutiny and dialogue, to provide 'more and better' aid for trade. It is about sharing information, learning from successes as well as failures, and applying policies and approaches that are proven to deliver results.

This first report takes stock of trends and developments in aid flows between 2002-2005 that are most closely related to aid for trade as defined by the WTO Task Force and subsequently endorsed by the WTO General Council. Next, it provides an overview of donor and partner country responses to the survey about their aid-for-trade strategies, pledges and delivery. The introduction sets out the WTO/OECD monitoring framework. The conclusions draw some preliminary lessons for the next round of monitoring.

A global picture of aid for trade provides the basis for a dialogue on making aid for trade work better.

The WTO Aid for Trade Task Force argued that a global picture of aid-for-trade flows is important to assess whether additional resources are being delivered, to identify where gaps exists, to highlight where improvements should be made, and to increase transparency on pledges and disbursements. For that purpose the Task Force defined aid for trade as comprising support for trade policy and regulations, trade development, trade-related infrastructure, building productive capacity and trade-related adjustment if identified as trade-related development priorities in partner countries' national development strategies. The Task Force also recommended establishing a baseline for measuring progress, so this report has identified the 2002-05 average as the starting point.

But measuring aid for trade at global level is difficult.

The WTO Task Force definition of aid for trade covers a broad set of expenditure categories as indications of donor activities which impact on partner countries' trade capacities. The OECD Creditor Reporting System (CRS) was recognised as the best data source for tracking aid for trade flows at global level, but it cannot provide data that match exactly all the above categories. Instead, it offers proxy measures for key categories. For example, the CRS can tell how much development assistance went to transport infrastructure, but it cannot show the precise share of transport infrastructure that impacts on trade. Some donors have developed their own methodologies for identifying aid-for-trade expenditures. Partner countries may want to include different expenditure elements in their particular trade development strategies (including other trade related needs). These measurement issues are addressed in the report.

Aid for trade amounted to an average of USD 21 bn. during 2002-05…

Between 2002 and 2005, donors committed on average USD 21 billion per year on the aid categories more closely associated with aid for trade. This included USD 11.2 billion to build economic infrastructure,

USD 8.9 billion to promote productive capacities (including USD 2 billion for trade development), and USD 0.6 billion for increasing the understanding and implementation of trade policy and regulations. The aid-for-trade numbers in this report are based on commitments which are reflected in signed agreements between donors and partners. Next year the report will also contain data on disbursements.

...and increased by 22%.

The average share of aid for trade in total sector aid was 34% between 2002 and 2005, during which time commitments rose by 22% in real terms. The share fell slightly from 35% to 32% during that period, reflecting high levels of donors spending on social sectors, such as education and health.

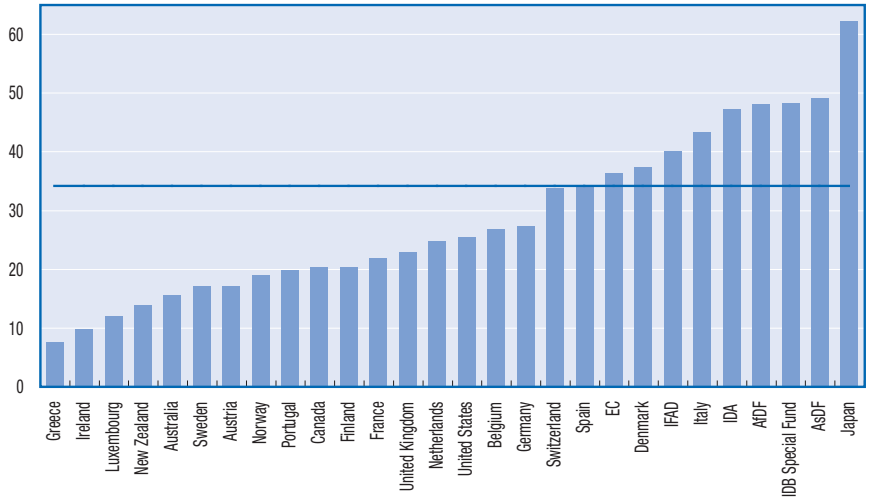
Aid for trade is an important part of donors' programmes.

Bilateral donors provide on average 31% of their sector allocable Official Development Assistance (ODA) to aid for trade. However, considerable variation across countries is also evident with shares ranging from a high of 62% in the case of Japan – driven in large part by Japan's sizeable support for economic infrastructure – to a low of 8% for Greece. In volume terms, Japan and the United States are the largest providers, which is not surprising since they are also the largest donors. Other important bilateral donors in volume terms are Germany, the United Kingdom, France and the Netherlands.

Multilateral agencies are large Aid-for-trade donors.

Large multilateral and regional institutions – *e.g.* the World Bank and the Regional Development Banks – provide around 50% of their sector programmes to aid for trade. In volume terms, the World Bank and the European Commission are also large donors, providing particularly significant support for infrastructure and productive capacity building.

Aid for Trade as a Share of Donors' Sector Allocable ODA
2002-05 average



Most aid for trade goes to Asia and to the middle income countries …

Between 2002 and 2005, Asia received 51% of total aid for trade, Africa 30%, Latin America and the Caribbean 7%, Europe 5% and Oceania 1%. Asia's predominance is driven by large allocations to economic infrastructure. Most aid for trade went to lower middle income countries (36%), followed by the least developed countries (25%).

… but there are large differences in flows per country.

Asian countries receive on average more than double the aid for trade received by African countries, while other low-income countries obtained, on average, more than twice the amount of aid for trade compared to least developed countries or lower middle-income countries.

Additional aid for trade could be available

With increased donor attention to trade, infrastructure and the broader economic growth agenda, the volume of aid dedicated to improving the capacity of developing countries to become more dynamic players in the global economy could rise significantly. If the recent annual growth rate of aid for trade (6.8%) continues, this would deliver an additional USD 8 billion by 2010, with total aid-for-trade commitments reaching USD 30 billion.

Aid for trade is being prioritised.

Almost two years after the 2005 Hong Kong WTO Ministerial Declaration, aid for trade has assumed growing importance in most donors' programmes. This enhanced profile is likely to be maintained, possibly even expanded over the medium term. The development of new strategic statements, a gamut of initiatives to strengthen in-house capacities and increased prioritisation in donor-partner dialogues are all clear indications of this trend.

Many donors possess strategies and guidance on aid for trade…

Most donors now have institutional remits, dedicated structures, as well as professional teams and operational guidance that are specifically focussed on delivering 'more and better' aid for trade. Some have long experience in fields relevant to aid for trade, while others are relative newcomers, relying on the larger donors to guide the way.

… that also address regional challenges.

Binding regional constraints, such as poor cross-border infrastructure, are clearly acknowledged in agencies' aid-for-trade strategies and some of the larger donors are already addressing them. Working at regional level, however, poses particular challenges, such as insufficient regional co-operation and concerns about asymmetric costs and benefits. Regional Development Banks are seen as the natural partners for addressing these and other regional challenges.

Hong Kong pledges are reconfirmed

Donors have reconfirmed their Hong Kong aid-for-trade pledges:

- The European Commission will provide an annual EUR 1 billion increase by 2010, with an additional EUR 1 billion from EU Member States.
- The United States will double its spending to USD 2.7 billion by 2010.
- Japan will dedicate USD 10 billion between 2006 -2008.

..and new commitments are made.

In addition, some donors such as Australia have made new commitments (AUD 0.5 billion in 2007) while others such as the Netherlands (EUR 0.5 billion annually) and the World Bank have seen an increase in demand-driven spending and expect this trend to continue.

Political commitment to prioritising trade is essential...

High level political backing to assign priority to trade in national development strategies is a key condition for donors' support. In cases where political commitment and local ownership are absent, donors increasingly seek to reinforce mainstreaming of trade by raising the issue in dialogues with partner countries. They also do this by providing support for trade-related capacity building and undertaking common needs assessments (e.g. using the Integrated Framework for Trade-Related Technical Assistance in the least developed countries).

... which partner countries acknowledge.

From partner countries, the response rate was low, but the quality very high. Despite their diverse economic characteristics, all the partner countries that answered the questionnaire consider trade development as a central element in their economic development strategies, and a number of them link success in trade to success in poverty reduction and human development.

Most partner countries possess, or will shortly possess, an aid-for-trade strategy.

Almost all partner country respondents have, or will shortly have, an aid-for-trade strategy that defines their aid-for-trade needs, which are usually developed through inclusive processes involving multiple stakeholders from the public, private and non-governmental sectors. However, in some cases, the trade strategy is not yet part of a comprehensive, government-wide, development strategy.

Most strategies have been costed.

Increasingly, partner countries have trade development strategies that have been costed. However, it is sometimes unclear what fraction of financing needs is expected to be met through ODA. Partner countries are usually able to identify constraints to trade development not currently addressed by aid. These range from deficits in physical infrastructure, to a need for customs modernisation, to general shortcomings in the areas of productivity and skills improvements. Most countries possess data on recent aid-for-trade activities and volumes.

Regional collaboration is a challenge.

Partner country respondents, like donors, noted the challenges of working at the regional level despite its importance. Some specific proposals were made, however, including making use of ASEAN as a framework for its members to meet international technical standards; better estimation of the costs of removing constraints to regional Free Trade Agreements; and the establishment of regional trade/market information systems.

Delivering aid for trade is guided by the Paris Declaration on Aid Effectiveness.

Donors and partners agree without exception, that the Paris Declaration on Aid Effectiveness sets out the principles that should guide the delivery of aid for trade. The commitment to these principles, which encapsulate decades of lessons learned and which

set out clear guidance on how to deliver aid most effectively, was evident in all responses. However, putting these principles more broadly and widely into practice requires continuing effort and attention. There is little evidence to date, therefore, on results that can be translated into policy improvements.

Donors are harmonising procedures and aligning their support, but partners note that more remains to be done.

Reducing transaction costs associated with delivering aid for trade is also emphasised by donors and partners. On a business as usual basis, transaction costs can be expected to increase significantly as aid for trade is scaled up. Donors will need to work aggressively to reduce these costs by increasing complementarity, making greater use of local systems, expanding the use of delegated co-operation and better integrating their programmes with local spending plans. Partner countries confirmed the importance of harmonisation and encouraged co-ordinated analyses of trade development needs.

Managing for results and practicing mutual accountability is challenging.

Increasingly, donors and partners are engaged in joint monitoring and evaluation of programmes that fall within the scope of the aid-for-trade initiatives. Orienting aid-for-trade activities towards achieving desired results (*e.g.* management for results) and being accountable to each other for these results (*e.g.* mutual accountability) is a clear challenge. Some partner countries have established a national Aid for Trade Committee, or equivalent body. In most countries a wide range of actors is involved in reviewing progress on aid-for-trade commitments.

The broader aid effectiveness agenda points to the way forward.

Donors and partners agreed that these challenges in delivering aid for trade effectively are not unique, but are, in fact, part and parcel of the broader aid effectiveness agenda. The approach of the Paris Declaration, in setting out clear and mutually supporting objectives and monitoring progress towards them, might thus be adapted for the aid-for-trade initiative. In doing so, it would help provide focus to this part of the initiative.

The next monitoring round should encourage best practices, involve greater partner-country participation, and better integrate the regional dimension.

The value of monitoring aid for trade will be maximised if it can be used as a tool to encourage and share best practice. It is also essential that partner countries participate more fully in the monitoring of aid for trade. This might require changing the questionnaires to ensure that partner countries benefit directly from answering them and not just from the outcome of the whole monitoring exercise. Finally, the monitoring framework as designed is very much focused on countries. More efforts are needed to integrate the regional dimension.