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Scale and Types of Funds for Aid for Trade

Negotiation Advisory Brief No. 15

January 2007

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Massimiliano Calì

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ILEAP (2005). "Aid for Trade: Why and How?" ILEAP Negotiating Advisory Brief No. 10. Prepared by Dominique Njinkeu and Hugo Cameron, ILEAP.

ILEAP and German Marshall Fund (2006). "Aid for Trade After the Hong Kong Ministerial – An Introductory Text". ILEAP Background Brief No. 8. Prepared by Claire Healey, Dominique Njinkeu and Hugo Cameron.

ILEAP (2006) "The Financial Architecture of Aid for Trade". ILEAP Background Brief No. 9. Prepared by Overseas Development Institute (ODI).

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ILEAP (2006). "Aid for Trade: A New Issue in the WTO". ILEAP Negotiating Advisory Brief No. 16. Prepared by Sheila Page, ODI.

ILEAP (2007). "Regional Aid for Trade". ILEAP Negotiating Advisory Brief No. 12. Prepared by Dirk Willem te Velde, ODI.

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1 Introduction

Despite the fact that aid for trade is widely recognized as an essential component of a successful World Trade Organization (WTO) Doha Round (WTO 2005), there is as yet no agreement on the exact rationale and scale of the funds required for this type of assistance to take form.[1] Moreover, there is a paucity of analysis of whether past aid for trade spending was in types of aid relevant to the potential needs of recipients, which should form the basis of the allocation of aid for trade.[2] The object of this chapter is to contribute to the analysis of these issues in two main ways: (i) by providing some possible estimates of the scale of funds which may be needed on the basis of a narrow definition of aid for trade; and (ii) by analyzing past aid for trade spending[3] and assessing possible ways in which this may (or may not) match current needs. This is important as it shows the scale of funds previously available for broad trade-related needs as well as the priorities set by donors in allocating the funds across various types of broad aid for trade activities.

2 Defining trade-related needs

Defining what aid for trade should cover is a controversial task. On the one hand, there is the view that it should only cover the adjustment costs following the implementation of the commitments made under the various WTO rounds. On the other hand, there is the view that aid for trade should be used to help countries reap the benefits of the integration of the global market, for instance by strengthening their capacity of competitively supplying world markets.

The chapter by Sheila Page in this volume offers a functional classification of these two alternative views by dividing this type of assistance into two categories: narrow and broad aid for trade. The former refers to the assistance required to cover the expected costs of adjustment following the implementation of the Doha round; the latter refers to the assistance needed by countries to strengthen their supply capacity so to maximize the benefits from multilateral trade liberalization (e.g. infrastructure improvement). Adopting Page's classification, this section tries to quantify the potential narrow costs on the basis of the (scant) evidence available. As the broad type of assistance is based on needs rather than on costs, the estimation of the broad needs is a much more complex task than that of narrow costs. What is, for example, the 'right size' of assistance to strengthen supply capacity for each country? More fundamentally, what is the 'right' or minimum acceptable level of supply capacity that countries should reach? And how is it possible to guarantee equitable assistance to all countries, given the limited resources available?

One way of estimating these needs could be based on assuming that every developing country should face the same level of unit cost for trade-related activities (after controlling for natural factors, including geography and resource endowments). For example, a firm in location A should have the same cost of transportation as a firm in

[1] Note that this chapter refers to aid for trade and trade-related aid interchangeably.
[2] Past aid for trade is generally referred here as to the 2001-04 period, for which data is readily available and which represents a period of sustained levels of aid for trade.
[3] The references to aid for trade spending in this chapter follow the definition of the WTO/OECD Database, which includes infrastructure projects as well as the more directly trade related form of aid.

location B, to move a unit of good X to location L - after controlling for the distances A-L and B-L and for the modes of transportation. Such a criterion clearly requires a huge amount of information which is not readily available for most developing countries. Moreover, it is often hard to address country-specific constraints which may raise the cost of the activity via aid flows (e.g.: what is the amount of aid needed to address the problem of corruption in processing the goods for export in a specific port?).

Another way of approaching the issue of broad needs could be to rely on countries' own (or external) assessment of their needs to trade effectively. This type of evaluation could be similar in spirit to the diagnostic trade integration studies carried out under the Integrated Framework, although it should specifically estimate the resources needed to address the constraints identified. One problem with this approach is that it may create incentives for countries to inflate their real needs to obtain more aid. Therefore, donors may need to ensure that countries have the appropriate incentive to estimate realistic needs.

Given the limited data available and the lack of consensus on an appropriate methodology, this chapter does not calculate the broad needs of aid for trade, rather it estimates how much of aid during the 2001-04 period has been channeled to activities that aim to cover such needs. This type of calculation is important for two reasons: first, it shows the scale of the funds which have previously been available for broad trade-related needs; second, it shows what type of priorities donors have set in allocating the funds across various types of broad aid for trade activities.

3 Estimating the narrow costs of adjustment

Following the categorization developed in the chapter by Sheila Page, the following section provides a rough estimate of narrow costs on the basis of various studies that assess specific types of costs.

A. Implementation of existing commitments under the Doha Round.

It is difficult to make estimates of this cost because 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 (Table 2), we have used a rough estimate based on a calculation for Jamaica made by Hoekman et al. (2002), quoted in Kleen and Page (2004), p. 35. They estimate that the cost of implementing sanitary and phytosanitary (SPS) measures and new rules on customs (not part of trade facilitation, but used to represent all other possible costs) would amount to about US$7 million in Jamaica. Starting from this figure, we adopt a combined method in order to obtain a rough estimate of the cost for all developing countries. First, we consider the total cost for developing countries by multiplying the US$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 the Doha Development Agenda (DDA)), we also calculate the ratio of this cost (US$7 million) to the estimated preference erosion costs for Jamaica (about 10 percent) 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 obtain the upper and lower bound figure.

The total numbers are small, in aid terms, at around US$0.3 billion, and these are one-off, not continuing, costs. This calculation clearly represents a gross approximation of what the potential implementation costs may be, based on partial information available for one country. As individual countries have better information about their own potential costs of implementation, it would be useful to include this if it were available to improve the reliability of the estimation. Many countries which are members of regional groupings 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 (including the costs imposed by agricultural liberalization on Net Food Importing Developing Countries (NFIDCs) under the Marrakech Declaration).

To calculate these costs, we have used the upper and lower bounds from a recent World Bank study (Mitchell and Hoppe, 2006). However, these numbers are sensitive to the size and exact composition of any eventual 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.) Mitchell and Hoppe (2006) partially address the issue of the estimates' sensitivity by considering the results from studies which use different sets of assumptions. Table 2 reports both the upper and lower bound of these estimates. The costs are likely to be under US$1 billion and 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. The highest costs both in terms of higher costs of imports and adjustment of the production structure are likely to be faced 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.

There are many estimates of these costs 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. As with any trade effect estimates, it depends on a number of factors: (i) what is taken as the base year, in particular the choice between end-Uruguay Round in 1995, or end-Agreement on Textiles and Clothing in 2005, since exemption from Multi-fibre Arrangement (MFA) quotas was an important preference; (ii) what is included (i.e. UNCTAD estimates exclude sugar because these effects are the result of domestic support, not tariffs); (iii) what liberalization is assumed; and (iv) which effects are included (i.e. 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 Uruguay Round, if there is little or no liberalization, 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.

We use various studies to estimate the preference erosion figures reported in Table 1. The lower bound is 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 agricultural products due to preference erosion. The upper bound is computed by including additional estimates which use the highest figures for each country among the lower bound estimate, Gillson et al. (2004), IMF (2003) and Alexandraki and Lankes (2004).

Different assumptions (regarding the liberalization 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 utilization 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. If there is significant liberalization, leading to entry into the market by countries that are currently completely excluded, this will under-estimate preference erosion. The latter type of adjustment considers the actual rate of utilization of preference by exporters from developing countries (which can be low). This adjustment is computed only for access of non-agricultural products 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 these.

Note that all estimates are based on partial information and static calculation, thus they are potentially subject to various types 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 percent assumed by the studies, except for sugar where the quota scheme ensures that countries receive the rents). Other issues are due to the lack of consideration of elasticities of substitution and of dynamic interaction.

The calculations relying only on WTO studies give total estimates including textiles and clothing and sugar, of about US$1.1 billion (lower bound) on current maximum expectations for the Doha round; taking an upper bound estimate would give a loss of US$ 2.3 billion a year.

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**	

D. Other implementation costs.

Because of the uncertain nature of these costs and the poor availability of in-country data, we have only a few limited estimates of them. As for A-type costs, again the only estimations of TRIPS-related implementation are provided by Hoekman et al. (2002) – which calculate US$ 6 million for Jamaica. Mattoo (2005) offers the calculation of a further implementation cost, in the order of US$ 2 million, for the Organization of Eastern Caribbean States (OECS) telecommunications regulatory authority. The total cost of US$8 million thus obtained is then compared to the US$7 million of point A and proportionately scaled up, obtaining average total costs of around US$ 330 million.

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

We have not included estimates for this because for LDCs the cost would be 0 (as 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). Moreover, these should not be thought of as costs to the country as a whole, as they represent in principle a transfer of resources from governments (in terms of less revenue) to consumers (in terms of lower prices) within an economy.

All narrow costs

The costs outlined above give a sum for all the narrow costs of US$2 billion to US$4.2 billion, depending on assumptions (see Table 2). The central estimate of all costs, 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 are one-off costs of implementing agreements.

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.
Source: Author's calculations on various sources

D 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, if and when the Doha

Round is completed. No aid seems to have been made available specifically for B (NFIDCs). Using WTO/OECD data (see below for a description of those), we estimate spending on Uruguay Round implementation costs at around US$0.4 billion per annum. 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 because some of the implementation costs will fall under A. Our estimates for A plus D are in the order of US$0.6 billion, so financing at the level seen in recent years (e.g. between 2001 and 2004) for D would cover these.

4 Estimates of past spending on broad needs

As argued above, past aid for trade has been predominantly channeled towards building infrastructure, developing institutions, strengthening technical capacity, promoting investment, etc., in order to promote countries' integration into the world trading system. The value of these broad activities in the 2001-04 period can be approximated by analyzing trade-related aid projects classified in a database set up jointly by the WTO and the OECD (henceforth WTO/OECD database) to track funded trade-related and capacity building projects. Trade-related aid as classified by the database appears 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, see below).

The WTO/OECD database groups trade-related aid into three broad categories: Trade Policy and Regulations (TPR), Trade Development (TD), and Infrastructure, which are in turn classified into various sub-categories. As is apparent from Table 3, aid for trade activities as defined by the database have been rising at increasing rates over the 2001-04 period from US$ 11.2 billion to US$ 17.4 billion. Most of this increase (especially between 2003 and 2004) is explained by the rising contribution of infrastructure related activities, which represent 85 percent of total trade-related aid in 2004.[4] The average value of the first two categories in 2003-04 was higher than in 2001-02, although the values in 2004 are lower than in 2003.

Table 3 Aid for trade - 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

Table 4 reports the evolution of the composition of the TPR and TD categories. *Trade Facilitation*, *Trade Mainstreaming in PRSPs/development Plans* and *Regional Trade Agreements* sub-categories represent over 50 percent of the total funds allocated to the TP&R category, with a substantial increase in the concentration of spending, in

[4] 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.

particular towards trade facilitation. The allocation of trade development funds is dominated by *Trade Finance*, *Trade Promotion* and *Business Support* categories. A couple of methodological notes of caution are in order: first, the classification of the activities into categories in the WTO/OECD database is performed by the donor countries 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: TP&R and TD - 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**	
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

The last column of Table 4 also shows the way in which we match each of these WTO/OECD sub-categories in TPR and TD respectively with the needs as identified in Page's chapter. Infrastructure-related activities fall entirely under G-type of need. This reclassification of the data according to our broad groupings allows us to assess the relative importance that donors and countries have attributed to the various broad

categories, and within these to understand what activities donors have concentrated on. Table 5 presents the 2001-2004 WTO/OECD data according to our classification.

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

F. Support for conventionally recognized trade capacity building.

Notwithstanding the important role that capacity building activities have been playing in trade-related aid, their value has been fluctuating around US$0.2 billion, representing the category with the lowest aid for trade spending. This may be explained by the nature of the activities under this heading, which are often tailored only to a handful of bureaucrats within ministries and do not involve any provision of expensive assets.

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

Aid to support infrastructure has increased sharply in recent years, from US$9.2 billion a year in 2001 to US$14.8 billion by 2004.[5] A closer look at these figures indicates that almost the entire rise in expenditures has been driven by US spending to rebuild infrastructure in Iraq and Afghanistan. However, many donors (bilateral and multilateral) have announced their intention to increase aid for infrastructure.

H. Support for institutions that improve capacity to trade.

Aid for this type of support has been about US$1.1 billion a year, 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.

Total broad support

The support for broad categories has risen from US$11 billion in 2001 to US$17 billion in 2004, mainly driven by expenditure in infrastructure. However, some rising trends since 2001 are discernible for virtually all broad categories.

According to our calculation, new implementation needs (A and D) are likely to require about the same financing as past aid for implementation, and the costs of NFIDCs and preference erosion (B and C) on realistic expectations for the outcome of the Doha round are at most US$1 billion each. As a result, the value of current trade

[5] We use here a general definition of infrastructure, without trying to separate infrastructure that helps trade from other types of infrastructure.

assistance would ensure that the narrow costs of adjustment could be easily covered. However, in as much as broad support to trade is necessary for a successful Doha Round, one may want to consider aid to cover adjustment costs as additional to those already spent on trade-related activities. The Concept Paper which the WTO prepared to guide the Task Force on Aid for Trade (WTO 2006) 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 percent of the pledged additional aid of US$50 billion.

Table 5: Past aid for trade spending on 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 the second half of 2005, including at the WTO Hong Kong Ministerial, increases in trade-related aid were announced by several donors (Table 6). Despite the fact that they would not represent an acceleration of recent spending on trade-related aid, these funds 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.

Table 6 Pledges by donors

	Original pledge	*Annual amount (US$ million)*	*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 (2005)
Total pledges		5036	
Narrow costs		3038	
Left for broad		2001	

Source: different public statements made by donors

Several questions remain open on the basis of this analysis which will have to be addressed if aid for trade is to be effective: does the allocation of aid across the various broad categories reflect the real needs of the developing world? Is the level of

broad support enough to help developing (and in particular least developed) countries to effectively integrate into the world economy? Will the level of broad trade-related aid keep rising?

Answers to these questions will have to wait for a proper definition and analysis of the narrow and (more importantly of the) broad needs of countries. They will need to be complemented with analyses of other crucial dimensions of aid for trade, such as the type of support available, the allocation of funds across recipients and the commitments of donors to such form of aid. The following section offers an exploratory analysis of these issues on the basis of past trade-related aid spending.

5 Scale of past aid by type of flows

As different needs require different modes of assistance, we describe the type of flows (i.e. grants versus loans) through which trade-related aid has been channeled so far. Table 7 describes the share of aid for trade in grants or loans according to the WTO/OECD database's categories. Most aid for both Trade Policy and Regulation and Trade Development categories has been channeled through grants over the period 2001-04. Around 92 percent of US$3 billion spent on the former category and 85 percent of US$6.9 billion spent on the latter category were channeled as grants by the donors. As expected, the situation is different for infrastructure aid, most of which has come about in the form of loans rather than grants (with a tiny share of equity investments). These results seem to be in keeping with an inverse relation between the extent to which a precise financial return of the projects is identifiable and the share of aid for trade in grants. Projects with no clear identifiable financial return, such as those aimed at strengthening the process of trade policy making and its regulation, would be financed mostly through grants. Some sub-categories of Trade Development, such as assistance to trade finance, have more precise returns and are more suitable to loan arrangements. Finally, infrastructure investments usually have more identifiable financial returns and are particularly suitable to project financing given the large size of funds involved. However, the share of grants for aid for infrastructure has been constantly increasing since 2001, reaching a record 49 percent in 2004.

Table 7: Aid for trade by type of flow (2001-04)

	Total (US$ 000)	*Equity investment*	*Grant*	*Loan*
Trade Policy and Regulation	3,053,371	0%	92%	8%
Trade Development	6,918,408	0%	85%	15%
Infrastructure	42,506,577	1%	38%	61%
Total Aid for Trade	**52,478,356**	**1%**	**47%**	**52%**

Note that shares may not add up to 100% due to rounding.
Source: WTO/OECD database

Using the matching procedure between categories as above, Table 8 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.

Table 8: 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	0%	84%	16%
Total Narrow	**1,264,247**	0%	**84%**	**16%**
F	918,591	0%	100%	0%
G	42,673,758	1%	38%	61%
H	4,258,065	0%	83%	17%
I	3,363,695	0%	90%	10%
Total Broad	**51,214,109**	**1%**	**46%**	**53%**

Note that shares may not add up to 100% due to rounding.
Source: WTO/OECD database

Donors' structure of Aid for Trade

A second important dimension to analyze is donors' structure of aid for trade. This may help assess the relative importance that donors attach to this type of assistance and the scope for future contributions towards a potential fund. All major donors have either maintained or increased their spending on trade-related assistance over the period 2001-04 (Table 9). The United States registered a major increase (entirely explained by infrastructure spending for the rebuilding of 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 relative to the other donors). The rise in bilateral spending has not crowded out multilateral aid, which has been constantly increasing over the period, following the larger contribution of the World Bank to infrastructure investments.[6]

[6] Contrary to the WTO/OECD database, for the purpose of the analysis, we consider the EC as a bilateral rather than a multilateral donor.

Table 9: 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	9,277,836	9,289,270	9,646,937	14,420,465	42,634,509
Total Multilateral	1,873,654	1,926,861	2,665,412	3,377,921	9,843,847
Total Donor	11,151,490	11,216,131	12,312,349	17,798,386	52,478,356

Source: WTO/OECD database

In order to understand the relative importance that donors attach to aid for trade, we estimate the extent to which countries are specialized in this type of assistance by constructing an index of specialization for all major aid donors. The index is the ratio of the share of a country in total aid for trade and the share of the country in total Official Development Assistance (ODA):

$$S_i = \frac{AT_i / \sum_{j=1}^{n} AT_j}{A_i / (\sum_{j=1}^{n} A_j)}$$

where AT_i and A_i are aid for trade (in US$) and total ODA for country *i* respectively, and n is the total number of donors. A value of the index greater than one indicates that the donor is spending proportionally more on aid for trade. Table 10 shows that the EC and Japan are the only donors with a relative specialization in aid for trade over the entire period 2001-04, although the intensity of this specialization 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.

Table 10: Index of aid for trade specialization (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. An index greater than 1 means relative specialization in aid for trade.

Source: Author's calculation on WTO and OECD DAC databases.

Relatively high spending on aid for trade by the major donors causes a high level of concentration of funding relatively to the ODA sector. We use the Herfindhal index (H_{AT}), i.e. the sum of the squares of each country's share in total aid for trade (ODA) as a measure of concentration:

$$H_{AT} = \sum_{i=1}^{n} \left(\frac{AT_i}{\sum_{j=1}^{n} AT_j} \right)^2$$

As Table 11 shows, both the Herfindhal index 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. However, whereas the latter sector displays a relative stability over time, the former shows some declining patterns, which is the consequence of the increases in aid for trade below the average by the largest donors.[7]

[7] The sudden increase between 2003 and 2004 can be explained mainly through the large jump in aid for trade spending by the US.

Table 11: Donors' 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: Author's calculation on WTO/OECD DAC database

6 The allocation of aid for trade and its potential determinants

Finally, we describe the allocation of aid for trade among receiving countries, in order to identify those countries and regions which have benefited from higher levels of trade-related assistance in the past. A description of aid by recipient (Table 12) shows that the funds are fairly equally spread across regions, with Asian regions (Far East, South and Central Asia and Middle East) all receiving over US$ 3 billion in 2004, the same amount as sub-Saharan Africa. However, the allocation of spending over time varies widely across these regions: the Far East has enjoyed stable inflows of aid for trade, while flows into sub-Saharan Africa have been increasing steadily and the Middle East and South and Central Asian regions have benefited from investments in Iraq and Afghanistan. Slightly less goes to Europe (US$ 2 billion), while less than US$ 1 billion is spent in North Africa, the Americas and Oceania. The largest recipient countries were all Asian: Vietnam, India, Indonesia and China.[8] The first sub-Saharan recipient, Ethiopia, is in the 12th position, confirming a different (less trade related) model of development assistance for sub-Saharan Africa compared to Asia.

As argued above, trying to identify a precise rationale for allocating aid for trade across countries is a hard task, but this analysis could already provide some interesting reflections on the allocation of past funds. To the extent that narrow costs of adjustment provide a part of the rationale for aid for trade, it is somewhat surprising to notice very little relation between countries' potential costs (as from Table 1) and past allocation across recipients (Table 12). Most of the largest potential losers, including Mauritius, Dominican Republic, Tunisia, Guatemala, Honduras, Jamaica, Cambodia, Guyana, Fiji, and Malawi, rank well below 20th place in terms of trade-related aid received between 2001 and 2004. Among the ten largest recipients of aid for trade only Bangladesh (7th) and Morocco (10th) are likely to experience potentially significant adjustment costs.

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

Table 12 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**	
1. 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
2. Sub-Saharan Africa	**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
3. 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
4. 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
5. 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	-
6. North Africa	**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
7. 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
8. 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
9. 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

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

While we do not deny that other types of (broad) needs may have driven the allocation of past assistance, the analysis of the distribution of trade-related aid across income groups seems to contradict this hypothesis. As reported in Table 13, 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 receive the lowest level of spending in trade-related assistance relative to total aid among the large aid recipients (which include LMIs and OLICs as well). This is confirmed by the presence of only one LDC (Bangladesh) in the list of the first ten recipients of past aid for trade in the period 2001-2004. Such a figure may be a cause for concern to the extent that LDCs are likely to face the highest relative costs in the trade integration process. Moreover, in as much as the levels of trade-related needs tend to be

(inversely) related to the income of countries, this allocation by income group seems to have been driven by determinants other than trade-related needs.

Table 13: Destination of aid for trade by income group, shares in total and specialization index

	2001	*2002*	*2003*	*2004*	*2001-04*
LDCs (share)	22%	16%	26%	21%	21%
LDCs (index)	1.07	0.7	1.04	0.83	0.88
Other Low Income Countries (share)	25%	24%	29%	28%	27%
Other Low Income Countries (index)	0.84	1	0.97	1.3	1.04
Low-Middle Income Countries (share)	28%	35%	23%	35%	31%
Low-Middle Income Countries (index)	1.09	1.34	0.92	1.15	1.14
Upper-Middle Income Coun. (share)	3%	3%	3%	1%	2%
Upper-Middle Income Coun. (index)	1	0.84	0.69	0.39	0.59
Others & unallocated (share)	21%	22%	19%	15%	19%
Others & unallocated (index)	1	0.94	1.23	0.74	0.97
Total Aid for trade (million US$)	**11,151**	**11,216**	**12,312**	**17,798**	**42,507**

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/OECD database

Table 14 complements these findings by calculating the regional indices of relative specialization in aid for trade (obtained as for the donors' index above). Europe and the Far East appear to be 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. Investment in infrastructure in the context of post-cold war reconstruction of Eastern Europe and the influence of Japan's (trade oriented) mode of development assistance may account for the large weight of aid for trade in those two regions. On the other hand, a more social-related mode of spending, for instance on health and education, seems to have prevailed in the other regions, particularly in sub-Saharan Africa and in the Americas.

Table 14: 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
North Africa	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
Sub-Saharan Africa	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 specialization in aid for trade
Source: author's calculations on WTO and OECD DAC databases

A brief analysis of the largest recipients of aid for trade seems to confirm the importance of (non trade-related) determinants in driving this allocation among countries. In fact these determinants appear to be closely related to those of general ODA rather than being specific to aid for trade. For example, Japan's pattern of giving large amounts of (investment and trade-related) aid in Asia to countries that are well governed and not poor (Dollar and Levin 2004) is in line with the fact that 8 of the largest 11 recipients of past aid for trade are Asian countries. By the same token, US and EU foreign policy interests[9] may explain the large allocation of trade-related assistance to Egypt and Russia, despite their relatively competitive position in world markets. Of course including Iraq and Afghanistan in such analysis would only reinforce the hypotheses that trade-related needs have not been the major drivers of aid allocation.

7 Concluding remarks

Such potential lack of meaningful economic rationale in allocating trade-related assistance may undermine the effectiveness of any future aid for trade spending, even if, as seems to be the case, this were potentially sufficient to cover both narrow and broad needs (as shown in Table 6).

A reliable identification of trade-related costs and needs and an allocation of funds which follows from such identification are features as crucial as securing sufficient funds of the 'right' type to cover all the narrow and broad categories. As it would appear from this analysis, ensuring the former seems to be more problematic than guaranteeing the latter.

[9] See Alesina and Dollar (2000) for empirical evidence on the relevance of political and strategic considerations as the main determinants of ODA allocation among recipient countries.

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