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The Financial Architecture of Aid for Trade

April 2006

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Related ILEAP papers

Finger, Michael J. (April 2006 - forthcoming). “Aid-for-Trade: How We Got Here, Where We Might Go”. ILEAP.

ILEAP (December 2005). “Aid for Trade: Why and How?”. ILEAP. Presented at the WTO Hong Kong Ministerial Conference.

ILEAP and German Marshall Fund (April 2006). “Aid for Trade After the Hong Kong Ministerial – An Introductory Text”. ILEAP and GMF. Lead author: Claire Healey.

ILEAP (April 2006 - forthcoming). “African Perspectives on Aid for Trade”. ILEAP. Paper commissioned by the African Union.

Lyimo, Bede and Sungula, Edward (February 2006). “Aid for Trade Facility: Lessons for the Tanzanian Experience on Trade Related Assistance”. ILEAP.

Oyejide, Ademola (February 2006). “Operational Modalities for the Aid for Trade Initiative”. ILEAP.

These papers are or will be available shortly on the ILEAP website, www.ileap-jeicp.org.

Executive Summary

Defining Aid for Trade

The explicit recognition in the Hong Kong declaration of a WTO interest in and responsibility for aid has raised high expectations, but groups like the Africa Group must now define what they need, and how this can be efficiently and equitably implemented. Aid for Trade can be defined narrowly, in terms of directly WTO-related needs, but there are also broader needs, to build countries' capacity to trade. The narrow needs include:

A. Implementation of existing commitments under the Doha Round, in particular the obligations related to Trade Facilitation. Such support is a recognised potential cost of a Doha settlement, so there is an obligation on developed countries to provide it or to accept that some developing countries will not be obliged to implement the agreement, but while it may be of benefit to a country in the medium term, it is not necessarily an immediate priority for a cash-constrained government or for normal aid programmes.

B. Implementation of the explicit commitments to the Net Food Importing Developing Countries in the Uruguay Round which were left without an implementing mechanism. The commitment is clear, and a major external shock is a potentially valid use for aid, to enable a country adjusts to a sustainable pattern of production.

C. The costs to developing countries of other WTO reforms intended to benefit others: the costs of preference erosion. The July 2004 and Hong Kong declarations recognised this as a legitimate concern of the WTO, and dealing with it by maintaining preferences would have meant no liberalisation clearly contrary to normal WTO principles and unacceptable to those seeking liberalisation.

D. Other implementation costs, for example those required to implement the TRIPS and SPS/TBT agreements.

E. The fiscal costs of liberalising a country's own imports. This is not a cost to the country, but a transfer from the government to those who buy the imports, and it is not an exceptional cost from the introduction of either new rules (A and D) or major reforms to the system.

For A and D, we have estimated costs of about US$0.3 billion each, based on some country data and on what has been spent on aid relating to these in recent years. For each country, such costs are mainly one-off costs. The costs for B are estimated at $1 billion a year and for C at around US$1.1 billion a year: these are in principle continuing costs to the economy, but will fall as countries adjust. We have not included estimates for E because for LDCs the cost would be 0 (they are not expected to reduce their tariffs in this Round) and for most developing countries, of the type expected to be included, the cost will also be 0 (bound tariffs are sufficiently high that any reduction will merely remove some water in the tariffs, not reduce revenue).

The developmental case for aid to help countries use trade for development is clear and not at issue. Any funds identified as necessary under B or C could be expected to be spent on such activities. What is new and controversial is how far the WTO should have a role in this type of aid. These include:

F. Support for conventionally recognised trade capacity building. This has been a very conspicuous part of trade-related aid, but in value has been around US$0.2 billion.

G. Support for infrastructure, investment, other measures to build supply capacity Aid to support this has increased sharply in recent years, from US$9.2 billion a year to US$14.8 billion by 2004, although almost the entire rise in expenditures has been driven by US spending to rebuild Iraqi and Afghanistan infrastructure.

H. Support for institutions that improve capacity to trade. Aid for this has been about US$ 1.1 billion a year (WTO database), and, like F, has not shown an increase.

I. Support for the supply side in the sense of building up private sector enterprise in new export (or import replacing) areas. This category has moved up with infrastructure, from about US$0.5 billion in 2001 to US$0.9 billion in 2004.

Aid for Trade could cover a combination of Narrow and Broad Aid, i.e. any level of A, B, C, D and/or E plus any or all of F G, H and I. On our estimates, the new implementation costs (A and D) could be covered by roughly the existing level of resources being allocated to similar costs. The other 'narrow' costs could cost up to US$2 billion a year, which would be an addition to needed spending on 'broad' costs. This is currently about US$17 billion a year. There are advantages and disadvantages to treating these separately. Some donors do not view the needs identified under Narrow as directly related to development (because they arise from a trade negotiation, not from a country-based assessment of priorities, as discussed below), so for some, additional aid under these might need to come under a separate budget line. For this purpose, separate calculations of the amounts are needed. Acceptance of a role for the WTO in ensuring that needs are met, both in terms of commitments this year and in implementation in the medium term, may be stronger for the Narrow needs than the Broad.

Eligibility for Aid for Trade

The question of which countries should be eligible for special treatment is sensitive in both aid and trade. While aid agencies can determine their own differentiations among recipients, and define groups, the WTO can only differentiate by consensus of all members, and it is clear that there will be no new general categories adopted in this Round. The only classification in current use that is the same is Least Developed Countries. Beyond this, the WTO gives special status in a few agreements to developing countries, and specifies this as a condition for allowing preferences. What has become the practice is to list, either positively or negatively, countries other than LDCs that may be eligible for particular treatment (e.g. the agreement on agricultural subsidies in the Uruguay Round) or excluded from it (e.g. the agreement on importing pharmaceutical products of 2003). In legal terms, any eligibility for A4T specified by the WTO would have to follow this model.

For NFIDCs, there is a simple list, not an assessment of the exact losses of each member, although it was based on such analysis. This could be one model for the other Narrow types of A4T, especially for preference erosion which shares the characteristics that the effect can be large, by any calculation, but where the numbers are not knowable with any certainty.

For any cost-based scheme, it would be necessary to ask if it was the costs of a particular problem, total costs, or total net costs that made a country eligible. Total costs would be consistent with treating the problem as an exceptional shock, not just a disappointing negotiating outcome. An alternative approach is for a country to ask for the application of a particular rule to be postponed (as has been done, for example, of the rules for customs valuation). The July 2004 agreement suggests a similar model for trade facilitation, by which countries present evidence to an appropriate Committee that they have not had the necessary aid. This would be a more discretionary approach, and might therefore not meet the increased determination by developing countries to have clear and enforceable commitments for Special and Differential treatment.

Identifying countries which need aid to build their general trade capacity and ability to respond to new trade opportunities is likely to need a broader development measure, and could include all developing countries or perhaps all except those who chose to exclude themselves, as in the TRIPS agreement on imports. As some of this assistance is likely to be for international institutions, such as the Advisory Centre on World Trade Law, or to meet regional needs, introducing strictly differentiated eligibility requirements could restrict its usefulness (most regions, whether legal or geographical, include countries at different levels of income).

Reconciling Aid for Trade and programmes and principles for Aid

The different purposes and the large scale of what donors are now calling A4T, as well as the unwillingness of both donors and recipients to rely on a single existing institution, suggest that the way in which A4T will work will be mainly through existing funds, multilateral and bilateral. There is therefore a need to find a way of reconciling multiple funds from multiple donors each covering some countries and/or some types of spending in order to secure adequate funding for all relevant countries and purposes. It is possible that some of the needs identified here will be so far from what donors and their rules of operation recognise as official development assistance that new funds or new sections of funds will be needed.

Ensuring that secure mechanisms, based on the legal structures of each fund, are available for all the needs will be the first problem, in 2006. The WTO will then need to monitor the implementation over a medium term period. Reports on both overall results and individual countries could go from all the implementing agencies to the WTO, perhaps through both the Committee on Trade and Development, to monitor total implementation, and the Trade Policy Review mechanism to cover individual countries.

There are also problems in reconciling efficient and effective aid administration with ensuring that trade criteria are applied (ensuring that trade is raised from its frequent position as a low priority for conventional aid). In aid, there is perceived to be a conflict between targeting specific areas for help and taking a broad view of a country's development process and between donor or internationally determined priorities and country priorities. Vertical funds may build up a level of expertise and specialisation and benefit from economies of scale. They may be better at coordinating at a global level solutions for global. Against this are the possible lack of 'ownership' by the receiving country, the difficulties of aligning vertical funds with country programmes, and the risk of shocks because of changes in donor priorities.

There is additionally a significant level of distrust, occasionally even contempt, between aid and trade agencies and practitioners, with fears by aid agencies that the ability of countries to exert pressure in the WTO could lead to them receiving more than an 'objectively determined' share, and by trade people that aid programmes are too focussed on immediate poverty-reduction, and not enough on long-term production and trade.

Precedents in other funds

A survey of 25 funds, some general, others vertical, both trade and non-trade, suggests that there are quite a few funds that address diagnostics of what trade measures are required (IF, part of EC TRA, JITAP, the PMU, etc.) but far fewer programmes address supply side constraints directly (though the MCC could do some) or implementation costs of Trade agreements (though current WTO assistance might fit with this, and the data on trade related aid suggests that this is being funded from normal aid programmes) Thus there are significant gaps that the debate on A4T can address.

Some funds have emerged out of international conventions or agreements**,** e.g. the Montreal Protocol Fund and the Global Environmental Fund; others have reflected special concerns that were thought to need additional attention, e.g. the health and research funds. Some of the trade-related funds have been specifically to address potential adjustment needs from trade reform: the ACP PMU by the EC to examine the effects of possible EPAs, and the Sugar, Banana, and Rum funds. Others are more general, e.g. the MCC focuses on growth and poverty reduction. This corresponds well to the discussion on A4T, for both narrow and broad interpretations.

The funds have very different ways of operating. Some take time to come to fruition while others can do so more quickly. There might be some rigidity and potential distortion of vertical funds, but where an issue has been neglected by donors imposing rigidity and reversing past distortions may be required. Some issues require global co-ordination and involvement of a pool of expertise.

Any conclusions on the merits of different aid architectures must be seen in the context that the most important lesson from work on aid is that good plans and participation by recipient governments are the most important determinants of what works. One important consequence of this is that any donors' assistance should imply a compromise between donor's priorities and local ownership.

It may be that a compromise between special funds and general assistance is to ensure that the special funds have broad aims (e.g. HIPC) and align their rules with the government and with other programmes (e.g. common rules for government procurement). There are high risks and high benefits from budget support.

One example of such a compromise is the Sector Wide Approach (SWAp)**,** which is a process where donors give significant funding to a government's comprehensive sector policy and expenditure programme. It might be a means to ensure increased aid to a sector and improve coordination in-country, by setting clear sectoral programmes but it should not lead to additional administrative requirements.

The SWAp may involve sector budget support when implementation and accountability concerns are being met, but where weaknesses exist, financing may be more mixed in the form of funds earmarked for specific purposes or project support. In practice, sector programmes (and thus SWAps) have centred around lead implementation ministries, while it has been more difficult to fund activities that involve other ministries, or NGOs and the private sector. This has implications for the debate on Aid for Trade, where the narrow interpretation might be more suited to a SWAp (e.g. a trade-related SWAp), while the broad interpretation would need several SWAps.

Scale of funds available and required

The value of current trade assistance excluding the equivalent of implementation costs was about US$17 billion in 2004, and had risen by US$6 billion in the three years from 2001, although a substantial part (about US$ 3 billion) of this increase comes from US infrastructure spending in the rebuilding of Iraq and Afghanistan. Most aid for both Trade Policy and

Regulation and Trade Development categories has been channelled through grants. For infrastructure aid, most has come in the form of loans rather than grants. The grant component dominates aid in the narrow categories, while the loan part is slightly more important for the broad categories. Such prevalence of grants over loans in the narrow categories may be viewed as a sign of donors' willingness to interpret this part of aid as covering pure costs, from which recipient countries do not gain in net terms.

All major donors have either maintained or increased over time their spending on trade related assistance. To assess the extent to which countries are specialised in this type of assistance, we use an index of specialisation in aid for trade for the major donors. On this measure, only the EC and Japan have had a relative specialisation in aid for trade over the period 2001-04, although it has been declining for both countries. The value for the EC is mainly driven by expenditure on trade policy and regulation and trade development, while Japan's value is the result of the focus on infrastructure in its development assistance strategy. The US has an index greater than 1 only in 2004, because spending on infrastructure in Iraq and Afghanistan. All other donors are spending relatively little on trade related assistance, with UK, Canada, France and Italy at the bottom of the list.

An analysis by recipient shows that the funds are fairly equally spread across regions. For countries, the largest recipients over 2001-04 are all Asian countries: Vietnam, India, Indonesia and China. The first sub-Saharan country, Ethiopia is in the 12th position, confirming a different (less trade related) model of development assistance for Sub-Saharan Africa compared to Asia. This finding is confirmed by regional indices of relative specialisation in aid for trade. Europe and the Far East are the regions with the highest level of trade related aid relative to the total aid they receive, while sub-Saharan Africa, the Middle East and South America have the lowest values of the index. Low–Middle Income countries (LMIs) and non-LDC low income countries (OLICs) have received highest share of trade related funds over 2001-04. This result is in line with the analysis of the spending relative to total ODA, which shows that LDCs (and Upper-Middle Income countries) receive a lower level of spending in trade-related assistance relative to total aid than LMIs and OLICs. Such a figure may be a cause for concern to the extent that LDCs face the highest costs in the trade integration process.

In the second half of 2005, including at Hong Kong, increases in trade-related aid were announced by several donors. They would cover the costs of the Round (B and C) plus a continuing increase in broad aid for trade, if they are additional to the 2004 levels of spending. They would not, however, represent an acceleration of recent spending on trade aid.

Implications for an Architecture for Aid for Trade

The examination of existing programmes and the discussion of how trade-related aid has increased in recent years demonstrate that there is no need to design Aid for Trade from scratch. Existing mechanisms have been able to sustain an increase of US$6 billion in trade-related aid (broadly defined. But the analysis suggests that some types of need are not being well met. While there is reasonable capacity to determine new types of need, the means for translating these assessments into new financing are less satisfactory. It also suggests that there are very different types of need, and, on the basis of both analysis of institutions and the precedents in aid, these are likely to require different types of organisations and programmes to meet them. Some needs are small and easily defined (for example: assessments of new circumstances or institutional reform to meet particular implementation needs, often to a deadline). These require an organisation able to offer quick disbursement, probably with a minimum of conditionality or planning Others require longer term and more considered programmes, to ensure that building the supply capacity to trade is well integrated into a country's (and perhaps a region's) development programme. This contrast is not an inconsistency, and there are examples of successful programmes of both types. SWAps are a potential means through which different types of projects, programmes and sector support can be aligned with a Government's comprehensive sector policy and expenditure programme on trade-related assistance and other areas of Aid for Trade while making aid less fungible, though lessons need to be learned from existing SWAPs. In particular, it has not been straightforward to fund SWAps outside the social sectors or those that involve various types of actors (beyond government, which is possible in the case of private sector development) and more than one ministry (which is also possible, particularly in the agriculture and services sectors).

There is a potential conflict between the country programme and the vertical approach to aid. The vertical funds for environment, health, and other needs show that trade is not the only area where those outside the aid process have identified a need for more aid, and show both the advantages and the disadvantages of solving the problem by providing finance 'tied' to a particular subject. The fact that trade-related aid has increased in recent years suggests that normal, horizontal, donors agree that there is a need to spend more on trade, but the commitment in the WTO declaration and the identification of increased costs that countries will face because of new WTO commitments suggest that some formal way of guaranteeing a continued priority for trade needs to be found.

There are two elements in the needs for Aid for Trade identified here that could require some form of guarantee, or legal commitment, plus continuing monitoring, additional to the informal donor-by-donor commitments already recorded. The first is that some countries will face exceptionally high costs. The experience since the Uruguay Round shows that while small costs, particularly those easily tied to a need for specific spending (customs rules, for example) did attract additional aid, those which require a macroeconomic approach both to calculate them and to find a way of meeting them (adjustment needs following on the terms of trade change in agriculture) were left to one side. The second is the growth in 'broad' aid for trade: how to ensure that the increase which has occurred in the last 5 years will in fact be repeated, as the pledges made in 2005 promised?

The first problem suggests that there may be a need for new funds, with new criteria, either as designated parts of individual donors' programmes (the EU Action Plan for Sugar, for example) or in a new multilateral form (HIPC, the vertical funds in health). In addition, or possibly as an alternative, there may be a need for a new assessment process (like the IF for trade in PRSPs, TIM for balance of payments costs or the EU-ACP assessment of the costs of EPAs) to provide an agreed definition and calculation of macroeconomic adjustment needs. The IF precedent suggests that an assessment process divorced from any commitment to provide finance can be inadequate and disappointing.

There is an additional reason for believing that a special fund or special terms within normal funds may be needed. Although any financing for the adjustment costs of trade liberalisation could be used for purposes and in countries that might normally expect loan, not grant terms, the fact that countries need this additional finance for reasons of benefit to others and as a replacement for previous transfers suggests that there is a need for this to be on concessional terms. For 'broad needs' more generally, for funding to enable a country to trade (or produce) more or more efficiently, there may be a clear source of returns to repay a loan. For some, however, for example assistance to government capacity to negotiate or to build new institutions, there can be expected to be a return to the country as a whole, but not an identified income stream. For these, whether loans or grants are appropriate should be decided in the context of normal aid criteria. It will depend on the income level of the country and on the use of the funds.

Both these problems suggest that there is a need for a new way to monitor both the overall supply of funds and their allocation to countries' needs to ensure that the new types of need are appropriately met and that the overall allocation to trade remains high and growing. Now that the WTO has accepted that meeting the costs of adjustment and providing for what countries 'need to assist them to implement and benefit from WTO Agreements' are legitimate concerns for it, it will need to take responsibility for identifying the procedures that will be needed and 'ensuring' that all of them take place. It could check that donors had committed ('bound' in trade terms) the funds which they have announced. In subsequent years, the WTO will need to monitor that the commitments are kept.

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Acronyms

A4T	Aid for trade
ACP	African, Caribbean and Pacific group
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immunodeficiency Syndrome
ASEAN	Association of South East Asian Nations
CGIAR	Consultative Group on International Agricultural Research
CTD	Committee on Trade and Development
DDA	Doha Development Agenda
DTI	Department of Trade and Industry (UK)
DTIS	Diagnostic Trade Integration Study
EC	European Commission
EDF	European Development Fund
EPA	Economic Partnership Agreement (between EU and ACP regions)
EU	European Union
FTA	Free Trade Area
FTAA	Free Trade Area of the Americas
GAVI	Global Alliance for Vaccines and Immunisation
GPA	Government Procurement Agreement (WTO)
GPT	General Preferential Tariff, Canada's GSP
GSP	Generalized System of Preferences
HIPC	Heavily indebted poor countries
JITAP	Joint Integrated Technical Assistance Programme
ICTSD	International Centre for Trade and Sustainable Development
IF	Integrated Framework
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	Least Developed Country
LMI	Low-Middle Income countries
MCC	Millennium Challenge Corporation
MEA	Multilateral Environmental Agreement
MFN	Most-Favoured Nation
NAMA	Non Agricultural Market Access (in DDA)
NFIDC	Net Food Importing Developing Countries
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
OLIC	Other Low Income Country
OMU	Project Management Unit
PRSP	Poverty Reduction Strategy Paper
RTA	Regional trade Agreement
SADC	Southern African Development Community
SFA	Special framework for Assistance
SPS	Agreement on Sanitary and Phytosanitary Measures (WTO)
SWAp	Sector Wide Approach
TBT	Agreement on Technical Barriers to Trade (WTO)
TIM	Trade Integration Mechanism (IMF facility)
TPR	Trade Policy Review
TP&R	Trade Policy and Regulation

TRA	Trade-related assistance
TRIMs	Trade-Related Investment Measures (WTO)
TRIPS	Trade-Related Aspects of Intellectual Property Rights (WTO)
TRTA	Trade-Related Technical Assistance
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
UR	Uruguay Round
UNICEF	United Nations Children’s Fund
WHO	World Health Organization
WTO	World Trade Organization

An Introduction to Aid for Trade

Aid for Trade does not yet have a single meaning. The WTO defined the scope and purposes of Aid for Trade in the Hong Kong mandate as:

Mandate – WTO Hong Kong Ministerial Declaration on Aid for Trade, paragraph 57 (WTO 2005)

> 'We welcome the discussions of Finance and Development Ministers in various fora, including the Development Committee of the World Bank and IMF, that have taken place this year on expanding Aid for Trade. Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA. We invite the Director-General to create a task force that shall provide recommendations on how to operationalize Aid for Trade. The Task Force will provide recommendations to the General Council by July 2006 on how Aid for Trade might contribute most effectively to the development dimension of the DDA. We also invite the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional loans'.

This explicit recognition of a WTO interest in and responsibility for aid has raised high expectations, but many people have still not gone further than the ambassador to the WTO who said 'I don't know what it is, but I am in favour of it'. It is formally the responsibility of the Director General and the Task Force[1] to define this uncertain term and to ensure that the expectations are not disappointed, as were those for the technical assistance mentioned so frequently in the Uruguay Round agreement.

Groups like the Africa Group must now define what they need, and how this can be efficiently and equitably implemented. One inevitable result of moving to specific plans is that not everyone will be in favour of the result, but the consensus basis of the WTO and the need to have support from a range of other institutions, including the international financial institutions, regional organisations, and non-trade elements of the governments of both donor and recipient countries, means that any proposals must be capable of commanding broad support. This paper will first review what meanings that might be useful from a trade point of view might be given to Aid for Trade (A4T), and some of the general principles for aid which any scheme should take into account. It will then review some existing programmes that provide aid for trade purposes, and some other programmes with specific objectives, partly in order to identify what is being done, but also to identify some good (and bad) examples for designing an Aid for Trade initiative. The third part will summarise the increases in aid commitments, and of designation for trade within them, that have been recorded in the last year. The final section will analyse what any Aid for Trade package must include, taking into account the different types of need identified (very WTO-specific and general trade), the

[1] The members of the Task Force are Barbados, Brazil, Canada, Chile, Colombia, EU, India, Japan, Thailand, US, and the coordinators of the ACP, African, and LDC groups. The chair is Mia Horn af Rantzien, the Ambassador of Sweden.

different timing of needs (adjustment to specific changes in the trading system and long-term development), and the different principles which tend to guide the aid and trade discourses.

Part 1 Coverage and principles for Aid for Trade[2]

Possible components of Aid for Trade: definitions and costs

The Hong Kong mandate gives examples of Aid for Trade in terms of infrastructure and supply capacity, but also implies a strong link between it and the Doha Round. The Concept Paper which the WTO prepared to guide the Task Force on Aid for Trade (WTO 2006) went further, and said that developing countries 'expect Aid-for-Trade to go well beyond the scope of the IF, and help them to cover the costs of implementing WTO Agreements, macroeconomic adjustment, training and institution-building, and supply-side capacity and infrastructure.' Capacity building and infrastructure are familiar terms, but the 'costs' of WTO agreements and contributing to 'the development dimension of the DDA' are less clear. This section will suggest some possible definitions of them. It is not clear whether 'macroeconomic adjustment' is the best description of the type of adjustment which countries are expecting. Lower external income or higher import costs clearly can have macroeconomic costs, as could loss of fiscal revenue. The IMF's scheme, the Trade Integration Mechanism (discussed in part two) focuses on such costs because of the nature of the IMF's mandate. But in trade and normal trade assistance terms, what is required is switching to new types of production or new markets. This is production adjustment or even 'structural' adjustment.

Narrow definitions of Aid for Trade: WTO-related costs

A Implementation of existing commitments under the Doha Round. The July 2004 decision (WTO, 2004) included in the appendix on Trade Facilitation explicit provision for making fulfilment of commitments under this subject to receiving adequate technical and other assistance:

> 'Support and assistance should also be provided to help developing and least-developed countries implement the commitments resulting from the negotiations, in accordance with their nature and scope. In this context, it is recognized that negotiations could lead to certain commitments whose implementation would require support for infrastructure development on the part of some Members. In these limited cases, developed-country Members will make every effort to ensure support and assistance directly related to the nature and scope of the commitments in order to allow implementation. It is understood, however, that in cases where required support and assistance for such infrastructure is not forthcoming, and where a developing or least-developed Member continues to lack the necessary capacity, implementation will not be required. While every effort will be made to ensure the necessary support and assistance, it is understood that the commitments by developed countries to provide such support are not open-ended.'

[2] For all official papers on Aid for Trade, and a bibliography of reports and research on it, see www.odi.org.uk/iedg/aid4trade.html.

Such support is thus a recognised potential cost of a Doha settlement, so there is an obligation on developed countries to provide it or to accept that some developing countries will not be obliged to implement the agreement.

Implementing trade facilitation may be of benefit to a country in the medium term, but it is not necessarily an immediate priority for a cash-constrained government; accepting the commitment is therefore a 'cost' of entering the WTO agreement. It can be argued (and World Bank officials have argued) that meeting WTO related costs is not an appropriate use of official aid money, as it is for the benefit of the WTO system or of more advanced traders, not for the benefit of the developing countries. There are three possible reasons for including it in aid for trade funds, in spite of this: a predictable and enforced system of international rules is a benefit for developing countries; developing countries (even if not necessarily the ones incurring the implementation costs) will get other benefits from a Doha settlement, so these are necessary costs for a development end (just as a road across a coastal country may have developmental benefits for a land locked neighbour); it should be financed as an obligation of the developed members of the WTO, but not necessarily as part of their aid budgets (the precedent of a separate budget line for the EU Action Plan for Sugar or the cohesion objective in Swedish aid).

It is difficult to make estimates of this because the trade facilitation commitments are not yet known. In Table 1, which is intended to present rough estimates for all the Narrow definitions of costs by country, we have not attempted to estimate A. In the summary table, we have used a rough estimate based on figures for one country of the costs of implementing customs reforms plus SPS reforms (not part of trade facilitation, but used to represent all other possible costs) in one country. The total numbers are small, in aid terms, at around US$0.3 billion, and these are once-off, not continuing, costs. If any countries have better estimates, it would be useful to include these. Many countries which are members of regions may be already making reforms of this type, so it is the marginal cost which needs to be included.

B Implementation of the explicit commitments, in the Uruguay Round which were left without an implementing mechanism. This would cover commitments under the Marrakech Declaration for the costs imposed by agricultural liberalisation on Net Food Importing Developing Countries.

On these, there is a clear commitment.

The fact that countries have benefited from the previous, distorted, system of agricultural subsidies and other interventions is not in itself a welfare or development argument for helping them when the distortion is removed, but a shock from a major systemic change to a developing country is a potentially valid use for aid, and helping a country adjust to a long-term sustainable pattern of production and trade in food products is certainly a developmental aim.

For this, we have used the upper and lower bounds from a recent World Bank study (Mitchell, Hoppe, 2006), but clearly these numbers are sensitive to the size and exact composition of the Doha settlement on agriculture. (If reforms are very limited, as proved to be the case in the Uruguay Round, the negative consequences will be equally limited.) The costs are likely to be under US$1 billion (Table 2). These are in principle annual costs. The cost of adjusting to a new pattern of trade is not, however, necessarily directly related to the income lost, and the actual costs will depend also on how well and how fast a country is able to adjust. Subject to the pattern of implementation (any agreements are likely to be phased in), the highest costs, of both higher imports and higher investment in adjustment, are likely to be early in the process, with the cost diminishing over time.

C The costs to developing countries of implementation by other countries of WTO agreements that benefit others: the costs of preference erosion. (Higher food costs are also the result of reforms that benefit others, but they are treated separately because the status of the commitments is different.)

This has been recognised in the July 2004 and Hong Kong declarations as a legitimate concern of the WTO. The first proposal to mention it was the Harbinson proposal on agriculture in 2003 (WTO, 2003), and it suggested dealing with it by maintaining preferences 'to the maximum extent technically feasible'. As many preferences offered 0 tariffs, this would have meant no liberalisation, and was therefore clearly contrary to normal WTO principles and was unacceptable to those seeking liberalisation. Liberalising preferred products by less, by including them in sensitive products, or delaying liberalisation would be less damaging to non-preference-receiving countries, but would still impose costs on some developing countries. These arguments contributed to efforts to identify non-trade solutions, such as A4T.

The welfare or developmental arguments for including or excluding these are the same as for food import costs, and the pattern of costs over time is likely to be similar. Reforming agriculture or lowering tariffs removes distortions which have damaged other economies. That the food importing and preference-dependent countries have been gaining from these distortions can be used as a reason not to give them more special assistance. But the parallel arguments are often rejected within countries, especially when those affected are poor or have the political power to prevent reform. Calling the Round 'development' suggests that some solution should be found for losses to developing countries.

There are many estimates available, with those by the IMF and WTO probably the most consistent across countries and products (see Table 1). Gillson et al. (2004) has more detailed ones for sugar and bananas, and there are others using different methods (papers or lists or numbers available). As with any trade effect estimates, it depends what is taken as the base (in particular the choice between 1995, end-Uruguay Round, or 2005, end-Agreement on Textiles and Clothing, because exemption from MFA quotas was an important preference); what is included (UNCTAD estimates exclude sugar because these effects are the result of domestic support, not tariffs); what liberalisation is assumed; and which effects are included (only the loss of rents from a change in tariff or losses in market share or from price changes as well). As with NFIDCs in the UR, if there is little or no liberalisation, there will be no problem. If all pre-Doha erosion is excluded (in particular, textiles and clothing), the only major losses are in agriculture. There are small potential losses for countries with preferences on textiles and clothing into the EU, but for most these are offset by gains into the US which has excluded these from most preferences. Countries with Free Trade Areas lose, whether these are with developed or other developing countries, but these are not the 'long-standing preferences' which the WTO is committed to take into account, and are not included in our analysis. Previous rounds have not treated members of regions as special cases and members of regions have not made a case for compensation in this Round.

The total estimates from recent WTO studies, including textiles and clothing and sugar, is about US$1.1 billion on current maximum expectations for the Round; taking an upper bound estimate would give a loss of US$ 2.3 billion a year (see Table 1 for a description of calculations).

D Other implementation costs.

The Uruguay Round is believed to have imposed important costs on developing countries, particularly the TRIPS and SPS/TBT agreements. There is no formal WTO commitment to help countries meet these, as there is for Trade Facilitation, but there is the implied commitment from the promise to tackle implementation and from the 'best endeavours' commitments on Technical assistance that were frequent in the Uruguay Round.

The arguments for helping countries to meet these are the same as for Trade Facilitation costs, and, like these, the costs are likely to be small. There have been large estimates for the costs of implementing Uruguay Round commitments, but these have included all costs related to the commitments, not just the legal commitments, and been based on very limited country evidence. Table 2 includes an estimate, also based on very limited information.

This is the only one of the 'narrow' costs for which we have estimates of past aid. A, C, and E will only happen, and their size will only be known, when the Doha Round is completed. No aid seems to have been made for B (NFIDCs). Using the WTO/OECD data base, we estimate spending on Uruguay Round implementation costs at around US$0.4 billion per annum (table 6). Our estimates for the future are lower for D because the Uruguay Round imposed more new types of costs than the Doha Round is likely to require and, of course, because some of the implementation costs will fall under A. Our estimates for A plus D are of the order of US 0.6 billion, so financing at the level seen in recent years for D would cover these.

All narrow costs

This gives a sum for all these costs of US$2 to US$4.2 billion, depending on assumptions. The average of the estimates, US$2.6 billion, is probably too high because the size of a settlement is probably less than these assume. Of these, about US$2 billion are in principle annual costs (from food imports and preference erosion) and US$0.6 billion one-off costs of implementing agreements.

A final cost that is sometimes included is:

E The fiscal costs of liberalising a country's own imports.

The economic justification for this is weaker because this is not a cost to the country, but a transfer from the government to those who buy the imports. Whether or not there is then an adjustment of taxes by which the government recoups the revenue, some groups within the country receive the income that the government loses. It is also a normal part of adjustment to a WTO settlement, not an exceptional one from the introduction of either new rules (A and D) or major reforms to the system (bringing agriculture in and taking preferences out of it, B and C).

We have not included estimates for this because for LDCs the cost would be 0 (they are not expected to reduce their tariffs in this Round) and for most developing countries, of the type expected to be included, the cost will also be 0 (bound tariffs are sufficiently high that any reduction will merely remove some water in the tariffs, not reduce revenue).

Broad definitions of Aid for Trade: Aid to help countries use trade for development

On all these, the developmental case is clear and not at issue: that countries need infrastructure, institutions, technical capacity, investment, etc., in order to trade, both in general and in the specific case of new liberalisation under the WTO. Any funds identified as necessary under B or C could be expected to be spent on activities falling in the 'broad' categories. What is new and controversial is how far the WTO should have a role in this type of aid. One role which it has already had is in shifting aid agencies' attention back to trade after the emphasis on direct poverty reduction in the 1990s. Therefore there will be more Broad aid for trade (at least until the current support for this form of aid wanes), with or without a direct role for the WTO. Support for the Broad categories in total has risen from US$ 11 billion in 2001 to US$ 17 billion in 2004, mainly driven by expenditure in infrastructure.

F Support for conventionally recognised trade capacity building

This includes 'mainstreaming' trade into PRSPs and development plans, assistance in and training for trade negotiations, and other capacity building relevant to trade-related policies. This has been a very conspicuous part of trade-related aid, but in value has been around US$0.2 billion.

G Support for infrastructure, investment, other measures to build supply capacity

Infrastructure may be needed at country or regional level to improve public sector efficiency, to enable investment, by both public and private sectors, and specifically to respond to trading opportunities, whether from the Doha Round or more generally.

There are practical and conceptual difficulties in separating infrastructure that helps trade from other infrastructure, suggesting that if support for Aid for Trade is not to distort development priorities, broad definitions will be required. Aid to support this has increased sharply in recent years, from US$9.2 billion a year to US$14.8 billion by 2004. A closer look at these figures indicates that almost the entire rise in expenditures has been driven by US spending to rebuild Iraqi and Afghanistan infrastructure. However, many donors (bilateral and multilateral) have announced their intention to increase aid for infrastructure.

H Support for institutions that improve capacity to trade

1 at country level
2 at regional and/or other country group level (e.g. regional banks or Advisory Centre on World Trade Law)

This is closely related to capacity building, under F. Aid for this has been about US$ 1.1 billion a year (WTO database), and, like F, has not shown an increase.

I Support for the supply side in the sense of building up private sector enterprise in new export (or import replacing) areas.

This may be what the WTO Concept paper means by supply side. Arguably this is normal adjustment to changes in trade opportunities (or to current opportunities), so it is not either exceptional in scale and type (as the Narrow categories are) or exceptionally concentrated on developing countries (as the Broad categories are). It is not clear that aid to the private sector, picking winners, fits current fashions in aid or development theory. This might, however, be consistent with the support by some donors (notably the US) and some NGOs for involving the private sector in aid.
Infrastructure (G) also, of course, assists the private sector, and this category has moved up with infrastructure, from about US$0.5 billion in 2001 to US$0.9 billion in 2004.

The interaction of Narrow and Broad Aid for Trade

Aid for Trade could cover a combination of Narrow and Broad Aid, i.e. any level of A, B, C, D and/or E plus any or all of F, G, H and I. On our estimates, the new implementation costs (A and D) could be covered by roughly the existing level of resources being allocated to similar costs. The other 'narrow' costs could cost up to US$2 billion a year, which would be an addition to needed spending on 'broad' costs. This is currently about US$17 billion a year. Part three considers whether currently expected increases in aid could finance both this step change and a continuing increase in spending on broad costs, in line with the trends of recent years.

Broad aid can be discussed and implemented without considering the Narrow. The criteria under Narrow, however, can only be used to identify needs for support and, subject to the uncertainties in the estimates, the quantity of support needed. These do not define what the funds would be used for. The criteria under Broad could be used both independently and to define the purposes for which funds allocated under Narrow were used. The way to solve the problems identified under Narrow is to increase capacity. In the event of a failure of the Doha Round, all the Broad needs would remain relevant. Some of the Narrow would cease to be relevant, and the legal or negotiating arguments for the others would also lapse.

There are advantages and disadvantages to treating these separately. Some donors do not view the needs identified under Narrow as directly related to development (because they arise from a trade negotiation, not from a country-based assessment of priorities, as discussed below), so for some, additional aid under these might need to come under a separate budget line. For this purpose, separate calculations of the amounts are needed. Acceptance of a role for the WTO in ensuring that needs are met, both in terms of commitments this year and in implementation in the medium term, may be stronger for the Narrow needs than the Broad, although the Hong Kong declaration covers both. It might, however, be decided to use the Narrow criteria to identify countries in need of extra assistance, not to calculate exact needs, and this would require a coordinated approach. More important, any plan for assisting a country with building trade capacity would need to take account of funds from both types of assessment, and any country will be concerned to ensure that its total receipts are sufficient.

Alternative classifications

The classification suggested here is intended to divide A4T according to the relevance of each type to the WTO and the acceptability of each type by normal aid criteria. The classification in the WTO Concept Paper, as already noted, follows a similar, although less explicit, model. In a summary of the debate on A4T in a World Bank publication, Nielson (2005) suggests that it covers technical assistance and capacity building, both of which would come under F; institutional reform, which would fall under H; infrastructure, G; and adjustment costs. This last is defined as for preference erosion, C, NFIDC, B, and 'major processes of trade reform', and there is some emphasis (p. 331) on loss of revenue, E, and supply in the private sector, I. It does not appear to cover implementation costs, whether for new or old commitments (A or D).

A functional classification suggested by Dominique Njinkeu is:

- Aid for trade policy development and mainstreaming
- Aid for trade capacity building and participation in rules making
- Aid for trade system costs: adjustment and implementation
- Aid for trade-related infrastructure and trade facilitation

The fourth covers all our Broad categories (though as Box 1 argues, aid for private sector development can also include certain types of human resource development) and, depending on whether trade facilitation is used in the technical sense of the WTO or the broader sense of anything that helps countries to trade, could cover one of the Narrow classifications, A. The third covers all our Narrow categories. The first assumes that there is a lack of interest in trade policy, a similar assumption to the basis for the Integrated Framework, which also has this aim. This may be true in some countries, although it was more a problem of the time when the IF was first set up, but it is not clear that there is a lack of interest in those countries where A4T is likely to be requested. It raises the question of whether A4T should be offered to countries which are identified as needing it by some external process or should be added to the types available when countries make their own plans. The second is a very specific type of institution building and could be considered under H. This type of assistance, however, can be very damaging to developing country bargaining if it is too closely related to negotiations. Emphasising the donor-recipient relationship can distort trade negotiations.

Box 1 Aid for private sector development

A different way of looking at aid private sector development (annex 6) is to define this as investment related aid for:

- Infrastructure (as above)
- Macroeconomic stability (economic planning, structural adjustment)
- Legal and policy frameworks (legal policy, trade policy, sectoral policies)
- Private sector support (narrowly defined: business and industry)
- Human resource development (training, stats capacity building, research and science)

The main difference is that it includes traditional Trade Related Assistance and more, e.g. human resource development. As annex 7 shows, the UK spends about US$ 500m annually on this (in their bilateral programmes alone). The EC spends € 7.1bn over 1996-2001, or around € 1.2 bn annually. This will now have increased, in line with trade related assistance generally. As there is overlap with before, we have not added to the broad categories, though the supply side measures in Aid for Trade could in principle cover human resource development (around € 0.2 bn annually by the EC alone, which was around US$ 0.2 bn at the time; the UK spent around US$ 125 m on human resource development in bilateral programmes).

Eligibility criteria

The question of which countries should be eligible for special treatment is sensitive in both aid and trade. The only classification in current use that is the same is Least Developed Countries. This is the determinant of eligibility for the Integrated Framework and is used to offer more special treatment in the WTO both in WTO rules (compliance with TRIPS, lack of obligations to make offers on goods in the Doha Round, etc.) and in WTO-permitted derogations such as preferences. That these countries should be included in A4T is already determined in the Hong Kong statement, and they were all eligible to be included in NFIDCs.

Beyond this, the WTO gives special status in a few agreements to developing countries, and specifies this as a condition for allowing preferences. Although this is conventionally described as 'self-selecting', in practice the list is not open to all: the countries that have always been on it normally remain on it, but can be strongly encouraged to graduate themselves (for example, countries which have joined the EU), and countries joining the WTO have had to negotiate details of their rules, even if they have been allowed to call themselves developing.

While aid agencies can determine their own differentiations among recipients, and define groups, the WTO can only differentiate by consensus of all members, and it is clear that there will be no new general categories adopted in this Round. What has become the practice is to list, either positively or negatively, countries other than LDCs that may be eligible for particular treatment (e.g. the agreement on agricultural subsidies in the Uruguay Round) or excluded from it (e.g. the agreement on importing pharmaceutical products of 2003). In legal terms, any eligibility for A4T specified by the WTO would have to follow this model.[3]

For NFIDCs, there is already a list, although this could be revised once the Doha agricultural settlement is known. It is a simple list, not an assessment of the exact losses of each member, although it was based on such analysis. This could be one model for the other Narrow types of A4T. It might be particularly relevant for preference erosion which shares the characteristics that the effect can be large, by any calculation, but where the numbers are not knowable with any certainty. The list model could also be used for countries likely to be in need of assistance for trade facilitation (A) or other implementation costs (D).[4]

For any cost-based scheme, it would be necessary to ask if it was the costs of a particular problem, total costs, or total net costs that made a country eligible. (A country might suffer a little preference erosion, have some food imports, but have sufficient gains on other products that its net result from a settlement was positive.) The discussion has normally been in terms of total costs, and this is consistent with treating the problem as an exceptional shock, not just a disappointing negotiating outcome, and also consistent with giving the Round a development bias. If any scheme adopted for A4T uses adjustment costs as indicative, rather than as formulae, to determine the quantum of aid, it might not be necessary to agree on the way they were measured. But if it is decided that there must be certainty, then it would be necessary to choose which measure, and whether it was net or total. In either case, some minimum level of loss would need to be set, and some might argue for a maximum level of income per capita or other measure of development.

Alternatively, there has always been the possibility for any country to ask for the application of a particular rule to be postponed (often used, for example, of the rules for customs valuation). The July 2004 agreement suggests a similar model for trade facilitation, by which countries present evidence to an appropriate Committee that they have not had the necessary aid. This would be a more discretionary approach, and might therefore not meet the increased determination by developing countries to have clear and enforceable commitments for Special and Differential treatment. It has been supported by some commentators as a way of introducing a more flexible approach to determining development needs into the rule-based WTO system.

[3] The suggestion by the Appellate Body that preferences could discriminate among developing countries if the categories were clear and relevant also supports the view that *ad hoc* differentiation is emerging in the WTO.

[4] One category implied by the presence of Barbados in the WTO Task Force could be 'small and vulnerable', but if the SVEs really are exceptionally vulnerable, one of the numerical tests of eligibility would presumably ensure that they received support, and this would be more consistent with the trend towards defining particular needs (as in the rules on importing pharmaceuticals).

Identifying countries which need aid to build their general trade capacity and ability to respond to new trade opportunities is likely to need a broader development measure, and could include all developing countries or perhaps all except those who chose to exclude themselves, as in the TRIPS agreement on imports. As some of this assistance is likely to be for international institutions, such as the Advisory Centre on World Trade Law, or to meet regional needs, introducing strictly differentiated eligibility requirements could restrict its usefulness (most regions, whether legal or geographical, include countries at different levels of income).
If the implementation of A4T is through existing programmes, then the rules of each donor and programme will constrain what is offered to whom. As there is a strong argument for accepting that existing systems will work best if they work in their normal mode, and with their normal recipients, this may be effective for those needs and those countries which are covered. But this suggests that there will be a need to identify gaps, and find ways of filling them. It is particularly important that the mechanism agreed for A4T find a credible way of doing this because failure to meet identified needs is one of the major perceived weaknesses of both the WTO's previous relationship to aid (the identification of the NFIDCs in the Uruguay Round) and of the Integrated Framework.

Reconciling Aid for Trade and programmes and principles for Aid

There are three basic problems in the relationship between the need- and purpose- based assessment of Aid for Trade that is presented here and the normal discourse on aid: mobilising sufficient funds, coordinating multiple funds from multiple donors with multiple purposes, and reconciling aid criteria, including local participation in decisions, with ensuring that there is aid directed at specific trade purposes. The first will be discussed in part three.

Reconciling multiple funds from multiple donors each covering some countries and/or some types of spending in order to secure adequate funding for all relevant countries and purposes.
The different purposes and the large scale of what donors are now calling A4T, as well as the unwillingness of both donors and recipients to rely on a single existing institution, suggest that the way in which A4T will work will be mainly through existing funds, multilateral and bilateral. These will be augmented by the new commitments by donors to support aid for trade, and in some cases the changes in scale will require new administration and new types of spending. It is possible that some of the needs identified here will be so far from what donors and their rules of operation recognise as official development assistance that new funds or new sections of funds will be needed. The World Bank, for example, has stated that supporting a Doha outcome is not its responsibility. (The way in which the EC designated a new budget line for its support for ACP sugar producers is discussed in Part 2). This suggests a complex and multi-player mechanism.

Ensuring that some mechanisms are available for all the needs will be the first problem, in 2006. Securing the funds, i.e., ensuring that the commitments are not only made, but credible, will need to be done through the mechanisms each agency or fund uses to set its programme, as it is unlikely that aid agencies will agree to have their funds bound in a WTO agreement or that the WTO will agree to include such binding, but some agency, whether the WTO or a new overriding agency or committee, will need to ensure that such commitments are made.

The WTO or some other agency will then need to monitor the implementation over a medium term period. There are various reporting mechanisms in place, such as the WTO/OECD data base (WTO/OECD 2005) and the country reports on donors by the OECD, on countries which are both donors and recipients through the WTO Trade Policy Reviews and the IMF country reports, and on recipients through the World Bank country programmes. These currently cover some of the information which would be required, and could be extended to include the rest.

The commitment by the WTO and the international financial agencies to ‘coherence’ suggests that reports on both overall results and individual countries could go from all these agencies to the WTO, perhaps through both the Committee on Trade and Development, to monitor total implementation, and the Trade Policy Review mechanism to cover individual countries. In some cases, most obviously for Trade Facilitation, the reports would have a legal WTO function, in determining whether countries needed to comply with the rules.

Reconciling efficient and effective aid administration with ensuring that trade criteria are applied (ensuring that trade is raised from its frequent position as a low priority for conventional aid).

In policy discussions and the literature on aid, there have been conflicts between targeting specific areas for help and taking a broad view of a country’s development process and between donor or internationally determined priorities and country priorities. For example, the recent initiatives to deal with particular illnesses have been criticised for causing major distortions to health and total budgets. A discussion of the positive and negative effects of global health initiatives reveals a concern that global initiatives do not sit easily with existing national programmes. Lele et al. (2005) observe a shift in the focus of global health interventions away from general preventative measures towards the prevention and treatment of specific diseases leading to augmented financial resources to combat specific diseases. For these, there are clear advantages: coordination of aid, development of disease-specific strategies, mobilisation of cutting-edge technical knowledge from diverse sources, increased efforts to address issues of global drugs, promoting global networking among professionals, development of technical guidelines and performance indicators, improved surveillance, support for epidemiological and operational research, and the development of incentive systems. But possible negative impacts include competition among different programmes for the same resources, a lack of effort to develop a single-purpose staff among multipurpose health workers, the failure to integrate the single-disease campaigns into sustainable programmes in developing countries, the fragmentation of multipurpose health services, distorted allocation of scarce human and financial resources, and the lack of evidence of cost effectiveness.

In 2005, aid donors signed up to principles on harmonisation, alignment and ownership and this may have some relevance for the debate. Rogerson (2005) summarises the main elements in the aid effectiveness debate that donors are currently discussing (as part of the agenda set out in Paris and Rome before as:

- *Ownership*, to respect the right – and responsibility – of the partner country itself to establish its development agenda, setting out its own strategies for poverty reduction and growth.
- *Alignment*, align development assistance with the development priorities and results-oriented strategies set out by the partner country and to progressively depend on partner countries own systems.
- *Harmonisation*, to streamline and harmonise donor policies.

These are set out in Chart 1 in Annex 8. But the premise behind any special funds, including the proposals on Aid for Trade, is that there is also a need for mechanisms to ensure that national objectives which are identified outside the narrow focus of poverty-related aid or international obligations are funded.

Each of these points has led to the adoption of a set of objectives and suggested measurable targets and indicators. It has also led to lot of discussions by the major financing and donor agencies. Such discussions do not sit easily with the early debates on aid for vertical funds. In fact the two debates appear separate and often ignore each other.

Indeed, Rogerson (2005) finds that there are systemic flaws in the aid architecture that cannot be remedied by the country-based coordination envisaged in Paris. These include:

- Lack of agreement on whether and how donors should balance aid allocations across countries.
- Lack of a road-map from a top-level commitment to increase aid to more specific commitments, and how this gets allocated to different countries, purposes and agencies.
- The conundrum between on the one hand achieving long-term predictable aid partnerships and on the other having multiple lock-in devices to rescind contracts.

It was then suggested to reserve a portion of all aid in the form of large-scale, long-term recurrent-cost support, linked only to specific sectoral outcomes such as primary education provision.

This has relevance for the debate on aid for vertical funds or specific purposes, and in A4T in particular. On the one hand, current country-based programmes are unlikely to balance aid for vertical funds across countries, but on the other hand the debate on A4T cannot ignore all the developments in the areas of alignment, ownership and harmonisation. At one extreme, vertical funds and/or A4T do not allow country ownership, so questions related to use might be raised. At the other extreme, there may be inappropriate levels of aid to A4T if all is country-based.

There are several voices for and against the use of vertical funds. Those arguing in favour include reasons such as:

- Vertical funds may build up a level of expertise and specialisation and thus create a comparative advantage in an area
- Vertical funds (for instance for research) may benefit from economies of scale
- Vertical funds may be better at co-ordinating at a global level solutions for global problems (co-ordination and harmonisation)
- Vertical funds can ensure that money is effectively distributed to a cause

Arguments against include:

- Possible lack of ownership by receiving country
- Prone to sudden shocks in donor tastes.
- Challenges in aligning vertical funds with country programme (see problems of health funds),

An interesting example of comparative advantage of a global approach to industrial development is contained in Annex 9.

There is additionally a significant level of distrust, occasionally even contempt, between aid and trade agencies and practitioners, with fears by aid agencies that the ability of countries to exert pressure in the WTO could lead to them receiving more than an ‘objectively determined’ share, and by trade people that aid programmes are too focussed on immediate poverty-reduction, and not enough on long-term production and trade (Page 2006)[5]. Although allowing

[5] Hoebink (2005) shows that the share of ‘trade’ in the distribution of programmed resources by the EC under the 9th EDF (in 58 country strategy papers) was a mere 0.1% with structural adjustment, water supply, rural

countries to participate effectively in decisions is clearly an element of any definition of development, including the MDGs, and there now seems to be a turning point in aid priorities, there is an inevitable conflict between a needs-driven and a negotiation-driven approach. Part 2, on experience of existing aid programmes, will attempt to identify models that will allow A4T to solve some of these problems.

Part 2 Summary of relevant precedents

The purpose of this section is to review a number of funds, multilateral and bilateral, general and specific (or 'vertical') trade and non-trade related, that have been created in recent years in order to analyse their advantages and disadvantages, and whether the fund or the experience derived from it can be applied to designing the architecture for Aid for Trade. The information in this section is based on a common set of criteria, including basic facts about the funds as well as their general effectiveness and Relevance to Aid for Trade

This section will summarise the relevance of each fund to Aid for Trade; Annex 3 gives further details[6] based on existing evaluation reports, formal documents and expert opinions.

Multilateral

The **Integrated Framework** is relevant to Aid for Trade because an enhanced IF is considered to be Aid for Trade under the definitions provided by the fund itself. In order to fit the criteria for an Aid for Trade fund as described in this paper, the IF would have to be empowered to provide funding of its own, separate of tying to other lending and aid processes. This has started to a limited extent with the creation of an IF Trust Fund (see below under 'other information'). This is for trade, so it is an example of a trade-specific fund. It is relevant to the Broad types of A4T, but it can only identify needs, through its diagnostic trade integration studies, not meet them. It has not been able to solve the problem identified above of ensuring that the commitment in principle to meet identified needs is translated into actual aid flows. This, in turn, has given rise to criticism that it is highly administration-intensive for little or no return, and reduced the interest of potential recipients in participating in it, thus weakening its status (in aid policy terms) as a country-led programme, based on country's own identification of needs.

Recent attempts to enhance the IF in the context of Aid for Trade have resulted in three broad changes: the establishment of an Integrated Framework Steering Committee and a group to help coordinate donors (the IF Working Group), the establishment of an IF Trust Fund which would give the mechanism its own funding and encouragement of improved coordination amongst donors in trade policy.

LDCs do not want the Integrated Framework extended to non-LDCs because it provides a very limited amount of money. It is not a direct model for Narrow A4T because its main purpose is to identify countries' needs (through the Diagnostic studies), and Narrow needs are already identified. It is unlikely to be a model for Broad because the funding is only sufficient for the studies, not for implementing what the studies recommend. Do non-LDCs need a diagnostic process? There may be elements of its administration which can be copied by the agencies which will need to design programmes to spend the A4T money.

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development and health being major sectors (though infrastructure and regional integration are also important components). This share might be higher in the 10th EDF which is currently being discussed.

[6] We are grateful for advice from Karin Christiansen on this section.

It could be related to A4T: If the DTIS process has already identified projects under IF, then Broad Aid for Trade may be able to start from these. The WTO Concept Paper suggested the IF as a vehicle to access A4T funds.

JITAP is also highly relevant to Aid for Trade, but like the IF it is much smaller in scale. Its size effectively restricts it to small projects, particularly capacity building. The trust fund financial structure could be emulated, though consideration would have to be given to the appropriateness of the Window I and II classifications, and doubts expressed by donors about the practicality of 'scaling up' the IF would apply also to JITAP.

WTO technical assistance is a form of aid for trade, though the initiative has a small budget and is primarily designed to do training type activities. The present structure, based on unbound contributions from member countries could not be massively scaled up and there is no capacity to determine needs for trade related supply side assistance. It would, however, have a direct link to the WTO. It has a direct link with Articles in WTO agreements calling for greater assistance in implementing trade agreements. It has been criticised by recipients because its relationship to the WTO means that it is not able to offer advice on how to minimise compliance with WTO rules.

UNCTAD is the organisation with the longest history of relating trade to development and major current capacity building functions. It may also offer evidence on how to ensure that developing countries participate actively and believe that they are involved in making decisions. All its projects and programmes are strictly related to aid for trade, although the scale of activities mostly depends on external funding. UNCTAD is mainly an implementing agency, so it provides technical cooperation on the basis of projects planned by donors. The main areas of activities are in the trade policy and regulations.

The **International Trade Centre** also has a history of trade related aid. The main areas of intervention are concentrated in the broad categories (especially trade development and business participation into the trading system). ITC has developed a role related to global products and networking of trade support institution that is complementary with the *trade development* TRTA of the bilateral donors who support larger projects in developing and transition economies.

The **Trade Integration Mechanism (TIM)** of the IMF is close to the Aid for Trade concept i its purpose, and type of analysis of needs for adjustment. It was established explicitly to deal with Preference erosion, as implementation of the commitments made by the IMF and the World Bank before and at Cancún (the World Bank has still not followed this up). It is the clearest recognition by an international agency outside the WTO that there is a legitimate aid problem as a consequence of WTO obligations. It is not a good solution for the Narrow needs because it offers loans, not grants. Mitchell, Hoppe (2006) mention the IMF **compensatory financing facility** as another potential source of funds, but this also is loan-based, not grant. But as part of the IMF it can only offer loans.

The **HIPC** initiative is an example of how funds can be allocated to some broad areas (e.g. education, health), but not to specific initiatives. This means that governments have to decide on priorities within these sectors. And even if donors are involved, it is donors at that national level, not externally set priorities. This could still be distorting over time, but reviews are scheduled after 5-10 years, and it is considered less distorting than narrower funds.

The **Standards and Trade Development Facility (STDF) is a**n example of programme (run by the WTO), created to tackle one of the main non tariff barriers to developing countries' access to developed regions' markets: meeting and implementing international sanitary and phytosanitary standards (SPS). This facility explicitly targets D-type adjustment cost, tackled mainly through the provision of technical assistance and related capacity building.

The **Global Environmental Fund (GEF)** is an example of a fund established to meet international objectives outside the normal scope of aid or national programmes, not as a form of aid.

The **Montreal Protocol Fund** is an example of a vertical fund which was established (after widespread consensus about the causes and effects of the issues addressed) to implement an international agreement which imposes obligations on developing countries. As in the case of WTO obligations, these obligations and their costs are external to normal aid criteria and coverage.

Global Fund to Fight Aids, Tuberculosis and Malaria is an example of a fund established because some donors felt that a specific need was not being met as part of normal aid programmes. There is criticism that even where a country had a health plan that was well costed, but not funded, donors came in and over-funded spending on AIDS. Everything else was under-funded. The Global Fund is quite different from other vertical funds reviewed in this section is it disburses money through a competitive proposal process. Those with ideas of efforts that could help to combat the three diseases apply to the Fund's technical panel (composed of health and development experts) and money is released subsequently. The fundraising arm is kept separate from the grant making arm, and money is accepted from private and public sector, as well as civil society organisations.

Global Alliance for Vaccines and Immunisation (GAVI) is an example of a vertical fund established to meet a need identified outside the aid community, but not one that is the result of an international convention.

The Consultative Group on International Agricultural Research (CGIAR) is a research network with very flexible funding for members, as they determine the level of earmarking. It is potentially a pick-and-choose approach to a (research) menu set by the institutions. It is not quite clear how the funding covers all institutes, but it seems there are preferred partners to some.

Regional

A particularly interesting example is the trilateral scheme by the **Inter-American Development** Bank, the UN Economic Commission for Latin America and the Caribbean and the Organization of American States to provide Latin American and Caribbean countries with assistance for negotiations and for regional integration. This was initially only for FTAA negotiations, but has been extended to others. If meeting regional needs is one of the 'gaps' identified, there could be a role for regional organisations. The range of programmes has allowed the IDB to provide support to all the types of trade need identified here, and it is one of the few multilateral donors with a regional focus.

Of bilateral donors, the EU also has a regional focus. In its **Structural Funds, i**ndicators are very broad and do not lead to targeting of aid. Different objectives are assembled in one programme, funded from different sources. This EU type solution can also be seen in other policy areas like development: different, incrementally constructed funds are assembled under one umbrella; while the legal basis cannot be merged due to political log-rolling between member states, the Commission tries to ex post rationalise strategies. EP is another adder-on to the agenda.

In the European **Cohesion Funds**, the funding rules are relatively straight forward, country ownership and planning is required. This might be due to the relatively recent date of establishment. The two original categories (infrastructure and environment) are already added-on to, albeit relatively clearly related to the original two categories.

Bilateral schemes

The EU-ACP Project Management Unit could be a precedent for country by country identification of costs of adjustment to an agreement. It is like the IF, with its DTISs, in identifying needs, but the methods and criteria include some similar to those used by TIM to calculate transition costs of liberalisation. There is no commitment by any donor to supply additional money to meet identified costs, but as the studies are to be completed before the end of the negotiations, countries have the option of not signing an EPA if the costs are too high and are not met. Although it is bilateral and funded by a donor which is also the relevant trader, the organisation has been implemented in a way that ensures that country assessments are not seen by the EC.

The EU **special fund for rum** was intended to help a sector damaged by trade reform in the EU. It was unusual in its direct assistance to the private sector. It attracted a high degree of regional ownership (private sector) and because of this showed some success. It was, however, transitional and ended after the scheme's foreseen time of existence.

The **EU special framework for assistance for bananas** is an example of an assistance programme designed to meet the costs of countries that are damaged by trade reforms which could assist other developing countries. It demonstrates the potential difficulties of choosing the most appropriate means of adjustment. Initially, the Commission specified that funds be used for investments in the affected industry and, later, insisted on diversification. The low share of SFA funds spent on diversification has been raised as an important factor in the low levels of growth experienced in traditional ACP banana-producing countries, despite substantial financing. Support has not been the critical factor in increasing investment in the industry: prospects for market access and prices have been more important determinants. Most of the diversification projects funded under the SFA have been small-scale pilot projects within the agricultural sector. The approach has been rather *ad hoc* and has not addressed the key constraints in the wider business environment (e.g. public sector reform). In designing its sugar Action plan (see below), the Commission and member states explicitly cited the precedent of the banana programme as an example of a badly designed programme. Gillson et al (2004) refers to several critical evaluations. A major failure has been its tendency to support banana production in those countries that have limited potential to become competitive. Several country programmes (e.g. Jamaica and St. Vincent) have used the funds provided to subsidise farmers' operating costs rather than finance new investments hindering efforts to improve competitiveness. Only in some African countries has financing been effective in increasing productivity in the banana industry. This was largely as a result of it being used by multinational companies to complement their own investments (in productive facilities) by funding the development of cableways, drainage and irrigation.

The **EU Action Plan for Sugar**, which from the beginning allowed for adjustment through increasing productivity, finding related production, or a total change in production thus attempted to avoid the problems of the banana scheme. Like the rum and banana schemes, it is an example of aid to provide adjustment assistance for countries which suffer losses because of trade reforms. It is an interesting precedent because it solves the problem that compensating ACP farmers for changes in European sugar policy isn't strictly speaking aid by giving it a separate budget line; it uses grants; it bases eligibility on adjustment need, not on need for infrastructure. What is provided under this will help to meet the costs as calculated here of preference erosion needs, C.

The **Proinvest scheme** for ACP countries provides direct support for the private sector. The mechanism interacts with the private sector. Support may consist of a technical or financial diagnostic study of the enterprise, market surveys, feasibility studies, partner searches, financial forecasts for a project, assistance for project implementation, marketing assistance, training of enterprise staff, training of enterprise management, or other technical assistance. The scheme also finances financial intermediaries.

Other **EU trade-related assistance** is part of regional and country programmes when the EC and the partner countries have decided this as a priority. The ACP programmes (through EDF) tend to be programmes through National (such as Namibia, Kenya, Zambia, Ethiopia, Jamaica, Suriname, DR, Rwanda, Ghana) or Regional Indicative Programme where trade and development or regional integration is a priority, or All-ACP programmes. The interpretation of aid for trade by the EC is a fairly broad one, encompassing assistance to individual companies and institutions but also sectors, national governments and regions.

Trade assistance under USAID is an example of a bilateral programme which has grown as new areas were identified. It has combined general support with specific assistance in taking advantage of US trade programmes such as AGOA. It has there assisted both the public and the private sectors. African private sectors have found it more active and more useful than programmes from other trade partners in helping them to access trade preference schemes. It has provided very extensive support to ministries in their trade work. It is not clear what mechanisms are in place to keep these at arms length from US interests.

The US **Millennium Challenge Account** is a prime example of a growth / trade related vertical fund that has emerged alongside traditional aid (USAID) programmes.

Conclusion on what is covered and lessons from previous experience

This section has covered a number of vertical initiatives, both trade and non-trade related. Funds differ not only in terms of purpose, but also in terms of eligibility criteria and geographic implementation. We summarise this information for trade-related funds in Table 8 in Annex 3. Some funds have emerged out of specific concerns, e.g. the Montreal Protocol to address greenhouse gases, the ACP PMU by the EC to examine the effects of possible EPAs, and the Sugar Action Plan to provide payments to ACP Sugar Protocol countries that need to adjust after sugar sector reform. Others are more general, e.g. the MCC focuses on growth and poverty reduction. This corresponds well to the discussion on A4T, for both narrow and broad interpretation.

There are quite a few funds that address diagnostics of what trade measures are required (IF, part of EC TRA, JITAP, etc.) but far fewer programmes address supply side constraints directly (though the MCC could do some) or implementation costs of Trade agreements (though current WTO assistance might fit with this, and so does the EC Sugar Action Plan for adjustment away from preferences). Thus there are significant gaps that the debate on A4T can address.

The funds have very different ways of operating. Some take time to come to fruition while other can do so more quickly. EC procedures tend to be slow, while bilateral funders tend to be faster. The EC on its turn has much of its TRA integrated in country programmes (through country strategy papers), while for others this seems for less the case (e.g. MCC, GAVI). But the disadvantage of this approach is that it is impossible to secure quick and targeted disbursement for immediate trade or supply needs if developing countries wanted this.

In some instances, vertical funds are well placed to deal with important (global and specific) issues. First, they may help to focus attention to important issues (e.g. the implementation of the Montreal Protocol, or now adjustment to sugar sector reform, and indeed lack of trade support generally). There might be some rigidity and potential distortion of vertical funds, but where an issue has been neglected by donors imposing rigidity and reversing past distortions may be required. In the case of the Montreal Protocol, quick agreement was found to fund a specific problem, the elimination of certain greenhouse gases according to certain timetables.

Secondly, some issues require global coordination and involvement of a pool of expertise. For instance, research (and the CGIARs) is often seen to benefit from economies of scale. UNCTAD relies on expertise in the area of trade negotiations, the Global Fund relies on health expertise to create breakthrough in the area of vaccines. The GAVI approach is helpful in bringing funders and private sector expertise together.

Any conclusions on the merits of different aid architectures must be seen in the context that the most important lesson from work on aid is that good plans and participation by recipient governments are the most important determinants of what works.

It may be that a compromise between special funds and general assistance is to ensure that the special funds have broad aims (e.g. HIPC) and align their rules with the government and with other programmes (e.g. common rules for government procurement). There are high risks and high benefits from budget support.

One example of such a compromise is the **Sector Wide Approach (SWAp).** As reviewed in annex 3, a SWAp is a process where donors give significant funding to a government's comprehensive sector policy and expenditure programme. A SWAp tends to have a joint review mechanism and performance monitoring system relying on the government's own performance assessment framework. It might be a means to ensure increased aid to a sector, improve co-ordination in-country and making aid les fungible by setting clear sectoral programmes but it should not lead to additional administrative requirements.

The SWAp is normally a hybrid of funding forms (Foster and Leahy, 2001). At one extreme it involves sector budget support when implementation and accountability concerns are being met, but where weaknesses exist financing may be more mixed in the form of funds earmarked for specific purposes or project support (see table 23 for issues related to different aid instruments) and some of this could come from vertical funds. In practice, sector programmes (and thus SWAps) have centred around lead implementation ministries, while it has been more difficult to fund activities that involve other ministries, or NGOs and the private sector. This has implications for the debate on Aid for Trade, where the narrow interpretation might be more suited to a SWAp (e.g. a trade-related SWAp), while the broad interpretation would need several SWAps.

It is hard to assess the possibility of adopting a SWAp to A4T. The major obstacle to that is inherent into the definition of A4T. A broad definition of A4T leads has the challenge that it includes too many things: capacity building, infrastructure, private sector development, etc. (it may encompass all other programmes), so that the scope is too broad to fit within one SWAp (an alternative is budget support).

If A4T is considered in the strictly trade-related sense (first two categories of WTO database), there may be more scope for a SWAp. The advantage of the trade sector is that the potential group of direct beneficiaries to be involved in the design and implementation of a SWAp would be more restricted than in other sectors adopting SWAps, such as health and education (where indications are that the involvement of direct beneficiaries – civil society as a whole – has been fairly disappointing).

Part 3 Scale of funds available and required

The scales of both the needs and the new funds are still being calculated. On our calculation, new implementation needs (A and D) are likely to require about the same financing as past implementation needs. The costs of NFIDCs and preference erosion (B and C) on realistic expectations for the outcome of the Round are at most US$1 billion each (see Part 1). The value of current trade assistance excluding the equivalent of implementation costs was about US$17 billion in 2004, and had risen by US$6 billion in the three years from 2001, although a substantial part (about US$ 3 billion) of this increase comes from US infrastructure spending in the rebuilding of Iraq and Afghanistan. The WTO concept paper suggests that the target is an extra US$2 billion by 2007 'rising to US$5-6 billion by 2010', such that trade-related aid would receive about 10% of the pledged additional aid of US$50 billion.

It is worth analysing past spending on aid for trade (here calculated as spending on trade policy, trade development and infrastructure) in more detail. First, as different needs require different modes of assistance (see more on this in part 4) we describe the type of flows (i.e. grants versus loans) through which trade related aid has been channelled so far. Second, we analyse the relative contribution of individual donors to global aid for trade and the structure of this type of assistance. This helps to assess whether certain donors spend relatively more on aid for trade. Finally, we describe the allocation of aid for trade among receiving countries, in order to spot those countries and regions which have benefited from trade related assistance in the past.

Annex 4 describes whether aid for trade is through grants or loans. Most aid for both Trade Policy and Regulation and Trade Development categories has been channelled through grants over the period 2001-04 (Table 9 and 10). Around 92% of US$ 3 billion spent on the former category and 85% of US$ 6.9 billion spent on the latter category were channelled as grants by the donors. As expected, the situation is different for infrastructure aid, most of which has come about in the form of loan rather than grant (Table 11). Using the matching procedure between categories as in Part 1, Table 12 shows that the grant component dominates aid in the narrow categories, while the loan part is slightly more important for the broad categories. Such prevalence of grant over loan in the narrow categories may be viewed as a sign of donors' willingness to interpret this part of aid as covering pure costs, from which recipient countries do not gain in net terms. This point will be taken on further in part 4.

Annex 5 reports the geographic analysis of past aid for trade (by donor and recipient countries). All major donors have either maintained or increased their spending on trade related assistance over time (Table 13). The United States registered a major increase (entirely explained by infrastructure spending in Iraq and Afghanistan), which has made them the country with the highest contribution in aid for trade in 2004. France, Denmark, Australia and Belgium have also increased their spending. Japan has been the largest donor over 2001-04, mainly due to its large assistance in infrastructure investments. The EC is the largest donor in the categories more strictly related to trade (Trade Policy and Regulation and Trade Development), with a relatively lower spending on infrastructure (though the level of aid for infrastructure is still high).

We assess the extent to which countries are specialised in aid for trade by constructing an index of specialisation amongst all major aid donors. The index is the ratio of the share of a country to total aid for trade and the share of the country in total Official Development Assistance (ODA). A value of the index greater than one indicates that the donor is spending proportionally more on aid for trade. Tables 14 shows that the EC and Japan have had a relative specialisation in aid for trade over the period 2001-04, although this specialisation has been declining. The value for the EC is mainly driven by expenditure on trade policy and regulation and trade development, while Japan's value is the result of the focus on infrastructure in its development assistance strategy. The US has an index greater than 1 only in 2004, because of the shock in its aid pattern mentioned above. All other donors are spending relatively little on trade related assistance, with UK, Canada, France and Italy at the bottom of the list.

Relatively high spending on aid for trade by the major donors causes a high level of concentration of funding relatively to the ODA sector. As Table 15 shows, both the Herfindhal index[7] and the share of spending of the major three donors are higher in the trade related assistance sub-sector than in the general ODA sector.

A description of aid by recipient (in Table 16) shows that the funds are fairly equally spread across regions, with all Asian regions (Far East, South and Central Asia and Middle East) all receiving over US$3 billion in 2004, as does Sub-Saharan Africa. Slightly less goes to Europe (US$ 2 billion), while less than one billion is spent in North Africa, the Americas and Oceania. The largest recipient countries were Asian countries: Vietnam, India, Indonesia and China.[8] The first sub-Saharan country, Ethiopia is in the 12th position, confirming a different (less trade related) model of development assistance for Sub-Saharan Africa compared to Asia.

Table 17 confirms this finding by regional indices of relative specialisation in aid for trade (obtained as for the donors' index above). The results show that Europe and the Far East are the regions with the highest level of trade related aid relative to the total aid they receive, while sub-Saharan Africa, the Middle East and South America have the lowest values of the index.

Finally, we discuss aid by income group. As reported in Table 18, Low-Middle Income countries (LMIs) and non-LDC low income countries (OLICs) have received the highest share of trade related funds over 2001-04. This result is in line with the analysis of spending relative to total ODA, which shows that LDCs (and Upper-Middle Income countries) receive a lower level of spending in trade-related assistance relative to total aid than LMIs and OLICs (Table 19). Such figure may be a cause of concern to the extent that LDCs face the high costs in the trade integration process.

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[7] The Herfindhal index of concentration is calculated as the sum of the squares of each country's share in total aid for trade (ODA).

[8] In this analysis we do not take into account Iraq and Afghanistan as the very large trade related aid flowing into the countries is driven by a specific non-development related shock.

In the second half of 2005, including at Hong Kong, increases in trade-related aid were announced by several donors (Table 20). They would cover the costs of the Round (B and C) plus a continuing increase in broad aid for trade, if they are additional to the 2004 levels of spending. They would not, however, represent an acceleration of recent spending on trade aid.

Part 4 Implications for an Architecture for Aid for Trade

The examination of existing programmes in Part 2 and the discussion of how trade-related aid has increased in recent years in Part 1 demonstrates that there is no need to design Aid for Trade from scratch. Existing mechanisms have been able to sustain an increase of US$6 billion in trade-related aid (broadly defined) in four years, and there is no reason to believe that they cannot manage a further, similar increase. But the analysis suggests that some types of need are not being well met. While there is reasonable capacity to determine new types of need, the means for translating these assessments into new financing are less satisfactory. It also suggests that there are very different types of need, and, on the basis of both analysis of institutions and the precedents in aid, these are likely to require different types of organisations and programmes to meet them. Some needs are small and easily defined (for example: assessments of new circumstances or institutional reform to meet particular implementation needs, often to a deadline). These require an organisation able to offer quick disbursement, probably with a minimum of conditionality or planning. Others require longer term and more considered programmes, to ensure that building the supply capacity to trade is well integrated into a country's (and perhaps a region's) development programme. This contrast is not an inconsistency, and there are examples of successful programmes of both types. As discussed at the end of section 2, SWAps are a potential means through which different types of projects, programmes and sector support can be aligned with a Government's comprehensive sector policy and expenditure programme on trade-related assistance and other areas of A4T while making aid less fungible, though lessons need to be learned from existing SWAPs. In particular, it has not been straightforward to fund SWAps outside the social sectors or those that involve various types of actors (beyond government, which is possible in the case of private sector development) and more than one ministry (which is also possible, particularly in the agriculture and services sectors).

There is, however, another difference which does present potential conflicts. That is between seeing aid as a means of providing general support for all of a country's needs, with choices made within this by the country or donor in response to its own identification of priorities, suitable for that country at a particular time, and the premise behind both the donor commitments of increased trade related aid and the inclusion of paragraph 57 in the Hong Kong declaration, that there has been insufficient aid for trade, not just because of general constraints, but because it has had too low a priority in donor and country programmes. The vertical funds for environment, health, and other needs discussed in Part 2 show that trade is not the only area where those outside the aid process have identified a need for more aid, and show both the advantages and the disadvantages of solving the problem by providing finance 'tied' to a particular subject. There is increased knowledge; clear identification of needs; concentration of resources; but also distortion and negative effects on other programmes. There is now an additional problem: once some vertical funds exist, there is an argument that other general needs need their own vertical fund in order to avoid being 'crowded out' by the subjects which have their own facilities.

The fact that trade-related aid has increased in recent years, without a 'Global Trade Fund' suggests that normal, horizontal, donors agree that there is a need to spend more on trade, and perhaps that a specific 'trade' fund is not needed, but the history of aid flows shifting from one priority to another suggests that those who support more aid for trade may justifiably feel a need to ensure that the increased shares to trade are sustained. The commitment in the WTO declaration and the identification of increased costs that countries will face because of new WTO commitments also suggest that some formal way of guaranteeing a continued priority for trade needs to be found. WTO member countries will not forget the problem that the World Bank, although now showing interest in Aid for Trade, retreated from its pre-Cancún commitment (statement with IMF, 2003), and rejected the Geneva support for a new initiative in its paper of September 2005 (appendix to committee report is not accepted in the report, IMF, World Bank, 2005). At Hong Kong it stated that (Leipziger in WTO 2005) the 'Bank and Fund also plan to further assess the nature and magnitude of adjustment needs of countries facing external shocks associated with multilateral liberalization. We stand ready to coordinate with other donors to bring complementary packages of assistance, in the form of grants or loans as appropriate in these cases'. This implies that they want a coordinating role, but won't deal with adjustment themselves.

There are two elements in the needs for Aid for Trade identified here that could require some form of guarantee, or legal commitment, plus continuing monitoring, additional to the informal donor-by-donor commitments already recorded. The first is that some countries will face exceptionally high costs (in relation to their economies) from the implementation of any reasonably ambitions agreement. These are what we have called the 'narrow' needs. The experience since the Uruguay Round shows that while small costs, particularly those easily tied to a need for specific spending (customs rules, for example) did attract additional aid, those which require a macroeconomic approach both to calculate them and to find a way of meeting them (adjustment needs following on the terms of trade change in agriculture) were left to one side. It is not possible to argue that this is simply because they were too small: they may have been small, but no calculations of need were done, in either the WTO or aid contexts. Some donors even question whether either type of implementation cost should receive aid money if it is imposed by external commitments, not derived from a country's own development programme. [9]

The second is the growth in 'broad' aid for trade: how to ensure that the increase which has occurred in the last 5 years will in fact be repeated, as the pledges made in 2005 promised? The increase in the past has been the result of changes in individual programmes, although responding to a general increase in interest in trade. Will this continue, or, if other interests emerge, will trade fall back into neglect? A case in point is the large increase in infrastructure expenditure between 2003 and 2004 (see Table 6 – category G), which has been entirely driven by US foreign policy interests in rebuilding Iraq and Afghanistan.

The first problem suggests that there may be a need for new funds, with new criteria, either as designated parts of individual donors' programmes (the EU Action Plan for Sugar, for example) or in a new multilateral form (HIPC, the vertical funds in health). In addition, or possibly as an alternative, there may be a need for a new assessment process (like the IF for trade in PRSPs, TIM for balance of payments costs or the EU-ACP assessment of the costs of EPAs) to provide an agreed definition and calculation of macroeconomic adjustment needs. The IF precedent suggests that an assessment process divorced from any commitment to provide finance can be inadequate and disappointing. TIM provides both assessment and funding, although it then offers loans not grants. The EPA assessments are coming before

[9] This suggests a limited view of what a country's programme should include, as accepting an external obligation in implicit or explicit return for other benefits from the international trading system could be considered a proper decision for a country to make, not one to be questioned by a donor.

binding trade commitments, not after as is suggested for Aid for Trade, so countries retain a choice if the costs are too high.

There is an additional reason for believing that a special fund or special terms within normal funds may be needed. Although any financing provided on the basis of B and C, the adjustment costs of trade liberalisation, could be used for purposes and in countries that might normally expect loan, not grant terms, the fact that countries need this additional finance for reasons of benefit to others and as a replacement for previous transfers suggests that there is a need for this to be on concessional terms. Paragraph 57 suggests that Aid for Trade should be 'where appropriate through grants or concessional loans'. The 'narrow needs' are all additional costs imposed on countries by changes in the international trading system, not investments which can be expected to have a long-term return, permitting the servicing of a debt. In the case of B and C (NFIDCs and preference erosion), the 'cost' is the loss of a *de facto* transfer payment. For these, both equity (the countries themselves do not gain from the cost) and financial considerations (there is no identifiable return) suggest that the financing should be on grant terms for any developing country incurring significant costs. The 'broad needs' are for funding to enable a country to trade (or produce) more or more efficiently. For some, for example assistance to private sector production or infrastructure of a type which can recover its costs, there may be a clear source of returns to repay a loan. For others, for example assistance to government capacity to negotiate or to build new institutions, there can be expected to be a return to the country as a whole, but not an identified income stream. For these, whether loans or grants are appropriate should be decided in the context of normal aid criteria. It will depend on the income level of the country and on the use of the funds.

Both these problems suggest that there is a need for a new way to monitor both the overall supply of funds and their allocation to countries' needs to ensure that the new types of need are appropriately met and that the overall allocation to trade remains high and growing. Paragraph 57 has a role for the Task Force, in making recommendations, and for the Director General, in consulting other organisations and reporting on appropriate mechanisms. The Task Force presumably should recommend on which mechanisms, existing or new, are needed, and might want to consider particularly the question of how to 'operationalise' A4T as a programme which would take notice of WTO concerns after this year. These roles for the Director General and the Task Force seem to go beyond the suggestion in the Concept paper that the 'main role the WTO can play this year is one of advocacy'.

Now that the WTO has accepted that meeting the costs of adjustment and providing for what countries 'need to assist them to implement and benefit from WTO Agreements' are legitimate concerns for it, it will need to take responsibility for identifying the procedures that will be needed and 'ensuring' that all of them take place. Some are required in 2006 to set out the programmes; some in subsequent years to implement them. For this, it could be suggested that the Task Force could make recommendations first on what actions by aid agencies to commit adequate funds on the appropriate terms over the medium term would be needed by the time a Doha settlement is signed and second on mechanisms to review commitments regularly.

The WTO Concept paper identified the priorities for A4T as: 'The question that needs to be answered early on in order to design the deliverable for the end of the Round is how additional Aid-for-Trade will be raised, managed and disbursed.' To some extent, these are more questions for the donors who will have to provide the money and then administer it than for the WTO process, while the WTO process needs to ensure that this happens. But it could also identify some priorities, from the point of view of the trading system and the trading needs of its developing country members. As in any priority setting, there is always the risk that what is immediately needed will take precedence over what is more fundamentally necessary for development, but it may be possible to set some minimum requirements under each type of assistance that is identified as appropriate, with priorities above this to be determined by other processes. Possible considerations might include identifying those areas where there is no or inadequate current funding, those where the needs are largest, and those countries where the needs seemed greatest.

The WTO could check that donors had committed ('bound' in trade terms) the funds which they have announced, in terms of the rules of each agency. This needs to be completed by 2006 and to be sufficiently credible that countries can take on WTO-bound commitments with confidence that their needs for aid will be met. This might be a role for the Task Force. In subsequent years, the WTO will need to monitor that the commitments are kept. For this, it could use both the WTO/OECD database and the donor reports by the OECD. It will also need to ensure that the individual needs of particular countries are met. This requires country-level analysis, and may suggest a greater weight and greater frequency for Trade Policy Reviews, with input from the country reports of the World Bank and IMF.

The coverage of the TPR has expanded since it was first introduced during the Uruguay Round in order to include new commitments as they are introduced into the WTO (for example, on standards), so it would be normal for it to introduce coverage of Aid For Trade once this is adopted as part of a Doha settlement. It is the responsibility of the WTO Secretariat to gather data: these could include information from the country and from the IMF and World Bank on the volume and type of aid flows related to trade, as well as information from the country on progress made towards adjustment to changes as a result of the Doha Round. This might require some additional resources and types of expertise for the TPR division.

It is not the function of the TPR to determine compliance with WTO commitments (whether by the country being reviewed or by any donors which may have made commitments to it), but it is its function to provide the information on which such judgements can be made. A country being reviewed could use its response to the Secretariat report to draw attention to any gaps in funding relative to what it had anticipated, and, if appropriate, relative to what had been identified as necessary for it to comply with WTO requirements on Trade Facilitation. This would then be discussed by the Trade Policy Review Body (equivalent to the General Council, but meeting to discuss a TPR).

The Committee on Trade and Development might need to ask the Secretariat to include in its annual report on trade a chapter on the level, direction, and types of trade-related aid. This would allow the CTD or the General Council to discuss whether the aid was sufficient and appropriate to meet the commitments which the WTO should secure during 2006.

If countries and the international agencies are all committed to a coherent international system, finding a way for the World Trade Organization to monitor the contribution of aid to the trading system, which will promote greater trade, and which in turn is regarded as an important contribution to development should not be rejected as 'trade ministers interfering in aid'.

Annex 1 Estimates of future needs for Aid for Trade

Table 1 Estimated costs by country of agricultural liberalisation and preference erosion

All figures in $ US million	B) NFIDCs	C) Pref Erosion NAMA – WTO est.	C) Pref Erosion Agriculture – WTO est.	C) Total Pref. Erosion – lower bound	Banana & sugar Pref. Erosion - high lib.	Pref Erosion (IMF estimates)	C) Total Pref. erosion – upper bound
		Low et al. (2005)	Low et al.(2006)	Low et al (2005); Low et al. (2006)	Gillson et al. (2004)	IMF (2003) & Alexandraki et al. (2004)	All sources
LDC	All						
Angola	x	0.3	0	0.3		21.1	21.1
Bangladesh	x	61.6	0.1	61.7		222.4	222.4
Benin	x			0		0.3	0.3
Burkina Faso	x		1.6	1.6		0.3	1.6
Burundi	x			0		1	1
Cambodia	x	18.8		18.8		53.6	53.6
Cape Verde	x			0		0.9	0.9
Central African Republic	x			0		0.7	0.7
Chad	x			0		0.1	0.1
Comoros	x			0		0.3	0.3
Congo, Dem. Rep.	x		0.1	0.1	0.7	0.8	0.8
Equatorial Guinea	x			0		1.3	1.3
Ethiopia	x			0		15.4	15.4
Gambia, The	x			0		0.3	0.3
Guinea	x	0.2		0.2		1.6	1.6
Guinea Bissau	x			0		0.2	0.2
Haiti	x	21.7		21.7		3.9	21.7
Lesotho	x	30.1		30.1			30.1
Liberia	x			0		3.4	3.4
Madagascar	x	19.1		19.1	5.6	8.6	19.1
Malawi	x	2	0.8	2.8	13.9	48.6	48.6
Maldives	x			0		2.8	2.8
Mali	x			0		0.1	0.1
Mauritania	x	1.7		1.7		40.4	40.4
Mozambique	x	5.5		5.5		5.7	5.7
Myanmar	x	8.3		8.3		2.2	8.3
Nepal	x			0		17.8	17.8
S T and P	x			0		1.1	1.1
Senegal	x	3.6	0.5	4.1		23.6	23.6
Sierra Leone	x	0.2		0.2		2.5	2.5
Solomon Islands	x	0.1		0.1		2.5	2.5
Sudan	x			0		6.9	6.9
Tanzania	x	1.2	1.4	2.6	5	28.9	28.9
Togo	x	0.2	0.1	0.3		1.3	1.3
Uganda	x	0.7	0.5	1.2		9.1	9.1
Vanuatu	x			0		1.9	1.9
Zambia	x	0		0	5.5		5.5
Total LDCs		**175.3**	**5.1**	**180.4**	**30.7**	**531.6**	**602.9**
Other							
Albania		1.2		1.2		10	10
Barbados	x	0.1	1.2	1.3	18.4		18.4
Belize		0.7	9.5	10.2	32.7	18	32.7

All figures in $ US million	B) NFIDCs	C) Pref Erosion NAMA – WTO est.	C) Pref Erosion Agriculture – WTO est.	C) Total Pref. Erosion – lower bound	Banana & sugar Pref. Erosion - high lib.	Pref Erosion (IMF estimates)	c) Total Pref. erosion – upper bound
Bolivia			0.7	0.7			0.7
Botswana,	x	0.8	5.8	6.6			6.6
Cameroon		1	29.8	30.8			30.8
C d'Ivoire	x	25.3	22.1	47.4	3.7	69	69
Cuba	x			0			0
Dominica	x		1	1	14.6	2	14.6
Dom Rep	x	139.2	21	160.2		100	160.2
Egypt	x		1.4	1.4			1.4
El Salvador		110.5	2.5	113			113
Fiji			6.7	6.7	55.5	41	55.5
Ghana			0.6	0.6			0.6
Guatemala		141.7	1.9	143.6			143.6
Guyana			6.6	6.6	69.3	41	69.3
Honduras	x	167		167			167
Jamaica	x	6.4	8.5	14.9	80.5	46	80.5
Jordan	x			0			0
Kenya	x	14	5.8	19.8	1.3		19.8
Mauritius	x	31	23.4	54.4	205.6	201	205.6
Morocco	x			0		152	152
Namibia	x	10.7	6.5	17.2			17.2
Nicaragua		31	1.2	32.2			32.2
Nigeria		1.3	0.1	1.4			1.4
Pakistan	x		2.7	2.7			2.7
Papua			4.9	4.9			4.9
Peru	x		8.4	8.4			8.4
Serbia and M				0		45	45
Seychelles				0		10	10
Sri Lanka	x		0.1	0.1			0.1
St K and N	x		0.5	0.5		3	3
St Lucia	x	0.3	3.1	3.4	30.5	4	30.5
St V and the Gren			1.9	1.9	22	5	22
Swaziland		11.9	5.6	17.5	41.1	21	41.1
T&t	x		1.8	1.8	16.7		16.7
Tunisia	x			0		146	146
Venezuela	x	3.7	0.5	4.2			4.2
Zimbabwe		1.9	3	4.9	22.7		22.7
Total Others		**699.7**	**188.8**	**888.5**	**614.6**	**914**	**1759.4**
Total Costs	**329<X<1236**	**875**	**193.9**	**1068.9**	**645.3**	**1445.6**	**2362.3**

Total Pref Erosion lower bound	**1,069**	Cumulative value of countries' estimates from Low et al. (2005) and Low et al. (2006)
Total Pref Erosion upper bound	**2,362**	Obtained by using the highest estimates for each country among the lower bound estimate, Gillson et al., IMF and Alexandraki and Lankes.
Total of implementing WTO - upper bound	**305**	Average between method using fixed cost of implementation (7 mn) times 60 countries and method using percentage (10% - calculated on Jamaica) of total pref erosion cost -upper bound
Total of implementing WTO - lower bound	**279**	Average between method using fixed cost of implementation (7 mn) times 60 countries and method using percentage (10% - calculated on Jamaica) of total pref erosion cost -lower bound
Total for NFIDCs - upper bound	**1236**	
Total for NFIDCs - lower bound	**329**	

Table 2 Estimated narrow total costs of implementing the Doha Round (US$ million)

	Upper Bound	*Lower Bound*	*Estimate*
A) Implementing existing WTO commitments	305	279	300
B) NFIDCs costs	1,236	329	800
C) Preference Erosion	2,362	1,069	1,150
D) Implementation of TRIPS TRIMS etc.	348	318	350
Total NARROW (A+B+C+D)	**4,251**	**1,995**	**2,600**

Note: based on 2003 data– different sources (see below). A and D are costs to be faced once. Estimation of B and C refers to costs potentially faced as if a country fully implemented the Doha Round.

How these figures have been calculated:

Point A – The only estimates for this come from a calculation for Jamaica made by Hoekman et al. (2002), quoted in Kleen and Page (2004), p. 35. They calculate that the cost of implementing SPS measures and new rules on customs would amount to about US$ 7 million in Jamaica. Starting from this figure, we adopt a combined method in order to get a rough estimate of the cost for all developing countries. Firstly, we consider the total cost for developing countries by multiplying the 7 million by the number of the main developing countries (i.e.: 60). Then, given the fact that this type of cost is not completely fixed (there may be a variable part related to the size of a country's general adjustment following the implementation of DDA), we also calculate the ratio of this cost (7 million) to the estimated preference erosion costs for Jamaica (about 10%) and apply it to all developing countries (using the upper and lower bounds of the preference erosion estimation – see below). We then take the average between these two calculations and get the upper and lower bound figure.

Point B – take the upper and lower bound from Mitchell and Hoppe (2006) reporting the results from studies which use different assumptions.

Point C – lower bound obtained by adding two sets of estimates from WTO studies: Low et al. (2005) estimation of costs for non-agricultural products due to preference erosion and Low et al. (2006) estimation of costs for agriculture products due to preference erosion. The upper bound is obtained including additional estimates by using the highest estimates for each country among the lower bound estimate, Gillson et al. (2004), IMF (2003) and Alexandraki and Lankes (2004).

It is clear that different assumptions (regarding the liberalisation process and the methods of calculation) produce different rankings of losers (and gainers). Our central estimates are mainly based on WTO studies, as they employ the most up-to-date methodology in terms of the assumptions about what may be in the settlement. An important part of that methodology is related to the adjustment of preference margin for competition and for utilisation rates (where available). The first type of adjustment accounts for the competition effect deriving from other exporters benefiting from the same preferential scheme or other forms of preferences implying that estimates will be lower than those that do not take such competition into account. The latter type of adjustment considers the actual rate of utilisation of preference by exporters from developing countries (which can be low). This adjustment is computed only for non-agricultural products access to the US market.

The IMF estimates are not comparable to the WTO estimates as they use different methodologies, so some caution is required in comparing estimates.

Note that all estimates are based on partial information and static calculation, thus they are subject to various kinds of biases. One such bias is due to the fact that we do not know the share of benefits of preferences which accrue to the exporter (this share is likely to be less than the 100% assumed by the studies – see e.g. the sugar cases). Another problem relates to the actual utilisation rates of preferences, whose information is available only for non-agricultural products access to the US market. Other issues are due to the lack of consideration of elasticities of substitution and of dynamic interaction.

Point D – here again the only estimations of these costs are provided by Hoekman et al. (2002) – which calculate US$ 6 million. For TRIPS related implementation for Jamaica – and by Mattoo (2005) on the cost of an OECS telecommunications regulatory authority. The total cost of US$ 8 million is then compared to the 7 million of point A and proportionately scaled up.

Annex 2 Estimates of past spending on trade-related aid

Aid for trade activities as defined by the WTO/OECD trade related and capacity building database (WTO database henceforth), have been rising at increasing rates over the 2001-04 period from US$ 11.2 billion to US$ 17.4 billion, with an increasing contribution of infrastructure related activities. (Infrastructure includes activities in the communication, transport and energy sectors. The accuracy of this analysis is limited by the usual problem of classifying projects that have broad scope and aims as trade related activities.) The WTO data base classifies trade-related aid into 3 categories (table 3); we use the details in the data base (tables 4 and 5) to reclassify the data into our classifications (table 6) with the aim of assessing the relative importance that donors and countries have attributed to narrow and broad categories, and within those categories understanding what activities donors have been concentrating their assistance on.

Table 3 TRTA and Capacity Building - share by WTO/OECD category (% and US$ 000)

	2001	*2002*	*2003*	*2004*
Trade Policy and Regulations	6%	6%	7%	5%
Trade Development	13%	13%	18%	10%
Infrastructure	82%	82%	74%	85%
TOTAL	**11,214,732**	**11,312,734**	**12,524,404**	**17,372,650**

Source: WTO/OECD database

The categories of the WTO database with their definition, description and examples of projects included (as from WTO website) are reported in table 8. A couple of notes of caution are in order: first, the classification of the activities into categories is performed by the donors according to their interpretation of categories that are not always clearly defined, thus the interpretation is not necessarily homogenous across donors; second, for those projects, which include some non-trade related activities, donors do not always separate out the trade related part of the project, therefore overstating the actual size of aid for trade.

Table 4 reports the evolution of the composition of the Trade Policy and Regulation (TP&R) category, and translates the components into our classification. *Trade Facilitation, Trade Mainstreaming in PRSPs/development Plans* and *Regional Trade Agreements* sub-categories represent over 50% of the total funds allocated to the TP&R category.

Table 4 Trade Policy and Regulation - share by sub-category (%)

	2001	*2002*	*2003*	*2004*	*Our Category*
Dispute Settlement	0.5	0.4	0.4	0.2	D
Customs Valuation	0.6	2.5	1.9	5.4	D
Technical Barriers to Trade	4.4	4.2	6.4	5.1	H
Sanitary and Phytosanitary Measures	15.2	5.2	6.8	3.1	D
Trade Mainstreaming in PRSPs/dev. plans	18.8	11.1	15.3	15.3	F
Trade-Related Intellectual Property Rights	2.0	1.4	1.4	1.6	D
Agriculture	1.6	0.6	1.0	1.6	I
Services	0.7	2.7	0.6	0.5	I
Tariff Negotiations - NAMA	1.0	0.5	0.3	0.3	F
Rules	1.5	0.4	0.1	0.2	F
Trade and Environment	12.8	5.0	3.0	3.4	F
Trade and Investment	1.4	1.8	0.8	0.2	G
Trade and Competition	6.3	4.8	3.0	4.7	G
Trade Facilitation	15.5	20.4	28.3	40.6	D
Transparency and Government Procurement	0.3	0.4	0.8	0.9	F
Accession	2.0	3.8	2.9	1.0	D
Tariff Reforms	0.0	0.0	0.1	0.1	D
Trade-Related Training Education	5.6	8.7	7.8	3.8	F
Negotiation Training	1.3	1.3	1.3	0.1	F
Regional Trade Agreements (RTAs)	8.6	24.8	17.9	11.8	H
Trade Policy and Regulations	**100.0**	**100.0**	**100.0**	**100.0**	

Source: WTO/OECD database

Table 5 shows the allocation of trade development funds, which is dominated by Trade Finance, Trade Promotion and Business Support categories.

Table 5 Trade Development - share by sub-category (%)

	2001	*2002*	*2003*	*2004*	*Our Category*
Trade Promotion Strategy Design and Implementation	16.2	22.1	33.3	37.3	I
Market Analysis and Development	17.6	24.3	24.8	10.6	I
Business Support Services and Institutions	35.0	24.0	18.4	21.9	H
Public-Private Sector Networking	1.9	3.6	5.2	3.8	H
E-commerce	0.1	2.6	1.4	3.0	H
Trade Finance	29.1	23.5	16.9	23.3	H
Trade Development	**100.0**	**100.0**	**100.0**	**100.0**	

Source: WTO/OECD database

Table 6 presents the WTO data according to our classification.

Table 6 Narrow and Broad categories (US$ 000)

Category	*2001*	*2002*	*2003*	*2004*
D	232,470	222,127	388,248	421,199
Total Narrow	**232,470**	**222,127**	**388,248**	**421,199**
F	268,136	179,888	265,474	194,731
G	9,196,584	9,270,297	9,366,025	14,842,632
H	1,021,976	957,172	1,174,338	1,054,434
I	495,566	683,250	1,330,319	859,654
Total Broad	**10,982,262**	**11,090,607**	**12,136,156**	**16,951,451**

Source: WTO/OECD database

In general, trade related activities as classified by WTO/OECD appear to fall into both narrow and broad categories: direct costs of implementation of WTO commitments (narrow category D) and broad support to enhance developing countries capacity to reap the benefits of trade integration (broad categories F-I). According to our interpretation of WTO classification, the funds allocated to cover the adjustment costs of WTO implementation in 2004 were in excess of US$ 400 million. Considering that according to our estimations, these one-off costs (A+D) should be in the order of US$ 600-700 million, there should be no problem in financing them.

The support for broad categories has risen from US$ 11 billion in 2001 to US$ 17 billion 2004, mainly driven by expenditure in infrastructure.

While this matching exercise may be useful to understand the scale of different TRA activities carried out by donors so far, it is limited by the possible overlap between categories as defined by our study. The distinction between narrow and broad categories appears to be less problematic. This is the most relevant to our analysis.

Table 7 Definitions of categories in the WTO database

I. TRADE POLICY AND REGULATIONS

Dispute Settlement

Definition

The dispute settlement system of the WTO serves to preserve the rights and obligations of Members under the covered agreements

Description

The dispute settlement system is a central element in providing security and predictability to the multilateral trading system. Among developing countries TA needs: (I) improvement of the understanding of WTO rights and obligations; (II) access to legal advisory services to help them identify if they may have a case and to prepare submissions; (III) support to participation in the WTO negotiations on improvements and clarifications of the Dispute Settlement Understanding.

Reference to WTO mandate

Understanding on Rules and Procedures Governing the Settlement of Disputes, Art. 27.2 and 27.3Doha Ministerial Declaration, par. 30

Examples of typical activities

Assistance to the Government in understanding the principles of WTO agreements and implementing them in the form of national legislation. Provision of formal and on the job training on the enforcement and administration of these laws. Assistance to bring the legal policy, regulatory and institutional framework into full conformity with these agreements.

Customs Valuation

Definition

Customs procedure applied to determine the value of imported goods for customs purposes.

Description

For customs authorities, the process of estimating the value of a product at customs presents problems that can have an impact on the amount of duty paid/collected. This item covers all support for valuation of imported goods. The WTO agreement on customs valuation more specifically aims for a fair, uniform and neutral system for the valuation of goods for customs purposes — a system that conforms to commercial realities, and which outlaws the use of arbitrary or fictitious customs values.

Reference to WTO mandate

Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 (customs valuation), Article 20.3

Examples of typical activities

Modernisation of customs legal, administrative, human resource and material infrastructure to be in full conformity with international conventions of the UN and the WTO.

Technical Barriers to Trade

Definition

A technical regulations lays down product characteristics or their related processes and production methods with which compliance is mandatory. Examples of technical regulations are requirements regarding terminology, symbols, packaging, marking or labelling as they apply to a product, process or production method. A standard deals with similar requirements the main difference from a technical regulation being that compliance is voluntary. In the Agreement, a standard is defined as a document, approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods. A conformity assessment procedure is any procedure used to determine that relevant requirements in technical regulations or standards are fulfilled.

Description

The TBT Agreement seeks to strike a balance between the avoidance of unnecessary obstacles to international trade and allowing for Members' regulatory autonomy to protect legitimate interests. It promotes the use of international standards as one means to achieve this aim.

Reference to WTO mandate

Agreement on Technical Barriers to Trade, Article 11

Examples of typical activities

Support to governmental authorities, national standardizing bodies and authorities to (I) enhance both safety and quality aspects of exported products; (II) improve participation in international standard-setting; (III) provide training and infrastructure required to comply with standards and to certify compliance; (IV) training on transparency-related obligations and assistance in the establishment/operation of TBT enquiry points/notification authorities; (V) assist with development of required legislation; (VI) support the development of monitoring and surveillance systems; (VII) assist in putting in place mechanisms to ensure good regulatory practice and coordination between regulatory authorities and national standardizing bodies; (VIII) provide training and establish infrastructure for conformity assessment; (IX) raise awareness of the benefit of the TBT Agreement and of the use of international standards.

Sanitary and Phytosanitary Measures

Definition

Sanitary and Phytosanitary measures are taken to protect against risks linked to food safety, animal health and plant protection or to prevent or limit damage within the territory of a Member from the entry, establishment and spread of pests. Assistance provided in one of these categories would fall under the heading of SPS. (Note that if assistance does not fall under the definition found in annex A of the SPS Agreement, it will be listed under the TBT technical assistance activities).

Description

SPS assistance covers the areas of food safety, animal and plant health. More specifically, food safety covers assistance focusing on the protection of human life and health from food borne risks arising from additives, contaminants, toxins, or disease-causing organisms in foods and beverages; Plant health covers assistance focusing on the protection of plant life or health from risks arising from entry, establishment or spread of pests and diseases. Animal health covers assistance focussing on the protection of animal life or health from risks arising from the entry, establishment or spread of diseases and from additives, contaminants, toxins, disease-causing organisms in feedstuffs; and assistance to prevent the entry, establishment or spread of pests that might damage the territory of the Member. e.g. alien invasive species

Reference to WTO mandate

Agreement on the Application of Sanitary and Phytosanitary Measures, Article 9. Decision on Implementation-related Issues and Concerns, paras. 3.6 and 5.4.

Examples of typical activities

Training and assistance in adapting domestic legislation to international standards and commercial market requirements. Support in understanding and use of risk assessment methodologies. Strengthening of public administration's capacity in the food safety, animal health and plant health area. Establishment and maintenance of disease and pest databases. Support to improve institutional capacity to engage in market access negotiations related to food safety, animal health and plant health. Support for participation in the work of standard setting organizations.

Trade Mainstreaming in PRSPs/dev. plans

Definition

Awareness raising; strengthening trade policy process; integrating trade in development and poverty reduction programmes

Description

No data available at this time

Reference to WTO mandate

Doha Ministerial Declaration, Para 38

Examples of typical activities

Increase the capacity of parliaments in the development and implementation of social and poverty reduction policies in the context of globalisation and WTO accession ; training on trade policy implications of the international standard-setting bodies and implementation of regulations.

Trade-Related Intellectual Property Rights

Definition

Intellectual property rights cover: 1) Copyright and rights related to copyright, and 2) industrial property (trademarks, patents, geographical indications, industrial design, and trade secrets).

Description

The TRIPS Agreement defines each of the main elements of protection, namely the subject matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection. A specific part is dedicated to the enforcement of intellectual property rights.

Reference to WTO mandate

Agreement on Trade-Related Aspects of Intellectual Property Rights, Article 67

Examples of typical activities

Assistance in: (i) implementation of legislation which is consistent with the TRIPS Agreement; (ii) modernization of intellectual property offices and collective management societies; (iii) strengthening of the means to enforce rights; (iv) promoting and encouraging technology transfer to least-developed countries and the use of intellectual property systems for development purposes; and (v) issues under discussions /negotiation in the WTO.

Agriculture

Definition

The WTO Agreement on Agriculture sets in motion a process of reform in agricultural international trade aimed at the attainment of a fair and market oriented agricultural trading system. New negotiations were initiated at the beginning of 2000 with the objective of continuing the process of reform.

Description

A number of components interact in a complex process towards the achievement of the objectives of the Agreement: market access liberalization measures (including through the use of tariff quotas); reduction of export subsidies through the application of certain percentages; and reduction of trade-distorting domestic support. In addition, a special safeguard mechanism is incorporated in the Agreement.

Reference to WTO mandate

Agreement on Agriculture, Art. 20 Doha Ministerial Declaration, Par 13

Examples of typical activities

Implication of improvements in market access; reductions of all forms of export subsidies; and trade-distorting domestic support. Ways to use tariff rate quotas. Support coordination between agricultural producers and trade negotiators.

Services

Definition

To help countries engage in international services trade

Description

The General Agreement on Trade in Services provides a multilateral framework for the progressive liberalization of trade in services through the reduction or elimination of the adverse effects on trade in services of measures as a means of providing effective market access, and with a view to promoting the interests of all WTO Members on a mutually advantageous basis

Reference to WTO mandate

General Agreement on Trade in Services, Art. XXV Guidelines and Procedures for the Negotiating in Trade in Services (S/L/93), par. 14

Examples of typical activities

Assistance in: (I) carrying out an assessment of trade in services in overall terms and on a sectoral basis; (II) identifying markets, sectors and modes of supply of export interest; (III) support to the participation in WTO negotiations (preparation of requests/offers, scheduling of specific commitments, etc.).

Tariff Negotiations - NAMA

Definition

Reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries.

Description

Market access in the WTO sense, in the case of goods, is regulated through border measures, i.e. tariffs, quantitative restrictions and other non-tariff measures, and ‘behind-the-border’ measures. The aim of multilateral trade negotiations is to make market access more liberal as well as more predictable.

Reference to WTO mandate

Doha Ministerial Declaration, par 16 (Market Access for non-agricultural products)

Examples of typical activities

(I) appropriate analysis to assist countries to participate effectively in the negotiations; (II) support in identifying markets and products of export interest; (III) assistance in the formulation of mechanisms to deal with tariff peaks, tariff escalation, etc.

Rules

Definition

Negotiations and preparation of laws and regulations on anti-dumping, subsidies, countervailing measures and safeguards; clarification and improvement of disciplines on unfair trade practices; support to investigating authorities.

Description

The WTO Agreements on Anti-Dumping, Subsidies and Countervailing Measures, and Safeguards impose very complex and highly technical obligations on Members and their implementation requires technical expertise and skills which are often not available in developing countries. An increasing number of countries, however, have identified the need for some form of contingent trade protection as a quid pro quo for comprehensive trade liberalization.

Reference to WTO mandate

(i) Agreement on Implementation of Article VI of the GATT 1994 (ii) Agreement on Subsidies and Countervailing Measures (iii) Agreement on Safeguards (iv) Doha Ministerial Declaration, par. 28

Examples of typical activities

(i) support to the establishment of national investigating authorities; (ii) assistance in preparing draft legislation on trade remedies; (iii) support to the participation in WTO rules negotiations aimed at clarifying and improving disciplines under the Agreements on Implementation of Article VI of the GATT 1994 and on Subsidies and Countervailing Measures.

Trade and Environment

Definition

Relationship between international trade, the environment and sustainable development.

Description

Ensuring that trade liberalization benefits the environment and that trade measures for environmental purposes are not discriminatory and do not unnecessarily restrict trade.

Reference to WTO mandate

Doha Ministerial Declaration, par. 33

Examples of typical activities

(I) support to perform environmental reviews at the national level; (II) support aimed at increasing policy coherence at a national level between environment and trade agencies/ministries (both with respect to work in the WTO as well as MEAs).

Trade & Investment

Definition

Evaluate the implications of closer multilateral cooperation in trade and investment for development policies and objectives, and human and institutional development.

Description

Clarification of core concepts and principles (including non-discrimination, transparency, positive-list approach to commitments, exceptions) and implications of those principles for future cooperation on trade and investment in the WTO.

Reference to WTO mandate

Doha Ministerial Declaration, Para 20-22

Examples of typical activities

(I) support to the participation in the WTO work programme on trade and investment (II) dissemination of knowledge on principles and practice of existing international investment agreements

Trade and Competition

Definition

Evaluate the implications of closer multilateral cooperation in trade and competition policy for development policies and objectives, and related human and institutional development.

Description

Ensuring that participation in international trade is not impeded by anti-competitive practices and benefits consumers; support for developing and promoting competition, including strengthening antitrust laws and institutions. Clarification of core principles, including transparency, non-discrimination and procedural fairness, provisions on hardcore cartels, and modalities for voluntary cooperation.

Reference to WTO mandate

Doha Ministerial Declaration, Par 23-25

Examples of typical activities

(i) relationships between competition policy and development; (ii) support and reinforcement of competition institutions; (iii) assistance in preparing draft legislation on competition; and (iv) support to the participation in the WTO work programme on trade and competition.

Trade Facilitation

Definition

Simplification and harmonisation of international trade procedures. Trade procedures include the activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade.

Description

Trade facilitation relates to a wide range of activities such as import and export procedures (e.g. customs or licensing procedures); transport formalities; and payments, insurance, and other financial requirements. For example, companies need to be able to acquire information on other countries' importing and exporting regulations and how customs procedures are handled. Cutting red tape at the point where goods enter a country and providing easier access to this kind of information are two ways of 'facilitating' trade.

Reference to WTO mandate

Doha Ministerial Declaration, Par 27 GATT 1994 Art V, VIII, X

Examples of typical activities

Advising on simplification of tariff structures, adoption of internationally accepted tariff nomenclature and codes, and related procedures and regulations.

Transparency and Government Procurement

Definition

Promotion of transparency in government procurement

Description

Procurement of products and services by government agencies for their own purposes represents an important share of total government expenditure and thus has a significant role in domestic economies. Conducting government procurement in accordance with clear standards would ensure the accountability of the process. Integrity and efficiency in the allocation of country s resources are additional benefits of transparent government procurement procedures.

Reference to WTO mandate

Doha Ministerial Declaration, Par 26

Examples of typical activities

Assistance in: (I) preparation of draft legislation; (II) modernization of government procurement agencies; (III) promoting the use of computer-based tendering procedures.

Accession

Definition

The process by which a country or autonomous customs territory joins the WTO.

Description

There are four stages to the accession process. First, all aspects of the acceding country/customs territory's trade and economic policies that have a bearing on WTO agreements are reviewed through the examination of a Memorandum on its Foreign Trade Regime and its responses to questions posed. Second, parallel bilateral talks begin between the prospective new member and individual WTO Members to determine the concessions and commitments (in the form of tariff reductions, non-tariffs measures application, agricultural commitments and specific commitments in trade in services) other WTO Members can expect when the new Member joins. Third, the terms of accession are finalised. Fourth, the final package, consisting of the report, protocol and lists of concessions and commitments, is presented to the WTO General Council or the Ministerial Conference for adoption. The acceding country/customs territory becomes a WTO Member thirty days after its acceptance of the Protocol.

Reference to WTO mandate

Article XII of the WTO AgreementDoha Ministerial Declaration, par. 42

Examples of typical activities

(i) preparation and/or identification of changes to laws, regulations, policies, and procedures necessary to comply with the terms of WTO membership; (ii) assistance to enhance and improve the participation of the acceding country in its WTO working party; (iii) dissemination of information on the WTO principles and objectives, and enhancement of understanding of WTO Agreements; (iv) implementation of WTO rules and obligations, and participation in WTO decision-making processes; etc..

Tariff Reforms

Definition

Development of simple, transparent and low uniform tariff regimes that minimize discrimination between production for domestic or export markets, and between purchases of domestic and foreign goods.

Description

Countries may undertake trade liberalization measures autonomously. For example, countries may simplify tariff structures and reduce tariff rates in the context of International Monetary Fund- (IMF) and/or World Bank-supported programmes. However, the lower tariffs that result are normally not bound in the WTO schedule of concessions

Reference to WTO mandate

Examples of typical activities

(i) support in determining the trade and revenue effects of the tariff reform programme; (ii) assistance in carrying out the tariff reforms.

Trade-related training education

Definition

Human resources development in trade not included under any of the above codes.

Description

Includes university programmes in trade.

Negotiation training

Definition

Specialized and customized programmes to train trade negotiators

Description

Training on trade negotiation techniques and skills has many facets and involves a multiple approach. The following components should normally be covered: (i) basic information on the negotiation process; (ii) basic principles, techniques and modalities for negotiations; (iii) simulation exercises, case studies; (iv) use of databases and tool kits.

Reference to WTO mandate

Examples of typical activities

Increase the knowledge and skills on trade communication; to build capacity to participate effectively in international trade negotiations.

RTAs

Definition

Support to regional trade arrangements (e.g. SADC, ASEAN, FTAA, ACP/EU); elaboration of rules of origin and introduction of special and differential treatment in RTAs.

Description

Covers both intra and extra regional trade liberalisation. Elaboration of rules of origin and introduction of special and differential treatment in regional trading arrangements. Support to negotiations on WTO rules on RTAs. Support to regional negotiations on transfer of technology. Support to negotiations within ASEAN, SADC, FTAA, ACP/EU, etc.

Reference to WTO mandate

Doha Ministerial Declaration, par. 29

Examples of typical activities

Assistance to developing countries to help them to participate in RTAs negotiations and to prepare to take advantage of an agreement; training of RTA's Secretariats.

II. TRADE DEVELOPMENT

Trade Promotion Strategy Design and Implementation

Definition

Development of a national sector-level trade strategy; workforce development in export industries; implementation of sector-specific and strategies in agriculture, forestry, fishing, industry, mining and tourism, including 'fair trade programmes'.

Market Analysis and Development

Definition

Access to market information; advice on standards, packaging, quality control, marketing and distribution channels in agriculture, forestry, fishing, industry, mining and tourism

Business Support Services and Institutions

Definition
Support to trade and business associations, chambers of commerce; legal and regulatory reform aimed at improving business and investment climate; private sector institution capacity building and advice.

Public-Private Sector Networking

Definition
Tools and mechanisms for improved dialogue and resource sharing between public and private sector (and within the private sector) at the national, regional and global levels.

E-Commerce

Definition
Promotion of information communication technologies for enhancing trade; training and provision of software and hardware to improve e-commerce capability

Trade Finance

Definition
Access to trade finance; reform of financial systems, banking and securities markets to facilitate trade; laws and regulations that protect and promote trade-related investment.

Annex 3 Complete review of vertical funds analysed in Part 2

We report here the details of the funds described in part 2, based on existing evaluation reports, formal documents and expert opinions.

Multilateral

1) Integrated Framework

Date of creation: October 1997, Revised in 2001

Total Funds: As of 2004, US$21.1 million pledged mostly for carrying out diagnostics.

Organising Institution(s): Multi-donor initiative including the IMF, ITC, UNCTAD, UNDP, World Bank and WTO. Bilateral donors also participate.

Purpose: Broadest purpose is to better integrate LDCs into multilateral trading system with two more specific purposes of mainstreaming trade into other policy processes such as PRSPs and 'to assist in the co-ordinated delivery of trade-related technical assistance in response to needs identified by the LDC.'[10] There are two outcomes of a country going through the IF process. First, countries trade environments are evaluated and a 'Diagnostic Trade Integration Study' is created. Second, an action plan is created which is used to help identify trade policy priorities, which are turned mainstreamed into other lending and aid programmes, including PRSPs.

Geography of Implementation: While all LDCs are eligible, 40 have participated to date, with 20 completing their diagnostic studies. Most are in sub-Saharan Africa though Cambodia and Nepal have also participated. It does not currently offer regional programmes. This is one of the changes proposed for the Enhanced IF, currently the subject of a Task Force to report by April 2006. If it remains restricted to LDCs, however, the potential to move to regions will be limited (e.g. it could build access for land-locked LDCs across Mozambique, but not across Kenya).

Recipient selection: LDCs can ask to start an IF process.

Level of conditionality: There is no conditionality to start the diagnostic or action plan stages, though as the IF is integrated into other aid and lending facilities, it is subject to the same conditionalities as those programmes, which are sometimes significant.

Evaluation to Date: 21 DTISs have been completed; 7 started; 9 further countries have applied. It has (Nielson 2005) helped to fund 22 projects in 12 countries, for a total of US$8 million, and is thus insignificant even in terms of the values suggested for Narrow A4T. An OECD report in 2000 found that the fund lacked priorities, funding and governance and therefore had limited payoffs for developing countries. This led to a renewed design in 2001, with a new governance structure and more clearly defined priorities. An evaluation by a Canadian agency in 2003 said that the programme was 'carefully crafted, is entirely appropriate and is a sound approach capable of achieving positive results,' but also noted that success across countries had been highly variable, and that confusion remained about whether the IF is or should be a funding mechanism. Developing country ownership was found to be limited.

[10] From the IF webpage: http://www.integratedframework.org/about.htm

A more recent evaluation by the independent World Bank Operations Evaluation Department in 2004 found that while the objectives of the programme were generally appropriate, there was a drawback in a multi-country rather than comprehensive international approach. The evaluation also found that the programme has achieved its stated objectives moderately well, though is insufficient in ensuring follow through on pro-poor poverty outcomes via trade policy for LDCs. They found the programme to be underfunded for implementation purposes – and that increased money was needed to meet infrastructure needs.

Other information: Recent attempts to enhance the IF in the context of Aid for Trade have resulted in three broad changes: the establishment of an Integrated Framework Steering Committee and a group to help coordinate donors (the IF Working Group), the establishment of an IF Trust Fund which would give the mechanism its own funding and encouragement of improved coordination amongst donors in trade policy.

LDCs do not want the Integrated Framework extended to non-LDCs because it provides a very limited amount of money. It is not a direct model for Narrow A4T because its main purpose is to identify countries' needs (through the Diagnostic studies), and Narrow needs are already identified. It is unlikely to be a model for Broad because the funding is only sufficient for the studies, not for implementing what the studies recommend. Do non-LDCs need a diagnostic process? There may be elements of its administration which can be copied by the agencies which will need to design programmes to spend the A4T money.

It could be related to A4T: If the DTIS process has already identified projects under IF, then Broad Aid for Trade may be able to start from these. The WTO Concept Paper suggested the IF as a vehicle to access A4T funds.

2) JITAP

Date of creation: March 1998, second phase launched in February 2003.

Total Funds: US$12.6 million as of 2004. Funded through a common trust fund (CTF) where donors can put money either for general use (Window I) or country-specific use (Window II). Donors include Canada, Denmark, Finland, France, Germany, Japan, the Netherlands, Norway, Sweden, and the UK.

Organising Institution(s): ITC, UNCTAD and WTO

Purpose: The overall objective of JITAP is trade capacity building. Three more specific objectives include to build national capacity for participation in the multilateral trading system, adapt national trade policy to new demands of the WTO, help African countries to maximise potential gains from participation in the multilateral trading system. JIPTAP II also has the objective to help with trade negotiations and meeting supply capacity.

Geography of Implementation: African countries are eligible – 6 developing countries and 10 LDCs have participated to date.

Recipient selection: Countries are selected by the management board.

Level of conditionality: Low as this is mostly a training programme. Could be higher on allocation of funds for meeting supply side capacity.

Evaluation to Date: The mid-term evaluation completed in 2000 made some recommendations about new organisational and management strategies for the fund. The OECD DAC prepared an evaluation of the programme in 2002 and concluded that the design was both 'brilliant' and appropriate to its time but that outcomes had been mixed given the ambituosness of its goals. They recommended another round of funding for the programme as the programme had been successful in helping participant countries to negotiate in the Doha round, raising understanding and profile of trade policy and in becoming a model for trade related technical assistance globally. Recommendations included better organisation of regional and national activies, stronger links between trade policy and poverty, expanding use of local institutions for training purposes, and advocating that greater efforts needed to be placed on supply-side constraints. The report also focused on building up a better relationship between JITAP and IF, overhauling management and expanding countries of participation.

Other information: JITAP has five organising 'modules' which include:

1. Institutional support, compliance, policies and negotiations
2. Strengthening MTS reference centres and national enquiry points
3. Enhancing MTS knowledge and networks
4. Product and Services Sector Strategies
5. Networking and Programme Synergy

3) WTO technical assistance

Date of creation:

Total Funds: Regular budget of CH 7 million and as of 2004, CH 24 million in trust funds.

Organising Institution(s): WTO

Purpose: The WTO website states that: 'technical cooperation is an area of WTO work that is devoted almost entirely to helping developing countries (and countries in transition from centrally-planned economies) operate successfully in the multilateral trading system. The objective is to help build the necessary institutions and to train officials. The subjects covered deal both with trade policies and with effective negotiation.' The mandate has several aspects: technical cooperation which includes seminars, workshops, technical missions and briefing session; training; and assistance in dispute settlement, notifications, trade facilitation and overcoming technical barriers to trade.

Geography of Implementation: All developing and transition countries, with a special focus on Africa.

Recipient selection: All developing countries can participate.

Level of conditionality: N/A.

Evaluation: Technical cooperation is overseen by the Committee on Trade and Development and the fund has a monitoring arm.

Other information: It has been criticised by recipients because its relationship to the WTO means that it is not able to offer advice on how to minimise compliance with WTO rules.

4) UNCTAD

Date of creation: 1964

Total Funds: UNCTAD undertook technical cooperation projects and programmes for about US$ 27.4 million in 2004 (source: UNCTAD 2005)

Organising Institution(s): UNCTAD

Purpose: promoting the ‘development-friendly integration’ of developing countries into the world economy. It has three main functions: it serves as a forum for intergovernmental deliberations aimed at consensus building, it undertakes research, policy analysis and data collection for the debates of government representatives and experts; and it provides technical assistance on trade related issues to developing countries.

UNCTAD vision of trade aid encompasses investment, technology, competition, environment and trade and finance issues, as well as the coherence needed between domestic and international dimensions. Its activities include trade negotiating capacity, interface with economic growth, trade and supply-side capacity. All three categories of what the OECD calls ‘the aid-for-trade agenda’ (i.e. trade policy and regulation; trade-related infrastructure; economic infrastructure, production capacity and competitiveness) are included in UNCTAD operations.[11]

Geography of Implementation: Encouraged to focus on LDCs and transition economies, though implementation has also been outside of these two areas.

Recipient selection: Demand driven based on need.

Level of conditionality: N/A

5) International Trade Center

Date of creation: established by the GATT Council in 1964

Total Funds: US$ 48 million in 2004

Organising Institution(s): UNCTAD and the WTO

Purpose: providing trade information and trade advisory services for developing countries. ITC has focused more on trade development in the provision of TRTA relative to its parent organisations UNCTAD and the WTO, although ITC has also developed new competencies in specialised aspects of trade policy and regulation (especially in areas related to business advocacy and business participation in the trading system).

Geography of Implementation: all developing world, with a focus on Africa (42% of the funds allocated).

Recipient selection: on the basis of countries’ needs, working in cooperation with country-level or regional trade support institutions (TSIs)

[11] This information is based on UNCTAD comments on the OECD document ‘Aid for Trade: Support for an Expanding Agenda’ - COM/DCD/TD(2006)2

Level of conditionality: N/A

Evaluation: as it emerges from the analysis carried out by DMI (2005), ITC's partners and beneficiaries express a positive view of ITC's role and products, and they consider participation in ITC networks, activities and seminars to be useful. The perceived impartiality of ITC on negotiating issues in the multilateral trading system is viewed as a plus by both private sector and public sector participants in ITC fora.
However ITC is perceived to have limited funding for country-specific projects and ITC is seen as lacking a field presence and being able to provide only limited support for capacity building. TSIs often lack capacity and scale to capitalise on trading opportunities or to leverage ITC products with end-user beneficiaries. Moreover, needs assessment is not systematically carried out in the product development process and there is a lack of a systematic process for monitoring results and outcomes achieved with ITC products and through ITC projects.

Other information: the DMI report stresses the need for greater harmonization of donor support to reduce transaction costs and improve programme coherence and effectiveness.

6) Trade Integration Mechanism, TIM

Date of creation: April 2004

Total Funds: N/A. The programme is not a new type of aid or lending facility, but rather a policy approach which places greater emphasis on the potential negative implications of trade liberalisation. The potential negative impacts on export revenue or import bills is evaluated within the framework of existing lending facilities and is used to generate 'baseline' estimates for financial performance. In some cases, loans can be augmented based on trade problems – something called the 'deviation' feature of the TIM.

Organising Institution(s): The IMF

Purpose: To assist countries in meeting balance of payment shortfalls that are the result of multilateral trade liberalisation. See above under funds as well. It does not cover costs of national decisions to reduce tariffs (so-called 'own liberalisation').

Geography of Implementation: Any country facing BOP problems because of trade liberalisation. However, to date only two countries have utilised the facility: the Dominican Republic and Bangladesh.

Recipient selection: A country can ask for consideration under the TIM, thus the process is country driven.

Level of conditionality: Integrated to conditionality in other lending programmes, e.g. the PRSP process. Availability determined by IMF analysis of real implications of trade liberalisation.

Mitchell, Hoppe (2006) mention the IMF compensatory financing facility as another potential source of funds, but this also is loan-based, not grant. But as part of the IMF it can only offer loans.

Evaluation and other information: TIM has been criticised as ineffective as it has only been used by two countries and provides no additional resources.

7) HIPC model of budget support

Date of creation: First HIPC initiative 1996; HIPC + in 1999. Multilateral Debt Relief Initiative (MDRI) the consequence of 2005 G8 Gleneagles meeting is a further extension of HIPC.

Total Funds: Estimated to be at US$ 61 billion in net present value terms

Organising Institution(s): The IMF and World Bank, in coordination with bilateral lenders (generally through the Paris Club).

Purpose: Under the Highly Indebted Poor Countries (HIPC) agreement, qualifying countries who have undertaken a commitment to macroeconomic stability and the implementation of a poverty reduction strategy paper (PRSP) are eligible for what the OECD DAC calls 'and irreversible stream of budget support flows over the medium term' (DAC 2004), or high levels of debt relief. Money released through HIPC debt relief must be spent primarily on 'priority' sectors such as health and education.

Geography of Implementation: 28 countries at 'completion point,' 13 more eligible. Primarily in sub-Saharan Africa with a smaller number of Latin American and Asian economies.

Recipient selection: Highly indebted poor countries based on a standard set of metrics (e.g. debt to export ratios) who have committed to macroeconomic stability and a poverty reduction strategy paper (PRSP) to channel debt relief into pro-poor expenditure.

Level of conditionality: High – Countries are required to implement a number of PRSP objectives before they reach 'completion point' at which time debt relief is granted. Thus, programmatic objectives must be met in advance of debt relief.

Evaluation to Date: It is generally considered to be a good example of aid delivery (by the DAC) though has received much criticism in terms of eligibility metrics and other processes. Initial criticisms of evaluation metrics for eligibility led to the creation of the so-called HIPC II or HIPC + initiative, which made it more easy for countries to qualify.

Other information: None

8) Standards and Trade Development Facility (STDF)

Date of creation: Generated at the WTO ministerial in 2002 and executed with the World Bank as lead institution in September 2004.

Total funds: At the time of formation, the fund only had CHF 100,000. At the time of writing of the fund business plan (September 2004), there was World Bank 'Development Grant Facility' seed money in place which was due to expire in June 2005 of US$300,000 per year. Plans were articulated on the basis of initial start up money of US$ 3, US$ 5 and US$ 7 million annually. No aggregated information was available about the funds money at the present time, however, the following donations are listed on the Fund's website:

1. Denmark made a donation of DKK2.5 million in December 2005
2. Sweden donated CHF1.96 million in December 2005.
3. Italy donated €200,000 in September 2005
4. Australia made a donation of CHF195,000 in July 2005
5. Canada donated CHF385,000 in March 2005

6. The UK donated CHF1.9 million in February 2005
7. Denmark committed CHF550,000 in December 2004
8. The Netherlands committed €900,000 in November 2004

The total value of these contributions is (in current market exchange rates) US$5.5 million.

Organising institution: The WTO is the executing agency but STDF has seven partner institutions who are involved with the fund: the World Bank, the WTO, the Food and Agriculture Organization, the World Health Organization, Codex Alimentarius Commission (CODEX), the International Phytosanitary Portal and the World Organization for Animal Health.

Purpose: The purpose of the STDF is to help developing countries meet and implement international sanitary and phytosanitary standards (SPS) in order to better access international markets through the provision of technical assistance and related capacity building. The STDF provides grant financing as well as loans.

Geography of implementation: Any WTO member state is eligible to apply, though see levels of financing below in 'recipient selection' depending on level of development. The business plan for the fund written in 2004 emphasised the desire to award 40% of funding to LDCs. To date, project preparation grants have been funded in the following countries or regions: Benin, Cambodia, CARICOM, Cameroon, Dijbouti, Guinea, Malawi, Mozambique, SAARC and Yemen. Of the nine project grants that have been made, all are designed to be implemented regionally or internationally through international organisations.

Recipient selection: Public, private and international institutions as well as non-governmental organisations working on the implementation of SPS can apply one of two types of grants: project preparation grants (up to US$ 20,000) or project grants. For LDCs and other low income countries (as defined by the United Nations) the project grants cover 90% of cost. For other countries, the grant must be 25% financed by the recipient government or organisation.

Level of conditionality: There is a monitoring and evaluation process executed by the STDF Secretary or independent consultants (depending on size and type of grant). The competitive nature of the grant application process serves to condition what is funded – this process includes a site visit to the applying organisation or government body.

Evaluation to date: N/A.

Other information: None.

9) Global Environmental Fund

Date of creation: 1991

Total funds: Since 1991, the GEF has provided US$4.5 billion in grants and generated US$14.5 billion in co-financing from other partners for projects in developing and transition countries.

Organising institution: There is also an Assembly of all member countries, Council, Secretariat, a Scientific and Technical Advisory Panel.

Three implementing agencies – UNDP, UNEP and the World Bank.

Purpose: To assist its member countries conserve and sustainably use their biological diversity, reduce their emissions of greenhouse gases, manage shared water bodies and reduce their emissions of ozone-depleting substances by accessing GEF resources to cover the incremental costs of additional actions on these global issues. It relates to several international conventions on these matters.

GEF is to provide new and additional grant and concessional funding to countries for specific projects related to the funds purpose indicated above. Subsequently added to the agenda were activities concerning land degradation, primarily desertification and deforestation, which are supposed to relate to the four focal areas.

Geography of implementation: Member countries (176 in all).

Recipient selection: Any eligible individual or group may propose a project, which must meet two key criteria: It must reflect national or regional priorities and have the support of the country or countries involved, and it must improve the global environment or advance the prospect of reducing risks to it. GEF project ideas may be proposed directly to UNDP, UNEP, or the World Bank.

Level of conditionality: Low. Developing countries that have ratified the relevant treaty are eligible to propose biodiversity and climate change projects. Other countries, primarily those with economies in transition, are eligible if the country is a party to the appropriate treaty and is eligible to borrow from the World Bank or receive technical assistance grants from UNDP.
Evaluation report speaks of an 'approval culture' and suggested 'further clarification of the institutional roles and responsibilities of GEF's partners'.

Evaluation to date: Two overall performance reports (1997 and 2002) and various project M&E reports. It has been criticised for being administratively cumbersome and for the fact that tight criteria for identifying needs made it difficult for users to 'prove' that they were fulfilling additional environmental purposes

Other information: Regional Development Banks (AfDB, AsDB, EBRD, and IDB), FAO, UNIDO, and IFAD can access resources under the expanded opportunities executing agencies.

10) Montreal Protocol Fund

Date of creation: 1990 – Operational 1991.

Total Funds: Has been replenished six times but the 2006-08 budget is US$ 470 million. Total funds donated to date some US$ 2 billion.

Organising Institution(s): United Nations Conference on Environment and Development as well as UNDP, UNIDO and World Bank. Donations are made from industrialised countries who are signatories of the protocol. This followed a consensus in the later 1980s and early 1990s amongst all countries on the need to address harmful effects of greenhouse gases.

Purpose: To assist developing countries fund the costs of complying with the Montreal Protocol by, for example, providing funds for developing countries to help phase out the use of ozone-depleting technologies.

Geography of Implementation: Has been approved for implementation in 138 countries that meet the criteria set out below.

Recipient selection: Any developing and transition countries with annual per capita consumption of ODS less than 0.3 kg a year ('Article 5' countries because this metric is set out in Article 5 of the protocol) is able to seek funding.

Level of conditionality: Little information available though there is an extensive and well established evaluation process for countries participating.

Evaluation to Date: The Operations and Evaluation division of the World Bank selected the Montreal Protocol as one of several Global funds they reviewed and completed a report on it in 2004 (available at http://www.worldbank.org/oed/gppp/case_studies/agriculture_environment/mlf.html). The main findings of the report were that the fund was highly relevant and that the World Bank played an appropriate role in the agency given the undisputable nature of the public goods in question. Additionally, the report noted that while the Fund's initial goal was for the environment and not for development, it has had some spillover benefits for development. The Fund was considered to be successful based on the fact that it had narrow implementation criteria and objectives, which had generally been met through internal evaluations since 1997. Overall then, the evaluation report was quite positive.

Other information: None.

11) Global Fund to Fight Aids, Tuberculosis and Malaria

Date of creation: 2002

Total Funds: US$5 billion endowment. In mid-2004, disbursements were some US $1 billion.

Organising Institution(s): Joint between governments, civil society and private sector. The fund acts as a financial instrument, not as an implementing agency. The United States had, as of 2004, given one third of the funding to the initiative.

Purpose: Created in response to the perception that little progress was being made on the eradication of these three diseases. Also, as it driven by applications, it is usually in tune with local preferences.

Geography of Implementation: To date has worked in 95 countries. Major efforts in Africa have included provision of bed nets to families and pregnant women to fight malaria, disbursement of anti-retroviral treatments and the diagnosis and treatment of tuberculosis.

Recipient selection: Driven by local (usually government) proposals submitted to the Fund. Decisions to grant proposals made by a technical board composed of health and development professionals.

Level of conditionality: Low – The global fund requires that countries integrate their proposals with civil society and other national programmes and has a review process after two years to see whether money should be renewed for a further years based on performance.

Evaluation to Date: A 2004 report by the US General Accounting Office (GAO) found that the method of allocating grants was generally effective, but that management of grants needed improvement in order to increase grant performance. In that vein, the report suggested that there was a need to reorganise staff as well as design risk assessment mechanisms to act as an early warning system for poorly performing grants, that recipient capacity be strengthened, that reporting and funding procedures be streamlined and that guidance for country level coordination be clarified (GAO 2004). A mid-term report on implementation in four African countries by the London School of Hygiene and Tropical Medicine found that the grant process ensured a diverse number of proposals were funded and that the transaction costs for government were low (LSHTM 2003). A major recommendation was to consider making the application process more flexible in order to allow for country co-financing, and the report was sceptical about the country coordination mechanisms, which they claimed had been created in many cases hastily in response to GF guidelines.

Other information: The Global Fund is quite different from other vertical funds reviewed in this section is it disburses money through a competitive proposal process. Those with ideas of efforts that could help to combat the three diseases apply to the Fund's technical panel (composed of health and development experts) and money is released subsequently. The fundraising arm is kept separate from the grant making arm, and money is accepted from private and public sector, as well as civil society organisations.

12) Global Alliance for Vaccines and Immunisation (GAVI)

Date of creation: 2000

Total Funds: US$ 3.3 billion raised at end 2005. US$ 603 million has been disbursed and US$ 1.6 billion committed.

Organising Institution(s): UNICEF, WHO and World Bank along with governments and private foundations (e.g. Bill and Melinda Gates Foundation). Primary bilateral donors are Canada, Denmark, France, Ireland, Luxembourg, the Netherlands, Norway, Sweden, the UK and the US in addition to the European Union.

Purpose: Similar to the Global Fund, GAVI is an alliance between public and private sector actors in developing and developed countries to provide policy coordination on vaccinations. The GAVI Fund (formerly the Vaccine Fund) provides financial resources for the purchase of vaccines and other medical supplies. The overall purpose of the fund is to provide additional funds for health systems in developing countries and improve access to and development of new technologies.

Geography of Implementation: To date operating in 70 developing countries. In order to qualify for GAVI Funds, the country must have a per capita income of less than US$ 1,000 and immunisation coverage of less than 80%. The Fund predicts that 1.7 million premature deaths have been prevented due to the money available.

Recipient selection: Similar to the Global Fund, developing country governments apply to the fund and the proposals are screened by a technical panel of experts to decide on allocation of resources. Thus, the process is country driven.

Level of conditionality: Aid agency and inter-governmental bodies such as UNICEF and WHO assist with and monitor implementation on the ground. While money is awarded in a five year tranche to improve predictability, there is a monitoring process after three years to see whether the programme is performing as expected. If the review is satisfactory for years of 'reward' funding are granted, in which time the government must focus partially on the immunisation of children. Other than this condition, there is flexibility for countries to decide how to use the funds.

Evaluation to Date: Internal evaluations have been carried out on 48 country programmes for data quality and performance, and 30 have passed to the second stage of funding. An external evaluation by a team of consultants (Abt Associates) was completed in August 2004. The main findings included: a confusion in the application process for new countries and some problems of data reliability in the baseline figures used for applications and a lack of understanding of the funds implementation rules and regulations at the sub-national level. However, the evaluation was also very positive about the unique nature of the Fund in terms of country ownership and low conditionality. On the other hand, other comments suggest that GAVI is not well integrated in country programmes or with other vertical health funds.

Other information: The new International Finance Facility for Immunization (IFFim) is expected to raise another US$ 4 billion for immunisation.

13) CGIAR

Date of creation: 1971

Total funds: In 2004, CGIAR Members contributed US$ 437 million, apparently voluntary contributions.

Organising institution: The Consultative Group on International Agricultural Research (CGIAR) is an alliance of countries, international and regional organisations, and private foundations supporting 15 international agricultural Centres. The CGIAR partnership includes 25 developing and 22 industrialised countries, four private foundations, and 13 regional and international organizations.[12] The Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the United Nations Development Programme (UNDP), and the World Bank are cosponsors.

Purpose: The CGIAR Mission: To achieve sustainable food security and reduce poverty in developing countries through scientific research and research-related activities in the fields of agriculture, forestry, fisheries, policy, and environment. They work with national agricultural research systems and civil society organizations including the private sector.

Geography of implementation: There are 15 research institutes spread across the world: 4 in Africa, 5 in Asia, 3 in Latin America, one in the US, one in Europe, one in the Middle East.

Recipient selection: Individual members support centres and programmes of their choice, and each centre directly receives and spends funds and provides accountability through their externally audited financial statements.

Level of conditionality: Varying among the fund givers and at most indirect, apparently, as members chose which institute to support and these institutes chose their research agenda. Member financing may be directed to the CGIAR, centres, programmes, and projects with different degrees of specificity.

Evaluation to date: Self-assessment, report published in April 2001. The focus seems to have been on internal coordination and administration rather than impact.

[12] For a list of members, cf http://www.cgiar.org/who/members/index.html

Other information: UNEP joined the group of cosponsors in 1995 but subsequently withdrew. It remains a member of the CGIAR. After over 30 years, the CGIAR System now has a Charter that was adopted virtually (after the number of meetings were halved), and endorsed at the 2004 Annual General Meeting. The Charter is expected to support consistency and efficiency (i.e. there seems to have been a problem with both in the past). The Harvard Business School developed a CGIAR Case Study, and inaugurated a Leadership Training Program for senior managers in the CGIAR.

14) Sector Wide Approaches

Various definitions have been proposed for the sector wide approach. The one most commonly used is:

> 'A Sector Wide Approach (SWAp) is a process where donors give significant funding to a government's comprehensive sector policy and expenditure programme (for example on health or education), consistent with a sound macro-economic framework. SWAps typically have a joint review mechanism and performance monitoring system relying on the government's own performance assessment framework.' (www.dfid.gov.uk)

Donor support for a SWAp can take the form of budget support, projects, technical cooperation, and policy dialogue. A 'sector programme' is a specific, time bound and costed set of actions and activities in support of a sector strategy.

Date of creation: SWAps were first proposed and implemented in the 1990s; there is no official starting date.

Total Funds: as this is an approach to aid rather than a proper fund, it is difficult to estimate the funds channelled through SWAps.

Organising Institution(s): Several donors (including CIDA, the Netherlands' Ministry of Foreign Affairs, DGIS and DFID) moved some resources from project funding to programme-related assistance in a sector context. DGIS for instance adopted the SWAps as an organising principle and the main instrument in bilateral development cooperation. The general characteristics of a SWAp are that all significant funding for a given sector supports a sector-wide policy and expenditure programme, under government leadership, adopting common approaches across the sector, and progressing towards relying on government procedures to disburse funds and account for them.

There seems international agreement on the merits of SWAps, although donors differ on which instruments they prefer to use within a SWAp (for example the US and Japan prefer project aid while the UK seems to favour budget support).

Purpose: SWAps were introduced to overcome the problems inherent in the project-based approach, including fragmentation of development assistance (as a multiplicity of donors pursued "their own" interventions), insufficient attention to intra- and inter-sectoral issues and insufficient attention to recipient country needs and preferences. The aim is to channel all significant funding for the sector supports through a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all funds. The SWAp represents the manner in which development agencies are attempting to operationalise the new programme-oriented thinking.

Main areas of implementation:

- **Education**: main emphasis on achieving universal primary enrolment, though the analysis of the constraints to be overcome differs between countries.
- **Health**: programmes tend to focus on the delivery of an essential services package.
- **Roads**: programmes tend to be linked to rehabilitation to maintainable standard, with road funds or similar hypothecation of revenues to secure future maintenance.
- **Agriculture**: programmes in this area show more variation, but have consequently become more controversial than SWAPs for other sectors.
- **Others include**: public financial management, and legal/judicial reform)

Certain areas are less suitable than others for SWAps (e.g.: infrastructure projects are usually big projects which involve only few (often only one) donors, thus no pressing need for co-ordination. It is also easier to design a SWAp for the social sectors where there is a more clearly defined role for the public sector than for the "productive sectors".

Geography of Implementation: by 2000, roughly 80 sector programmes were prepared and implemented, 85% of them in Sub Saharan Africa. In March 2005, DFID had 80 approved SWAp projects and programmes. This includes budget support, projects and technical cooperation. Most of them also related to Africa.

Recipient selection: if there is a choice of aid instruments, SWAps are targeted towards lower income countries with good sector policies and high aid dependence. If development assistance represents a significant proportion of sector or overall budget resources, sector programmes can be mutually beneficial in improving policy coherence and reducing inefficiencies of donor driven projects. Where aid dependence is low, there is little to be gained from the introduction of a programme approach at sector level, since the volume of assistance will be limited and can usually be managed effectively through standalone projects.

Level of conditionality: there have been differing levels and types of conditionality attached to SWAps. In terms of <u>aid allocation</u> these include: the elaboration of a rolling medium term budget framework (to address evolving spending priorities over time in a way which is accountable to domestic rather than foreign constituencies), the requirement of sound budget management systems, implicit governance conditionality (which leads donors to suspend aid following events such as war). At the <u>sector level</u>, conditions include agreement between donors and Government to implement the programme set out in the Government strategy document and work-plan, general conditions related to the disbursement and accounting and audit of funds.

Evaluation to Date:
It is hard to have a comprehensive general evaluation of such heterogeneous set of programmes, as the one encompassed by SWAps. The following evaluations of specific areas of SWAp design and implementation have emerged as important in some cases.

It has been argued that SWAps start with great optimism about the strength of partnership, but that erodes over time as problems are experienced. One problem that occurs is the 'partnership' has proved one sided, with Government unable to exert any leverage on the donors.
The move away from project implementation units means that capacity is being built within central governments to plan and implement sector programmes.

Conditionality on the Government contribution to a sector programme appears to be meaningless sometimes, since it is not endorsed by the central budget authorities, usually Ministry of Finance.

The SWAp at sector level may make aid less fungible within the sector by defining a spending programme for the whole sector, but potentially reducing flexibility in sectoral spending.

Wherever there has been a lack of government ownership, conditions imposed by SWAps have not brought about policy changes. Civil society participation in strategy and policy formulation is generally low and direct involvement of communities is rare, although there are some pilots: e.g. participatory planning in Uganda.

SWAps tend to increase transaction costs in the short-run due to the amount of paper work needed to developing the basic SWAP documents and the several rounds of comments from donors on Government and Ministries' proposed implementation, which are not always on what the Government felt as priority issues. This may bear the danger of burning out overloaded line Ministries. It is not yet clear whether they actually fall once the SWAP is ongoing.

The quality of poverty diagnosis is low at programme design stage in most cases. The review process is providing an opportunity to inject better analysis and feedback, e.g. from participatory poverty assessments and service delivery surveys.

Regional

1) Regional Development Banks
A particularly interesting example is the trilateral scheme by IDB/ECLAC/OAS to provide Latin American and Caribbean countries with assistance for negotiations and for regional integration. This was initially only for FTAA negotiations, but has been extended to others. If meeting regional needs is one of the 'gaps' identified, there could be a role for regional organisations.

1a) Inter-American Development Bank

Date of Creation: 1959

Total funds: US$ 10 million spent in 2004 on aid for trade activities (WTO database)

Organising Institution: Inter-American Development Bank

Purpose: The Integration, Trade and Hemispheric Issues Division (ITD) provides ongoing technical support to the Bank's member countries in their efforts to:

- expand and improve their commercial links with the rest of the world;
- develop and fortify their regional and sub-regional integration schemes, and strengthen their extra-regional links;
- participate actively in the Free Trade Area of the Americas (FTAA) process;
- promote regional cooperation.

Geography of implementation: Latin America and the Caribbean

Recipient selection: Assistance has been particularly directed at smaller countries, but all are eligible.

Activities are both in individual countries and at regional level. The Bank has a particular commitment to regional integration in the Western Hemisphere, so regional projects are not just eligible, but encouraged

In order to accomplish its mandate, ITD undertakes the following activities:

- in consultation with countries involved, designs, promotes and implements IDB strategies to support regional integration in the Andean Community, the Central American Common Market (CACM), the Caribbean Community (Caricom) and the Southern Common Market (Mercado Común del Sur, Mercosur);
- as part of the OAS/IDB/ECLAC Tripartite Committee, provides technical support to FTAA negotiating groups and ad-hoc committees;
- advises and supports the decision-making bodies of the Bank on policy concerning trade and integration developments in the region;
- supports countries by providing technical input for the design and execution of trade and integration projects financed by IDB loans and technical cooperation, including institutional strengthening in the area of trade and customs modernization and reform, in collaboration with the Bank's Regional Operations Departments;
- conducts policy research on trade and integration issues of particular concern to Latin American and Caribbean countries, for Bank management, governments and other interested parties in member countries, scholars and the general public;
- coordinates and collaborates closely with the Bank's Institute for the Integration of Latin America and the Caribbean (INTAL) , based in Buenos Aires, Argentina; and
- collaborates with the Bank's Statistics and Quantitative Analysis Unit (INT/STA) in the maintenance of data bases on trade-related statistics.

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Level of conditionality none

Evaluation to date: It has been able to respond flexibly to changing needs in the countries, and has developed a particular focus on negotiation-related needs.

2) Intra-regional funds

2a) EU Structural Funds

Date of creation: 1975 (after the first enlargement with accession of Ireland, UK and Denmark)

Total funds: €29,170m (EU-15); €41,250m (EU-25)

Organising institution: Paid from the EU budget, i.e. the Commission proposes and manages. Decision*s* are taken by Council and Parliament.

Although the Structural Funds are part of the Community budget, the way in which they are spent is based on a system of shared responsibility between the European Commission and Member State governments:

- the Commission negotiates and approves the development programmes proposed by the Member States and allocates resources.
- the Member States and their regions manage the programmes, implement them by selecting projects, control and assess them.
- the Commission is involved in programme monitoring, commits and pays out approved expenditure and verifies the control systems which have been put in place.

Purpose: The Structural Funds are organised along several objectives, some of which are regional exclusive, other can be combined. Funding according to these objectives account for 94% of the structural funds budget.

- Objective 1 (cohesion): development and structural adjustment of regions whose development is lagging behind.
- Objective 2 (structural difficulties): economic and social conversion of areas facing structural difficulties
- Objective 3 (human resources): adaptation and modernisation of policies and systems of education, training and employment.
- Fisheries : adaptation of fishery structures

Geography of implementation: All EU Member States, and all regions – differing by objectives. See under recipient selection.

Recipient selection:

Objective 1: More than 2/3 of the appropriations of the Structural Funds (more than EUR 135 billion) are allocated to areas lagging behind in their development. The indicator for this is a level of GDP below 75% of the Community average. For objective 2, all regions are eligible. Objective 3 is linked to employment measure (training, equal opportunity, etc.) throughout the EU, but not applicable in Objective 1 areas.

Level of conditionality: In principle, the national regulations relevant to government support apply to the Structural Funds, with the exception of certain specific cases provided for by a special regulation.

Evaluation to date: Some of the criticism addresses the blanket approach to structural funds and the political horse-trading involved. It was obvious with the enlargement in 1995 and subsequent coverage of e.g. 'thinly populated areas' (in Northern Sweden, Finland and the Austrian Alps) and other goals that member states try to retrieve as much from the structural funds as possible (discussions around the 'net payer' usually involve funding via the structural funds). The fund is one of the most meaningful intervention tools for the Commission . It has also supported regionalism, as regional bodies can go into co-funding with the Commission and can thereby circumvent their national capitals.

2b) EU Cohesion Fund

Date of creation: 1995

Total funds: EUR 15.9 billion (in 2004 prices) re available for the years 2004-2006.

Organising institution: Paid from the EU budget, i.e. the Commission proposes and manages. Overall decisions are taken by the European Council (and Parliament).

Purpose:
Projects to be eligible must belong to one of the two categories:
a) Environment projects helping to achieve the objectives of the EC treaty
b) Transport infrastructure projects establishing or developing transport infrastructure as identified in the Trans-European Transport Network (TEN) guidelines.
Both targets have to be 'appropriately balanced' in funding.

After 2006, the assistance will not only cover major transport and environmental protection infrastructures, but also projects in the areas of energy efficiency, renewable energy and intermodal, urban or collective transport.

Geography of implementation:
All EU Member States (at national level). More than half of the funding (EUR 8.49 billion) is reserved for the new Member States.

*Recipient selection***:** The proposals must include key elements explaining what and why it is being proposed, the feasibility and financing of the project and the impact it will have in socio-economic and environmental terms. All projects must comply with Community legislation in force, in particular the rules on competition, the environment and public procurement.

A Member States is eligible for Cohesion Funds, which:

- has a per capita gross national product (GNP), measured in purchasing power parities, of less than 90 % of the Community average,
- has a programme leading to the fulfilment of the conditions of economic convergence as set out in Article 104c of the EC Treaty (avoidance of excessive government deficits).

Four Member States: Spain, Greece, Portugal and Ireland were eligible under the Cohesion Fund from 1 January 2000. The Commission's mid-term review of 2003 deemed Ireland (GNP average of 101 %) as ineligible under the Cohesion Fund as of 1 January 2004. On 1 May 2004 with the EU enlargement, all new Member States were qualified for the Cohesion Fund.

*Level of conditionality***:** The funding granted to a Member State is liable to be suspended if the country fails to comply with its convergence programme for economic and monetary union (stability and growth pact) running i.e. an excessive public deficit (more than 3% of GDP for Spain, Portugal and Greece, this threshold is being negotiated separately for each of the ten new Member States according to their own public deficit at the moment of the accession). Until the deficit has been brought back under control, new projects may not be approved.

*Evaluation to date***:** Mid-term reviews, conducted regularly.

Bilateral schemes

1) EU-ACP Project Management Unit

Date of creation: 2000

Total funds: Total fund was €20 million (paid out of the EDF) with a recent increase. A fixed amount is available for each ACP country allowing for one evaluation study per ACP country, plus some additional training and coordination activities. It is not intended to last beyond the end of the negotiations.

Organising institution: It is entirely funded by the EC, but administered by a Council taken from the EU and the ACP countries, and implemented by a Project Management Unit, set up as a consultancy, and headed by a national of an ACP country.

Purpose: To provide reports on each ACP country of the costs and benefits of implementing the proposed Economic Partnership Agreements between ACP regions and the EU. This includes considering the effect of offering the EU access to the ACP country's market, the potential impact on the ACP country of changing its current level of access to the EU, fiscal effects of an FTA, and any structural changes likely in the economy.

Geography of implementation: All ACP countries eligible to become members of a region signing an EPA with the EU (all ACP except South Africa).

Recipient selection: Countries put in a request for an assessment.

Level of conditionality: None.

Although it is bilateral and funded by a donor which is also the relevant trader, the organisation has been implemented in a way that ensures that country assessments are not seen by the EC.

Evaluation to date: The individual reports are each evaluated by external assessors, but the programme as a whole has not been. Countries report varying quality of the reports, but there is provision for supplementary reports when needed. It appears to have fulfilled its limited purposes as intended.

Other Information: Interesting because of how it solves the problem of a 'Chinese wall' between EU, both negotiator and funder, and ACP (the EC does not have the right to see copies of the impact assessment reports – though some appear on the website).

2) Special Fund for Rum

Date of creation: 1999

Total fund: Four year package for transitional support approved in 2001, amounting to € 70 m.

Organising institution: Administered by West Indies Rum and Spirit Producers' Association (WIRSPA), EU Commission finances from the EDF (deducted from regional aid programmes)

*Purpos*e: Support the modernisation of distilling industries and the development of higher value-added rum products (politically linked to the implementation of a zero tariff policy on rum in 2003).

Geography of implementation: West Indies.

Recipient selection: Aid was *directly* dispersed to the private sector and not simply divided up between governments.

The Rum Programme was divided into four 'windows' each having a separate budget and ceilings governing the maximum grant to an eligible recipient. The overall sum was split up as follows:

- €14.7 million for modernisation of distilleries;
- €21.7 million for distribution and marketing;
- €9.8 million for waste treatment and disposal of molasses; and,
- €3.5 million to develop business plans for small companies,

Sums outside the overall sum were paid for the development of Caribbean brands (€ 16.1 m) and to WIRSPA itself to administer the programme (€ 2.1 m).

Level of conditionality: No conditionality attached.

3) Bananas – Special Framework for Assistance (SFA)

Date of creation: 1999 (in succession of a previous scheme of 1994)

Total funds: €45m annually 1999-2008

Organising institution: EU Commission providing fund to countries (state-to-state level).

Purpose: Emphasis on projects to improve field productivity (e.g. irrigation and drainage) as well as reforming marketing organisations and diversification projects (mainly within agriculture).

Geography of implementation: 12 traditional ACP banana-producing countries.

Recipient selection: Country allocations for the SFA are determined on the basis of the size of the banana industry within the ACP country and a competitiveness gap formula. The competitiveness gap formula is defined as the difference between the average EU import unit value (c.i.f) from the ACP country over the preceding three years and the average EU import unit value (c.i.f) from the most competitive non-ACP country over the same period.

Level of conditionality: No hard conditionality attached.

Evaluation to date: In designing its sugar Action plan (see above or below: check), the Commission and member states explicitly cited the precedent of the banana programme as an example of a badly designed programme. ODI paper on Sugar Market Reform refers to several critical evaluations. A major failure has been its tendency to support banana production in those countries that have limited potential to become competitive. Several country programmes (e.g. Jamaica and St. Vincent) have used the funds provided to subsidise farmers' operating costs rather than finance new investments hindering efforts to improve competitiveness. Only in some African countries has financing been effective in increasing productivity in the banana industry. This was largely as a result of it being used by multinational companies to complement their own investments (in productive facilities) by funding the development of cableways, drainage and irrigation.

4) PROINVEST

Date of creation: Cotonou Agreement (2000)

Total funds: Budget of 110 million EURO over a period of 7 years, financed via the European Development Fund (EDF). To date, around half of funds have been disbursed.

Organising institution: Managed by the Centre for the Development of Enterprise (CDE), under the supervision of EuropeAid (i.e. the European Commission).

Purpose: Supposed to support the work of professional organisations (namely chambers of commerce and industry, employers´ federations), investment promotion agencies, financial institutions and consultants´ associations whose activities contribute to the improvement of the environment for business and the development of companies. Also supports key sector enterprises.

Geography of implementation: ACP countries.

Recipient selection: Beneficiary organisations (institutions and enterprises) may apply for assistance on a cost-sharing basis. Programme activities are co-financed by the beneficiaries (one third) and ProInvest (two thirds). Project awarding is done via call for proposals.

Level of conditionality: Relatively low. Cotonou conditions apply. Projects.

5) EU Action Plan for Sugar

Date of creation: Under negotiation.

Total funds: 2006 transitional aid at the volume of €40m

The ACP, and some EU Member States estimate needs to be funded by the EU at around € 250 m per year. The original Commission proposal was at € 190 m per year. Indications to date have been that the EC currently plans to provide

2007 €130m
2008 €140m
2009 €150m
2010 €170m
2011 €170m
2012 €170m
2013 €170m

For a total of €1100m over the 7 year period. The level of assistance is somewhat restrained by the internal EU financial agreement (Financial Perspectives). This could go up to € 1180 m by e.g. using unspent EU Member States' contribution.

Organising institution: European Commission, DG Agriculture and DG Trade

Purpose: To help ACP countries to adapt to the reductions in the EU sugar price through improving the efficiency of their sugar industries; moving into related products; or diversifying into unrelated activities. It is to be based on country-by-country programmes, and is intended to focus on the private sector.

Geography of implementation: 18 ACP countries: those that export fixed quantities of sugar to the European market at preferential rates under the terms of the ACP-EU Sugar Protocol plus Mozambique.

Level of conditionality: Not yet clear

6) EU Trade-Related Assistance

Date of creation: Unknown, but the EC has been active in the area of trade-related assistance since 1996.

Total Funds: €835 million per annum over the period 2001-04, with the aim of reaching €1 billion per annum over the period 2006-09.

Organising Institution(s): the funds come either from the budget (allocated by different Directorate Generals) or from the European Development Fund (for ACP countries). There would seem to be five possible DGs involved in the allocation of the TRA funds: Relex, Enlargement, Trade, Development and Environment; plus one (EuropeAid) involved in the implementation.

Purpose: It aims to provide funding 'to support the trade capacity building efforts of developing countries….to enhance their capacity to make use of the trading opportunities offered by improved market access and multilateral trade liberalisation.'[13]

Geography of Implementation: It covers all developing regions. According to the Commission's own data over the period 2001-04, the ACP region is the largest beneficiary with 40% of the total activities, followed by the Mediterranean region with 19% and Western Balkans with 14%. Asia, Latin America and the TACIS regions received comparable amounts of TRA representing around 8% each.

Recipient selection: Trade-related assistance is part of regional and country programmes when the EC and the partner countries have decided this as a priority. The ACP programmes (through EDF) tend to be programmes through National (such as Namibia, Kenya, Zambia, Ethiopia, Jamaica, Suriname, DR, Rwanda, Ghana) or Regional Indicative Programme where trade and development or regional integration is a priority, or All-ACP programmes.

Level of conditionality: None

Evaluation to Date: The EC TRA is in general considered effective (see ADE, 2004) in improving the partner countries' understanding of trade-related issues, in increasing their awareness of trade policy issues and in enhancing the productive sector's ability to reap the benefit of trade integration. However, the diagnostics on the basis of which TRA activities are planned and implemented appear to be poor in several respects and the impact of EC's TRA in terms of expansion and diversification of external trade and increased investment has been disappointing

7) USAID Trade Capacity Building

Date of creation: Unknown, but has been ongoing since at least 1995. The Trade for African Development and Enterprise (TRADE) was created by the Bush administration in 2002. Generally, US trade capacity building can be seen as a collection of previous trade and development programmes placed under a single umbrella since 2001 / 2002.

Total Funds: US$ 1.3 billion in 2005, approximately half of which comes from USAID and the rest is given by other US government agencies. Initial funding for TRADE is US$ 15 million.

Organising Institution(s): Five US government agencies work on 'Aid for Trade' or trade capacity building. There is an administrative cross-government group which is chaired by USAID and the US Trade Representative. Under USAID, the Trade Capacity Building (TCB) Project does much of the research and technical advice to USAID staff seeking to implement trade-related assistance in USAID countries.

Purpose: The general purpose of the initiative is to 'assist developing countries in participating in trade negotiations, implementing trade agreements, responding to new market opportunities resulting from trade liberalisation, and transitioning to a freer trade environment. Underlying these efforts is a recognition that integration into the global economy can be a powerful force in stimulating economic growth and reducing poverty in developing countries.'[14] The in country

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[13] EC (DG Trade), *Making trade work for development*, 2005.

[14] http://www.tcb-project.com/tcb/level1.php

support also has some discreet national goals based on the needs of the country. Infrastructure and trade facilitation are also grouped under this initiative by USAID.

Geography of Implementation: Wide spread geographic presence – in countries where USAID is present in Latin America, Africa and Asia.

Recipient selection: Based on countries in which USAID operates and those that meet certain governance and macroeconomic criteria (see below).

Level of conditionality: The African TRADE initiative focuses on good governance and macroeconomic stability before implementation. Additionally, the trade capacity building project emphasises that projects are designed in such a way to maximise best practice on topics such as intellectual property rights, sanitary and phyto-sanitary measures and priority areas in services.

Evaluation to Date: African private sectors have found it more active and more useful than programmes from other trade partners in helping them to access trade preference schemes. It has provided very extensive support to ministries in their trade work. It is not clear what mechanisms are in place to keep these at arms length from US interests.

Other information: The US trade assistance programme is large and has many regional and country level initiatives. A full review of these programmes is available at: http://www.usaid.gov/our_work/economic_growth_and_trade/eg/trade/tcb_activities.htm

8) Millennium Challenge Account (US)

Date of creation: Millennium Challenge Corporation (MCC) was established on January 23, 2004 to administer the MCA

Total Funds: Congress provided nearly US$ 1 billion in initial funding for FY04 and US$ 1.5 billion for FY05. The President requested US$ 3 billion for FY06 and pledged to increase annual funding for the MCA to US$ 5 billion in the future

Organising Institution(s): US government, Millennium Challenge Corporation (MCC).

Purpose: The general purpose is to Reduce Poverty through Economic Growth, through investments in areas such as agriculture, education, private sector development, and capacity building; to reward good policy using ‘objective indicators’; to operate as Partners. And to focus on Results: MCA assistance will go to those countries that have developed well-designed programs with clear objectives.

Geography of Implementation: In principle broad, but in practice only for those selected.

Recipient selection: The MCC) selected 23 countries as eligible to apply for Millennium Challenge Account (MCA) assistance for 2006. The selected countries from the ‘low income’ category for FY 2006 are: Armenia, Benin, Bolivia, Burkina Faso, East Timor, The Gambia, Georgia, Ghana, Honduras, Lesotho, Madagascar, Mali, Mongolia, Morocco, Mozambique, Nicaragua, Senegal, Sri Lanka, Tanzania and Vanuatu; and three countries from the ‘lower middle income’ category – a new category in 2006 that includes El Salvador, Namibia and Cape Verde. The selection considers policy performance of candidate countries in three areas -- ‘ruling justly,’ ‘investing in people’, and ‘encouraging economic freedom’. In addition to evaluating whether countries perform above the median in relation to their peers on at least half of the indicators in each of these three policy categories and on the corruption indicator, the MCC may exercise discretion in considering additional information and adjusting for gaps, lags, or other weaknesses in the data. The MCC also considers factors such as the opportunity to reduce poverty and generate economic growth and to have a transformational impact in the country.

Level of conditionality: Countries need to be selected first (see above). But selection as an MCA country alone will not guarantee automatic grant funding of all aspects of a country's proposed contract. Programmes will continue to receive funding, subject to congressional appropriation, under the terms of the country's MCA contract unless they fail to meet the specific conditions for performance specified in the contract. Funding for all or part of the MCA contract could be scaled back or ended for if programmes fail to meet financial standards/accountability; or achieve specific benchmarks.

Evaluation to Date: After a very slow start, the MCC has now begun to disburse funds (e.g. Vanuatu, Madagascar, Benin). It is supposed to be a scheme that address supply side constraints to growth (and trade)

Other information: See http://www.mca.gov/

Table 8 Eligibility and implementation of trade related programmes

Programme	*Eligibility*	*Actual Implementation*
IF	All LDCs	Mainly SSA (+ Cambodia and Nepal)
JITAP	African countries	6 developing countries and 10 LDCs
WTO technical assistance	Developing and transition Members of WTO (with special focus on Africa)	
UNCTAD	LDCs and transition economies	Eligible countries + some developing
ITC	Developing countries	Strong focus on Africa (42% of funds)
TIM	A country facing BOP problems because of trade liberalisation	Dominican Republic and Bangladesh
HIPC budget support	Highly indebted poor countries based who have committed to macroeconomic stability and to channel debt relief into pro-poor expenditure	28 countries at 'completion point,' 13 more eligible. Primarily in sub-Saharan Africa with a smaller number of Latin American and Asian economies.
STDF	All WTO member states (for all low income countries the project grants cover 90% of cost, for the rest, the grant must be 25% financed by the recipient body)	To date project funded in Benin, Cambodia, CARICOM, Cameroon, Dijbouti, Guinea, Malawi, Mozambique, SAARC and Yemen.
IADB trade activities	Latin American and the Caribbean countries	Particularly directed to smaller countries
EU-ACP PMU	All ACP except South Africa	
Special Fund for Rum	West Indies	
SFA for bananas	12 traditional ACP banana-producing countries	Allocated to countries on the basis of the size of the banana industry within the ACP country and a competitiveness gap formula
PROINVEST	ACP countries	
EU Trade-Related Assistance	All developing countries	Africa (40%), Mediterranean region (19%), Western Balkans (14%), Asia (8%), Latin America (8%) and the TACIS regions (8%).
USAID Trade Capacity Building	All developing countries	Based on countries in which USAID operates and those that meet certain governance and macroeconomic criteria.

Source: Annex 3

Annex 4 Scale of aid for trade funds according to type of flow

Table 9 Trade Policy and Regulation by type of flow (2001-04) - US$ 000 and %

Category | Type of flow	*Total*	*Grant*	*Loan*
Trade mainstreaming in PRSPs/development plans	463,860	100%	0%
Technical barriers to trade (TBT)	154,403	100%	0%
Sanitary and phytosanitary measures (SPS)	221,622	100%	0%
Trade facilitation procedures	827,039	76%	24%
Customs valuation	82,256	100%	0%
Tariff reforms	2,003	100%	0%
Regional trade agreements (RTAs)	480,236	94%	6%
Accession	72,346	100%	0%
Dispute settlement	11,031	100%	0%
Trade-related intellectual property rights (TRIPS)	47,951	100%	0%
Agriculture	36,297	100%	0%
Services	32,415	100%	0%
Tariff negotiations - non-agricultural market access	15,719	100%	0%
Rules	13,824	100%	0%
Training in trade negotiation techniques	30,751	100%	0%
Trade and environment	172,029	100%	0%
Trade and competition	136,795	100%	0%
Trade and investment	30,386	87%	13%
Transparency and government procurement	18,630	100%	0%
Trade education/training	203,778	99%	1%
Trade Policy and Regulation	**3,053,371**	**92%**	**8%**

Source: WTO database

Table 10 Trade Development by type of flow (2001-04) - US$ 000 and %

Category | Type of flow	*Total*	*Grant*	*Loan*
Business support services and institutions	1,644,374	91%	9%
Public-private sector networking	262,382	99%	1%
E-commerce	123,302	100%	0%
Trade finance	1,593,368	65%	35%
Trade promotion strategy and implementation	1,950,470	91%	9%
Market analysis and development	1,344,513	88%	12%
Trade development	**6,918,408**	**85%**	**15%**

Source: WTO database

Table 11 Infrastructure expenditure, by year and type of flow

Years (Commitments)	*Total (US$ 000)*	*Equity investment*	*Grant*	*Loan*
2001	9,146,607	1%	29%	70%
2002	9,227,001	1%	32%	66%
2003	9,330,294	3%	33%	63%
2004	14,802,675	0%	49%	50%
Total 2001-04	**42,506,577**	**1%**	**38%**	**61%**

Source: WTO database

Table 12 Narrow and broad categories, by type of flow (2001-04)

Category/Type of Flow	*Total (US$ 000)*	*Equity investment*	*Grant*	*Loan*
D	1,264,247		84%	16%
Total Narrow	**1,264,247**		**84%**	**16%**
F	918,591		100%	0%
G	42,673,758	1%	38%	61%
H	4,258,065		83%	17%
I	3,363,695		90%	10%
Total Broad	**51,214,109**	**1%**	**46%**	**53%**

Source: WTO database

Annex 5 Aid for trade funds – analysis by donors and recipients

Table 13 Total Aid for Trade by donor and by year (US$ ‘000)

Years (Commitments)	*2001*	*2002*	*2003*	*2004*	*2001-04*
Japan	4,076,888	3,541,488	3,380,556	4,077,637	15,076,570
EC	2,259,363	2,364,378	2,179,817	2,594,250	9,397,809
United States	982,630	1,446,475	1,261,755	5,067,599	8,758,458
Germany	635,743	408,412	482,782	656,377	2,183,314
France	197,215	231,778	332,122	452,672	1,213,788
United Kingdom	187,195	179,715	444,264	206,237	1,017,411
Netherlands	191,413	279,033	177,310	200,109	847,865
Spain	98,806	196,170	293,738	161,953	750,667
Denmark	25,993	128,879	155,135	210,128	520,136
Norway	166,199	68,886	118,553	88,767	442,404
Switzerland	63,514	98,049	136,733	117,797	416,092
Sweden	103,078	56,487	154,116	74,922	388,602
Canada	96,318	52,243	129,952	95,230	373,744
Australia	78,006	17,855	40,586	148,650	285,097
Belgium	39,391	44,754	96,188	97,913	278,246
Italy	29,379	45,747	166,626	35,504	277,256
Others	46,705	128,921	96,704	134,720	407,050
Total Bilateral	7,028,836	7,030,806	7,543,885	11,953,011	33,556,538
Total Multilateral	4,122,653	4,185,324	4,768,465	5,845,375	18,921,817
Total Donor	11,151,490	11,216,131	12,312,349	17,798,386	52,478,356

Source: WTO database

Table 14 Index of Aid for Trade specialisation (by donor and year)

	2001	*2002*	*2003*	*2004*	*2001-04*
EC	2.3	2.5	1.8	1.6	2.0
Japan	1.7	2.1	1.6	1.6	1.7
United States	0.5	0.6	0.5	1.2	0.8
Spain	0.3	0.7	1.1	0.4	0.6
Switzerland	0.4	0.7	0.8	0.4	0.6
Denmark	0.1	0.6	0.8	0.5	0.5
Germany	0.6	0.4	0.5	0.4	0.5
Australia	0.5	0.1	0.3	0.7	0.4
Norway	0.7	0.3	0.5	0.3	0.4
Netherlands	0.3	0.4	0.6	0.4	0.4
Belgium	0.3	0.4	0.4	0.3	0.3
Sweden	0.5	0.2	0.5	0.2	0.3
United Kingdom	0.2	0.2	0.6	0.2	0.3
Canada	0.4	0.2	0.4	0.2	0.3
France	0.2	0.2	0.3	0.3	0.3
Others	0.1	0.3	0.2	0.2	0.2
Italy	0.1	0.1	0.4	0.1	0.2

Note: the index is obtained by dividing the share of a country in total aid for trade over the share of the country in total ODA. Aan index greater than 1 means relative specialisation in aid for trade

Source: WTO and OECD DAC database

Table 15 Donor concentration of aid for trade expenditure relative to other ODA

	2001	*2002*	*2003*	*2004*	*2001-04*
Herfindhal Index Aid for Trade	0.187	0.164	0.123	0.158	0.146
Herfindhal Index total ODA	0.114	0.104	0.119	0.116	0.112
Share first 3 donors Aid for Trade	65.6%	65.6%	55.4%	66.0%	63.3%
Share first 3 donors total ODA	49%	45%	51%	48%	48%

Note: the Herfindhal index is calculated as the sum of the squares of each country's share in total aid for trade (ODA); the higher the Herfindhal Index the more concentrated is the sector

Source: Authors' calculation on WTO and OECD DAC database

Table 16 Aid for trade by recipient country/region and year (USD '000)

	2001	*2002*	*2003*	*2004*	*2001-04*	*Rank**
Total Aid for trade	**11,151,490**	**11,216,131**	**12,312,349**	**17,798,386**	**52,478,356**	
Africa	**3,084,410**	**2,482,327**	**3,943,984**	**4,173,953**	**13,684,674**	
Africa - North of Sahara	**497,575**	**834,683**	**803,957**	**710,042**	**2,846,257**	
Egypt	93,221	204,883	456,164	292,520	1,046,788	8
Morocco	174,648	171,970	276,884	268,777	892,279	10
Tunisia	115,194	341,272	23,142	64,021	543,629	21
Algeria	11,634	107,565	14,516	5,089	138,804	56
Libya	1,180	27	88	82	1,377	145
North of Sahara regional	101,699	8,966	33,164	79,553	223,382	
Africa - South of Sahara	**2,556,546**	**1,587,703**	**2,723,313**	**3,246,941**	**10,114,503**	
Ethiopia	179,886	247,894	197,040	234,745	859,565	12
Tanzania	392,666	34,741	47,909	356,105	831,421	13
Mozambique	278,741	98,145	218,876	170,992	766,754	15
Kenya	128,781	5,066	113,660	447,553	695,060	17
Ghana	275,816	56,870	193,050	104,017	629,753	18
Uganda	340,422	62,900	72,657	148,960	624,939	19
Madagascar	61,251	98,611	321,621	139,479	620,962	20
Burkina Faso	48,402	34,373	265,260	144,543	492,578	22
Mali	11,379	16,235	65,901	245,543	339,058	31
Zambia	70,112	61,195	11,771	168,883	311,961	32
Nigeria	111,927	141,009	21,379	2,365	276,680	37
Cameroon	116,527	58,597	26,229	21,004	222,357	42
Benin	26,325	9,857	69,924	109,888	215,994	44
Senegal	47,265	27,761	58,678	80,720	214,424	45
Mauritania	4,596	48,455	81,148	51,083	185,282	48
South Africa	64,873	27,092	41,591	38,364	171,920	51
Mauritius	231	3,281	131,640	666	135,818	58
Congo, Dem. Rep.	13,934	76,781	26,875	12,637	130,227	59
Chad	29,333	69,643	14,337	12,694	126,007	60
Guinea	1,622	29,272	22,567	66,624	120,085	61
Malawi	39,206	14,193	30,463	35,891	119,753	62
Rwanda	6,727	35,848	57,463	12,467	112,505	67
Burundi	7,650	1,122	149	102,487	111,408	68
Sierra Leone	141	2,917	64,629	43,195	110,882	69
Eritrea	1,176	485	42,225	53,693	97,579	73

Central African Rep.	11,218	3,921	64,240	832	80,211	80
Swaziland	40,822	9,219	10,540	615	61,196	89
Gabon	6,476	26,844	964	24,053	58,337	92
Niger	5,524	11,597	16,254	21,073	54,448	94
Namibia	10,462	10,016	4,039	26,047	50,564	98
Guinea-Bissau	5,854	33,832	1,194	8,123	49,003	99
Cape Verde	8,168	28,171	5,324	6,383	48,046	100
Lesotho	1,958	7,830	18,035	17,904	45,727	101
Angola	15,912	22,334	3,593	3,819	45,658	102
Djibouti	595	11,663	12,812	14,392	39,462	104
Côte d'Ivoire	1,695	20,631	574	3,237	26,137	109
Congo, Rep.	4,312	3,737	1,008	13,770	22,827	112
Sao Tome & Principe	1,075	3,599	1,232	12,492	18,398	117
Togo	320	2,404	11,514	1,689	15,927	120
Sudan	354	478	1,522	10,835	13,189	122
Gambia	299	8,987	791	1,627	11,704	125
Comoros	443	405	228	6,078	7,154	130
Zimbabwe	2,299	1,468	1,435	1,295	6,497	132
Botswana	192	153	4,701	1,027	6,073	135
Seychelles	1,074	299	829	177	2,379	140
Somalia	176	1,124	203	540	2,043	142
Equatorial Guinea	214	355	809	159	1,537	144
Liberia	22	212	113	44	391	151
Africa regional	30,289	59,942	416,714	216,970	723,915	
America	**894,747**	**582,262**	**779,153**	**820,529**	**3,076,691**	
America regional	84,587	5,942	94,829	34,632	219,990	
North & Central America	**576,907**	**281,135**	**393,600**	**558,451**	**1,810,093**	
Nicaragua	123,104	38,130	36,038	146,744	344,016	29
Costa Rica	137,509	46,811	21,364	557	206,241	46
Honduras	22,939	37,766	44,244	79,091	184,040	49
El Salvador	108,206	23,232	26,291	21,267	178,996	50
Jamaica	33,145	5,448	28,249	27,600	94,442	75
Panama	7,983	8,749	10,238	48,586	75,556	81
Mexico	10,007	28,328	8,979	24,989	72,303	85
Haiti	8,802	7,053	15,593	37,956	69,404	86
Dominican Republic	10,564	8,518	6,196	32,208	57,486	93
Guatemala	8,401	6,194	8,071	10,339	33,005	106
St. Lucia	13	127	11,513	9,345	20,998	113
Cuba	7,411	1,634	3,684	4,408	17,137	119
Dominica	5,366	49	271	6,775	12,461	123
Belize	1,803	104	191	3,978	6,076	134
Barbados	2,408	45	74	111	2,638	138
Antigua and Barbuda	196	54	162	180	592	148
Bahamas	3	49	100	99	251	154
West Indies regional	66,037	31,932	57,799	67,890	223,658	
N.& C. America regional	16,519	17,866	78,632	27,145	140,162	
South America	**233,253**	**295,186**	**290,723**	**227,447**	**1,046,609**	
Bolivia	11,688	103,367	106,259	46,269	267,583	38
Peru	6,634	80,707	26,132	26,280	139,753	55
Brazil	53,563	10,651	26,573	11,005	101,792	71
Guyana	23,618	62,545	1,344	7,087	94,594	74
Argentina	73,540	2,733	4,635	12,305	93,213	76
Ecuador	16,256	5,805	13,476	28,066	63,603	88
Colombia	4,046	2,467	8,981	43,750	59,244	91
Chile	7,754	4,551	36,405	4,215	52,925	95
Paraguay	6,804	2,105	2,849	20,555	32,313	107

Venezuela	1,966	4,123	755	1,089	7,933	127
South America regional	14,739	15,549	19,413	18,018	67,719	
Asia	**4,800,926**	**5,274,415**	**5,619,859**	**10,041,150**	**25,736,350**	
Asia regional	69,863	72,149	82,101	60,875	284,988	
Far East Asia	**3,247,649**	**2,982,697**	**2,958,317**	**3,474,778**	**12,663,441**	
Viet Nam	716,339	992,886	767,227	1,066,953	3,543,405	1
Indonesia	464,332	123,506	1,143,825	1,242,666	2,974,329	3
China	1,005,238	655,597	606,128	382,171	2,649,134	4
Philippines	668,005	595,666	110,687	116,406	1,490,764	6
Thailand	47,018	393,344	18,791	427,664	886,817	11
Cambodia	60,478	25,380	141,347	114,743	341,948	30
Macao	115,797	14,668	75,006	54,215	259,686	40
Mongolia	151,408	31,007	29,883	18,767	231,065	41
Laos	2,138	124,978	2,770	6,659	136,545	57
Timor-Leste	3,377	12,010	22,123	37,636	75,146	82
Malaysia	4,030	3,394	7,968	3,259	18,651	116
Korea	1,857	183	116	427	2,583	139
Singapore	210	595	76	132	1,013	146
Chinese Taipei	50	113	81	168	412	150
Brunei	37	43	90	104	274	153
Hong Kong, China	3	49	52	145	249	155
Far East Asia regional	7,330	9,276	32,146	2,603	51,355	
Middle East	**152,742**	**96,491**	**173,027**	**3,396,974**	**3,819,234**	
Iraq	4	5	60,828	3,257,910	3,318,747	-
Jordan	27,398	43,805	26,038	19,455	116,696	63
Palestinian Adm. Areas	39,967	21,295	30,495	22,751	114,508	64
Lebanon	3,556	16,793	38,801	959	60,109	90
Syria	2,552	2,930	2,255	45,105	52,842	96
Iran	934	390	2,296	3,682	7,302	129
Bahrain	88	71	113	94	366	152
Kuwait	4	47	94	92	237	156
Middle East regional	20,488	8,947	725	30,887	61,047	
South & Central Asia	**1,330,671**	**2,123,079**	**2,406,415**	**3,108,523**	**8,968,688**	
India	319,768	710,666	801,953	1,353,725	3,186,112	2
Bangladesh	151,804	355,547	598,291	324,103	1,429,745	7
Afghanistan	378	40,424	271,584	771,716	1,084,102	-
Sri Lanka	288,434	429,116	220,819	107,642	1,046,011	9
Pakistan	48,487	136,889	195,160	89,979	470,515	23
Uzbekistan	4,112	209,190	25,037	173,078	411,417	25
Nepal	126,473	41,790	101,304	12,217	281,784	35
Georgia	72,008	40,925	28,601	58,611	200,145	47
Kazakhstan	70,585	22,219	17,337	43,496	153,637	52
Tajikistan	58,136	12,813	21,991	52,411	145,351	54
Armenia	36,999	23,596	16,611	36,776	113,982	65
Azerbaijan	51,824	13,559	21,144	26,378	112,905	66
Bhutan	22,935	17,863	34,744	10,808	86,350	78
Kyrghyzstan	45,687	3,328	10,114	24,924	84,053	79
Turkmenistan	756	118	2,682	678	4,234	136
South Asia regional	21,871	41,722	36,631	20,010	120,234	
Europe	**1,647,466**	**2,307,528**	**1,340,546**	**1,975,460**	**7,271,000**	
Russia	276,060	522,627	396,987	630,673	1,826,347	5
Serbia & Montenegro	88,038	148,814	200,497	360,486	797,835	14
Romania	339,378	128,648	20,257	211,770	700,053	16
Bulgaria	125,115	164,002	11,452	160,035	460,604	24
Turkey	696	112,796	219,658	68,091	401,241	26
Poland	156,003	185,281	26,397	11,644	379,325	27

Ukraine	84,207	119,939	50,919	91,843	346,908	28
Albania	12,471	93,337	105,031	100,266	311,105	33
Czech Republic	43,298	248,370	10,821	1,724	304,213	34
Bosnia & Herzegovina	81,699	57,779	34,696	104,235	278,409	36
Croatia	34,558	101,991	35,781	45,226	217,556	43
Hungary	88,967	58,389	5,109	710	153,175	53
Slovak Republic	68,268	34,642	2,499	1,163	106,572	70
Lithuania	49,159	23,265	22,838	4,816	100,078	72
Macedonia/FYROM	10,536	6,745	35,474	38,318	91,073	77
Moldova	8,536	2,281	55,155	7,139	73,111	84
Latvia	28,970	37,180	1,352	1,583	69,085	87
Slovenia	38,222	8,723	536	4,099	51,580	97
Estonia	11,767	21,589	5,075	1,991	40,422	103
Cyprus	2,982	3,101	1,605	220	7,908	128
Malta	3,299	1,626	1,218	194	6,337	133
Belarus	391	563	54	2,567	3,575	137
Global programmes	569,771	509,123	515,353	496,834	2,091,081	
NIS regional	48,662	54,645	30,475	67,876	201,658	
States Ex-Yugoslavia Unsp.	4,128	131,844	17,935	12,473	166,380	
Europe regional	23,093	16,320	26,100	23,565	89,078	
Oceania	**154,170**	**60,476**	**113,454**	**290,460**	**618,560**	
Papua New Guinea	59,190	8,626	34,747	159,261	261,824	39
New Caledonia	13,636	2,990	2,339	54,357	73,322	83
Samoa	8,118	14,690	14,935	1,444	39,188	105
French Polynesia	1	14,812	0	14,940	29,753	108
Micronesia,Fed. States	11,062	28	8,453	4,529	24,071	110
Kiribati	12,998	787	470	8,858	23,113	111
Wallis & Futuna	2,307	5,189	762	12,626	20,885	114
Palau	14,076	20	818	5,146	20,060	115
Vanuatu	775	1,144	12,306	2,994	17,219	118
Fiji	10,429	433	1,146	2,475	14,483	121
Marshall Islands	2,300	28	9,876	127	12,331	124
Solomon Islands	267	621	1,095	7,394	9,376	126
Tonga	2,691	817	1,453	1,701	6,661	131
Niue	195	523	455	1,163	2,337	141
Cook Islands	661	315	782	181	1,939	143
Tuvalu	57	102	399	289	847	147
Tokelau	0	139	379	10	529	149
Nauru	0	20	138	14	172	157
Oceania regional	15,407	9,190	22,901	12,952	60,449	

** Countries are ranked according to the cumulative 2001-04 spending.*
Source: WTO database

Table 17 Aid for trade spending relative to total ODA - by region of destination

	2001	*2002*	*2003*	*2004*	*2001-04*
Europe	2.38	2.19	1.89	2.89	2.32
Far East Asia	1.13	1.5	1.63	1.46	1.44
Africa - North of Sahara	0.72	1.36	1.91	0.82	1.14
South & Central Asia	0.75	1.12	0.95	1.17	0.98
North & Central America	0.8	0.54	1.06	0.63	0.76
Oceania	0.77	0.33	0.66	0.79	0.69
Africa - South of Sahara	0.93	0.45	0.78	0.58	0.66
Middle East	0.2	0.15	0.11	0.99	0.58
South America	0.38	0.37	0.56	0.22	0.36

Note: the index is obtained by dividing the share of a region in total aid for trade over the share of the region in total ODA; an index greater than 1 means relative specialisation in aid for trade

Source: WTO and OECD DAC database

Table 18 Destination of Aid for Trade by income group, shares

	2001	*2002*	*2003*	*2004*	*2001-04*
LDCs	22%	16%	26%	21%	21%
Other Low Income Countries	25%	24%	29%	28%	27%
Low-Middle Income Countries	28%	35%	23%	35%	31%
Upper-Middle Income Coun.	3%	3%	3%	1%	2%
Others & unallocated	21%	22%	19%	15%	19%
Total Aid for trade (million US$)	**11,151**	**11,216**	**12,312**	**17,798**	**42,507**

Source: WTO database

Table 19 Relative importance of Aid for Trade by income group

	2001	*2002*	*2003*	*2004*	*2001-04*
LDCs	1.07	0.70	1.04	0.83	0.88
Other Low Income Countries	0.84	1.00	0.97	1.30	1.04
Low-Middle Income Countries	1.09	1.34	0.92	1.15	1.14
Upper-Middle Income Coun.	1.00	0.84	0.69	0.39	0.59
Others & unallocated	1.00	0.94	1.23	0.74	0.97

Note: the index is obtained by dividing the share of an income group in total aid for trade over the share of the income group in total ODA; an index greater than 1 means that a country is receiving aid for trade more than proportionally with respect to ODA

Source: WTO and OECD DAC database

Annex 6 Scale of aid for trade funds according to pledges

Table 20 Pledges by donors

	Original pledge	*Annual amount (US$ '000)*	*Additional*
EC	€ 1 bn	1200	The current level of TRA is around €800 annually so that around €200mn is additional
Japan	US$ 10 bn in total	3300	The OECD DAC report treats this as additional, but doubts exist
UK	£100 million	185	£50mn
USA	US$ 2.7 bn	2700	US$ 1.35bn
France	€ 33 million	39	Nothing additional; estimate is based on WTO OECD (2005a)
Total pledges		5036	
Narrow costs		3038	
Left for broad		2001	

Source: different public statements made by donors

Annex 7 Aid for private sector development – the case of UK and EC

An analysis of UK bilateral aid for private sector development (Te Velde, 2003) yields that

- Total investment-related aid amounts to £500 mn annually. In absolute terms, countries receiving most investment-related aid include: Ghana, Rwanda, Tanzania, Uganda and South Africa in Africa; India and Bangladesh in Asia; Belize, Dominican Republic, Bolivia and Montserrat in Latin America and the Caribbean.
- Around 30% of UK bilateral aid is allocated to investment-related areas in all major regions. There are however differences across countries: Botswana, Central African Republic, Egypt, Ghana, Lesotho, Mauritius, Rwanda, Uganda and South Africa are amongst African countries that receive an above-average investment related aid share.
- This percentage has increased over time from 18% in the 70s (Table 21 below).
- The types of investment-related aid have shifted away from infrastructure towards macroeconomic stability, legal and policy frameworks and human resource development.

Table 21 UK (bilateral) aid as reported by OECD CRS. Distribution by sector

	1973-1979	*1980-1989*	*1990-1996*	*1997-2002*
Investment related aid	**18**	**25**	**33**	**30**
Infrastructure	10	13	13	6
Macroeconomic stability	0	8	6	7
Legal and policy frameworks	0	0	2	3
Private sector support	2	3	4	3
Human resource development	6	1	9	11
Other aid	**82**	**75**	**67**	**70**

Based on the OECD DAC database

Using the same definition of aid for private sector development, the EC calculates it spends between 1996 and 2001:

- 3.5 bn € in the ACP
- 0.6 bn in Asia
- 0.4 bn in the West Balkans
- 0.7 bn in Latin America
- 1.7 bn in MEDA
- 0.2 bn in Asia
- Total = 7.1 bn €

A breakdown of aid to the ACP over the period is as follows.

Table 22 Aid to the ACP countries (1996-2001)

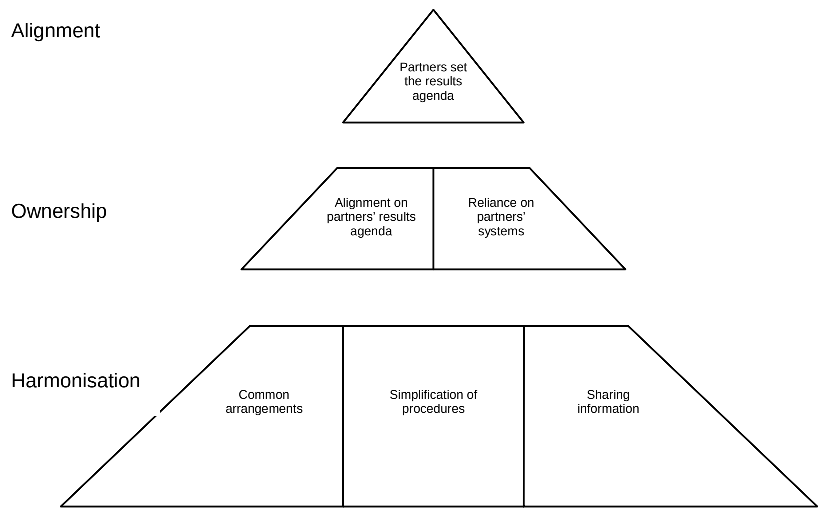
	Ongoing Projects (1996-2001)	
Objective / Area of Activity	Year, when the first project started	Total amount for ongoing projects in Euro
1. Infrastructure	1998	1,494,034,873.38
2. Macroeconomic Stability	2001	822,295,734.90
3. Legal and Policy Frameworks	1996	409,601,884.00
4. Private Sector Support	2001	357,590,631.00
5. Human Resource Development and Institutional Building	1998	389,909,023.30
Total ACP	Total Amount ACP	
	Ongoing Projects:	3,473,432,146.58

WTO (2003a)

Much aid for PSD is for infrastructure and macroeconomic stability.

Annex 8 The Debate on Aid Effectiveness

Chart 1 Aid effectiveness pyramid



Source: Rogerson (2005)

Annex 9 UNIDO's role seen through various frameworks

The role of various actors in industrial development can be seen in the light of very different assessment criteria. For instance, UN agencies will have a limited role in supporting industrial development seen through a minimal approach or a private-sector-led approach. There are narrow and overlapping roles for UNIDO and other UN agencies in a mandate-driven approach. A comparative advantage approach should see UNIDO specialize in industrial development with the most support for industrial development channelled though UNIDO. While the picture is necessarily incomplete, the main message is that there are different roles for UNIDO depending on the type of framework used to assess support for industrial development.

While it is possible to examine UNIDO's activities from the perspective of public goods, it is useful to briefly discuss UNIDO's comparative advantage in providing public goods to support industrial development vis-à-vis other international organizations (that is, examining the intersection of what the public goods framework and what the comparative advantages framework would imply for appropriate support for industrial development). This is relevant in order to identify areas where UNIDO could focus its attention most effectively. It should be recognized that a public goods framework might suggest an increased focus on certain areas in which UNIDO does not have a comparative advantage, and would therefore have to build up additional capacity. It could also be that UNIDO's comparative advantage is in providing private goods, and hence, a refinement of services would be needed if a public goods framework is followed.

The opinion of experts and UNIDO staff offer a first and important assessment of UNIDO's comparative advantage, showing that the comparative advantage falls into the field of building capacity for sustainable industrial production. UNIDO's Corporate Strategy identifies two areas of comparative advantage: (i) technology diffusion; and, (ii) trade capacity building. Magariños *et al* (2001) discuss the Danish Assessment of UNIDO in 1997, which argued that '[n]o other international organisation has the same comprehensive experience, technical knowledge and multi-disciplinary expertise for continuing and linking industrial technical co-operation services targeted at both the policy and strategy level, the institutional framework level and the enterprise level'. DFID (2001) believes that UNIDO's environmental work for the Montreal Protocol and the Global Environment Facility is one of its key strengths and should represent part of a more focused niche, but is concerned that UNIDO operates in a wide range of areas. The permanent representative of Japan to UNIDO thinks strengthening productive capacities and cleaner and sustainable industrial development are two areas of comparative advantage for UNIDO.

In other instances, UNIDO would be well placed to build up a comparative advantage, but due to (financial) constraints may not have done so. For instance, building up an industrial policy knowledge requires generation of statistics (in which UNIDO already has the capacity and comparative advantage) as well as the analytical capacity to generate new policy knowledge on the basis of these statistics (where UNIDO does not have the necessary capacity). UNIDO could fill this apparent gap among international organizations.

Source: te Velde and Morrissey (2005)

Annex 10 Main aid forms

Table 23 considers seven aid forms. They differ with respect to at least three factors (Foster and Leahy, 2001):

- *Conditionality*. Policy measures which the partner Government agrees to implement as a condition of the aid.
- *Earmarking*. Limitations placed on what the aid must be spent on.
- *Accountability*. Agreement on how the funds will be disbursed, accounted for, and audited.

Section 2 and annex 3 discuss SWAps and argue that different types of aid forms are currently in use to fund SWAPs, including sector budget support and programme and project support. There are different characteristics attached to each form, though A SWAp might eventually lead to a situation where sector support is channelled /earmarked through the budget.

Table 23 Characteristics of Main Aid Forms

Aid Form	*Conditionality*	*Earmarking*	*Accountability*
Balance of Payments support	Macro	None	None
General Budget Support	Macro and budget	None or nominal	Govt systems
Aid financial debt relief	Macro and budget	None or poverty virtual fund (Uganda)	Govt systems
Sector Budget Support	Sectoral	To sector	Govt systems
Sector earmarked	Sectoral	Within sector	Govt systems
Projects using Govt systems	(Sector and) Project	Project	Govt systems
Projects using parallel systems	Limited by low ownership?	Total	Donor

Source: Foster and Leavy (2001)

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