

Chapter 13

Aid for Trade Adjustment: Implications for Small and Vulnerable Economies and Least Developed Countries

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13.1 Introduction

This chapter analyses the role of Aid for Trade (AfT) in supporting the costs of trade-related adjustment (TRA). The inauguration of the World Trade Organization (WTO) Work Programme on AfT at the 2005 Hong Kong Ministerial was widely hailed as the creation of a permanent policy link between the aid and trade debates, which (apart from the African, Caribbean and Pacific (ACP)–European Union (EU) process) had previously been conducted largely in isolation from one another. The creation of the AfT programme was particularly welcomed by developing countries, which had been calling for aid flows to build supply-side capacity and bridge gaps in export growth with more developed economies. The link between aid and trade was particularly seen as beneficial for the small and vulnerable economies (SVEs) and least developed countries (LDCs), as a means to overcome their relative isolation and narrow engagement with the global trading economy, and their vulnerability to sudden changes in revenue and welfare resulting from trade policy shifts at home and abroad.

This chapter analyses, in particular, how the adjustment needs of SVEs and LDCs are (or are not) being met by aid flows. Virtually all SVEs and LDCs are engaged in trade negotiations, at the bilateral/biregional (both South–South and North–South), regional (within existing integration processes such as the Southern African Development Community (SADC), South Asian Association for Regional Cooperation (SAARC) and Association of Southeast Asian Nations (ASEAN)) or multilateral level (i.e. within the WTO, for those countries that are Member States). These processes – while varying significantly in their geographical scope, liberalisation ambition, implementation timeline and sector coverage – can potentially create large trade adjustment costs for SVEs and LDCs that can, particularly in the short to medium term, offset the political, economic and social gains from trade liberalisation. AfT flows – particularly those within the ‘trade-related adjustment’ category – can assist SVEs and LDCs to smooth consumption and shift factors of production while prices shift to a new post-liberalisation scenario. This study analyses the collection and analysis of TRA¹ flows, and compares it with the stated adjustment needs of SVEs and LDCs. It examines, in particular, such issues as (i) what existing data suggest about the scope of TRA aid flows; (ii) why trade-related trends suggest that – at least in the case of SVEs and LDCs – TRA flows should, in theory, be higher, given

the adjustment-related challenges facing these countries; and (iii) what factors might contribute to the current share of TRA in overall AfT flows and what solutions can refocus the AfT debate on adjustment needs.

13.2 The marginal role of trade-related adjustment

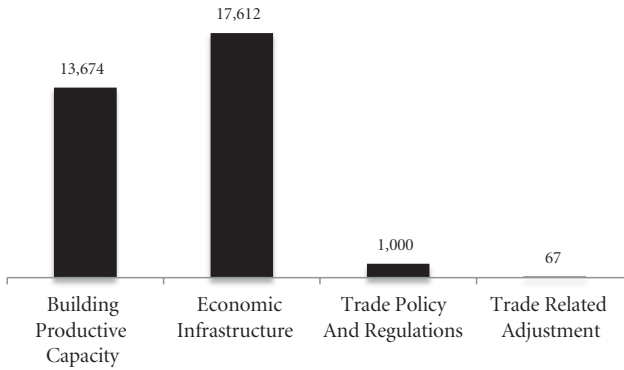
13.2.1 Adjustment in overall aid flows and strategies

The WTO originally classified AfT flows into six different categories. Although the analytical framework for measuring, implementing and monitoring AfT is still being developed, a basic classification was created in 2006 by the WTO AfT Task Force, which identified six different categories of AfT:

- *trade policy and regulations*, with sub-components on trade policy and administrative management, trade facilitation, regional and multilateral trade agreements and trade education/training;
- *trade development*, with sub-components on investment promotion, analysis/institutional support for trade, market analysis and development;
- *trade-related infrastructure*, with sub-components on transport and storage, communications and energy generation/supply;
- *building productive capacity*, with sub-components on business support services, banking and financial services, agriculture, forestry, fishing, industry, mineral resources and mining, and tourism;
- *trade-related adjustment*; and
- *other trade-related needs* (trade-related activities in sectors outside the above categories).

These flows are captured – with some changes – in databases maintained by multilateral institutions. The Creditor Reporting System (CRS) of the Organisation for Economic Co-operation and Development (OECD) collects donor data on individual aid activities² in developing countries from 1967 to the present, classifying all entries under a range of sectoral and geographical breakdowns; the reporting states include the 22 countries comprising the OECD's Development Assistance Committee (DAC), as well as non-DAC countries and multilateral agencies.³ The CRS creates specific codes for different sub-sectors of AfT, under which donors are asked to self-assign the relevant code for each project entry into the database. Certain changes to the classifications have been made to the CRS to accommodate the AfT categories. For example, following the development of the above-listed categories by the WTO Working Party, the OECD did not create a separate 'trade development' component within the CRS, opting rather to flag various projects of the 'building productive capacity' category as having either a principal or a secondary trade development objective. The OECD database also provides a separate category for the last classification of 'other trade-related needs' (OECD 2008).

Figure 13.1 Aid for Trade disbursements by category for all developing countries, 2010 (US\$ million)



Source: Authors' calculations based on OECD DCD-DAC Database, accessed online at www.oecd.org/dac/aft

Based on OECD data, TRA flows are far lower than those classified under other categories. Figure 13.1 draws on data collected by the OECD CRS Aid Activity Database. Drawing on the sub-set of AfT data within the CRS, the OECD data show that – for all donors and for all developing countries – flows classified under TRA (the final and barely visible column on the right) are negligible compared with the other three categories, particularly those destined for ‘building productive capacity’ or ‘economic infrastructure’.

The low measured share of TRA flows persists across different regions and country classifications. As shown in Table 13.1, the negligible share of measured TRA in relation to total AfT flows is present across all major country classifications, irrespective of the year chosen in the CRS database. For 2009, TRA flows do not equal more than 0.38 per cent of the value of total AfT flows when countries are disaggregated by geographic area, income group or status as an SVE. Certain CRS project classifications – for example, Oceania, non-LDC low-income countries, and regional/cross-border – show less a negligible share of disbursements in 2009 for TRA. Data for other years in the CRS (2007, 2008 and 2010), however, show similarly negligible (and, in some cases, smaller) amounts of aid destined for trade adjustment. The percentages fall even further if one considers other categories of aid flows – the analysis above, for example, considers aid *disbursements*, whereas TRA *commitments* are up to two-thirds lower for the same time period.

Major overviews of AfT are largely silent on the specific issue of TRA. At present, the OECD/WTO ‘Aid for Trade at a Glance’ report, coupled with the WTO/OECD biannual Global Review of AfT, are the main outlets for analysing and disseminating AfT data. In these outlets, however, the issue of adjustment is largely ignored, even when discounting for analytical work done on the basis of the CRS. For example, the 2011 OECD/WTO report on AfT flows summarises the findings of 269 case studies of AfT in developing countries, covering more than 150 countries, with over 40 per cent of case studies submitted by developing countries. Following the trend set in the

Table 13.1 Trade-related adjustment as a share of total Aid for Trade disbursements, 2009

<i>By region</i>	%
Africa	0.29
America	0.04
Asia	0.02
Europe	0.07
Oceania	0.00
By income group	
Least developed countries (LDCs)	0.38
Other low-income countries	0.00
Lower middle-income countries	0.03
Upper middle-income countries	0.09
Unallocated by income group (i.e. cross-border)	0.00
Small vulnerable economies (SVEs)	0.25

Source: Authors' calculations based on OECD DCD-DAC database

AfT data, the OECD summary of the case studies largely focuses on AfT categories outside TRA, with six major themes ranging from trade facilitation and infrastructure to policy reform and private sector adjustment. Whereas the 'policy reform' theme addressed TRA as a sub-sector, only three case studies – slightly over 1 per cent of the total 269 studies – explicitly addressed adjustment: one study on support to Mauritius following the 'triple shock' of the phase-out of sugar quotas, the end of the Multi-Fibre Agreement and rising oil prices; one study on assistance to China's agricultural sector during WTO accession; and one study on support to Costa Rica's unilateral and dramatic reduction in tariffs. The 2011 Global Review notes (OECD/WTO 2011: 147) that 'the silence of the international community on the issue of Aid for Trade for adjustment is noteworthy', and briefly lists several possible hypotheses that are explored in further detail in subsequent sections of this study.

The lack of emphasis on TRA is also notable in the AfT strategies being currently prepared by potential AfT recipients. The West Africa Economic Partnership Agreement (EPA) Development Programme (EPADP or PAPED in French) has been described as 'first and foremost a West-African initiative, which has been elaborated by and for the region through a broad participatory approach led by the ECOWAS and UEMOA Commissions at both the regional and national levels' (ECDPM/ICTSD 2010: 10). TRA is included as one of the four 'axes' of the PAPED strategy, but – as shown in Table 13.2 – West African stakeholders allocated less than 9 per cent of aid flows for adjustment needs, with the largest share dedicated to trade-related infrastructure. In the Pacific region, the current draft AfT strategy indicates that funding will be focused on the first two categories identified by the WTO Task Force (trade policy/regulations and trade development); although adjustment is seen as a 'strategic goal', the draft strategy contains no proposals under the TRA theme, indicating that initiatives related to adjustment will be formulated at a future date 'when all [Forum Island Countries] and Timor Leste have developed

Table 13.2 Share of estimated costs by PAPED programme axis (%)

Improvement and reinforcement of trade-related infrastructure	63
Diversification and production capacities	19
Making necessary adjustments + other trade-related needs	9
Intra-regional trade development and facilitation of access to international markets	7
EPA implementation monitoring and evaluation	2

Source: ECDPM/ICTSD (2010)

their trade policy frameworks and when these are mainstreamed into their national development plans' (PIFS 2009: 23). Although there is no AfT strategy at the regional level in the Caribbean, project documents related to the Caribbean Aid for Trade and the Regional Integration Trust Fund (CARTFund) indicate that the fund (albeit a donor-driven initiative) is almost exclusively focused on supporting EPA implementation, trade facilitation and deepening regional/sub-regional trade integration. CARTFund documents make no mention of funding adjustment aspects, and an overview of projects submitted to the fund by Caribbean Community (CARICOM) Member States is exclusively focused on either supporting to the formulation of policy documents (e.g. national export strategies) or the establishment of specialised institutions (e.g. national EPA Implementation Units) (see DFID 2010; Gill 2010). Within the Caribbean, Jamaica's national AfT strategy is built on three pillars (infrastructure, competitiveness and diversification) that do not specifically refer to supporting adjustment costs (see *Jamaica Business Observer* 2011). Among developing-country recipients, only the Common Market for Eastern and Southern Africa (COMESA) region has a strong emphasis on funding TRA costs.

13.2.2 Main TRA donors, regions and sectors

Based on the OECD CRS data, the main provider of TRA aid is the European Union through its collective institutions. Notwithstanding its low representation in AfT databases and policy documents, some trends emerge from the CRS data. On the donor side, the majority of TRA is provided by the European Commission, largely through the European Development Fund. From 2007 to 2010, EU institutions (including the European Commission, the European Investment Bank and the European Parliament) implemented 93 out of 122 TRA projects in the CRS database, with an additional two projects undertaken by individual EU Member States (Belgium and Sweden). Nearly all of the EU projects are related to payments under Stabilisation of Export Earnings (STABEX), which provides funds to ACP countries to compensate for the decline or fluctuations in export earnings for primary exports (such as bananas and sugar), and cover support to commercialisation, agricultural/economic diversification, and social sector and social protection measures. The STABEX payments listed in the CRS database are primarily targeted at other agricultural exports such as coffee, vanilla, tea, cotton, palm and groundnuts. It is worth noting, however, that as of 2011 the EU reporting in the TRA category covers only ACP countries, creating a possible bias in the CRS

Table 13.3 Number of TRA projects per CRS regional classification, 2007–10

Recipient region	No. of projects	Recipient countries
Sub-Saharan Africa	63	Benin, Burkina Faso, Burundi, Cameroon, Comoros, Côte d'Ivoire, Ethiopia, Gambia, Guinea-Bissau, Madagascar, Malawi, Mali, Mauritania, Rwanda, Senegal, Sierra Leone, Sudan, Tanzania, Togo, Uganda, Zimbabwe
Americas	30	Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname
Oceania	9	Papua New Guinea, Solomon Islands, Tonga
East Asia	8	Laos
South and Central Asia	4	Afghanistan, Azerbaijan
Europe	3	Bosnia, Montenegro, Ukraine
Middle East	2	Syria
North Africa	2	Algeria, Tunisia

Source: OECD CRS database

database. The major non-EU contributor to TRA flows in the OECD database is Australia, although it is difficult to assess, solely on the basis of descriptions within the CRS database, whether or not the two main projects listed – support to the Laos Ministry of Industry and Commerce under the Enhanced Integrated Framework (EIF) and contributions to the CARICOM Development Fund – are properly classified.⁴

Among all developing-country regions, sub-Saharan Africa is the primary beneficiary of TRA flows. Table 13.3, drawing from the CRS database, shows that the majority of TRA flows are destined for sub-Saharan Africa. Given the weight of the EU institutions and, in particular, the STABEX funding in the TRA category, the ACP Member States collectively absorb more than three-quarters of the total amount of TRA funding. The CRS database also shows that, in slightly more than half of all cases, LDCs are the main recipients of TRA flows, with upper middle-income Caribbean countries absorbing much of the remaining share.

13.3 The adjustment needs of SVEs and LDCs

13.3.1 A typology of TRA

There are several different categories of TRA costs. Adjustment costs are generally defined as the short-term costs of transition from one state to another (UNCTAD 2010). Within the realm of trade reform, several attempts have been made to categorise adjustment costs to key resource (e.g. labour and capital), across both the private and public sectors. The wide range of categorisations attests to the lack of conceptual and empirical clarity that still exists with regards to TRA, particularly in the developing-country context. Table 13.4 shows a matrix drawn from the United Nations Conference on Trade and Development (UNCTAD 2010), where the authors

Table 13.4 Typology of trade-related adjustment costs

Private sector	<i>Labour</i>	Opportunity costs of unemployed labour Obsolescence of skills and skill specificity Lower wage levels Retraining costs Personal costs such as psychological suffering Other costs (e.g. rent seeking)
	<i>Capital</i>	Opportunity costs of underutilised or unemployed capital Cost of capital rendered obsolete (capital write-offs) Transition costs of shifting capital from one activity to another
Public sector		Shift tax revenue base Social safety net spending (e.g. unemployment benefits) Erosion of benefits from preferential treatment Efforts to ensure macroeconomic stability Implementation costs of trade reforms Non-trade concerns: food security, support to rural areas, environmental concerns

Source: UNCTAD (2010)

note that the costs imposed on labour markets are the most widely studied within the private sector, whereas trade-related revenue losses are the largest concern to the public sector, particularly in developing countries that are highly dependent on trade taxes. An ACP-specific study prepared at the time of the launch of the EPA negotiations identified four broad categories of adjustment costs (Milner 2005), namely

- fiscal adjustment costs, i.e. the need to replace tariff revenue losses;
- trade facilitation and export development costs, i.e. developing new export products for new export markets;
- production and employment costs, i.e. unemployment compensation, support for relocation and retraining costs for displaced workers; and
- skills development and productivity enhancement costs, i.e. increasing competitiveness and improving infrastructure.

A more comprehensive and recent publication by the World Bank covers a wide range of adjustment metrics, from classic indicators such as wages and prices to more novel analysis of immigration flows, firm survival rates, school enrolment and intermediation margins (Porto and Hoekman 2010).

Trade-related adjustment costs are of particular importance to developing countries. A recent UNCTAD study succinctly noted why the debate over TRA costs is particularly salient for the SVE/LDC developing-country community:

The challenge of adjustment to policy change is much more significant for developing countries for several reasons: a) they are starting from more protected situations (nominal tariff levels in some sectors in some LDCs are as high as

100 or even 200 per cent), and therefore the required adjustment is greater; b) developing countries economies are less diversified (with lower opportunities to expand into other sectors), and therefore the relative impacts are higher; c) factor markets are less deep and efficient, and less able to cope with adjustment; d) administration lacks adequate capacity to put the necessary policies in place; and e) some small economies are very trade dependent.

The authors of the UNCTAD study note that developing countries more often face political constraints that hinder the efficient implementation of trade adjustment remedies, and that market imperfections within developing-country markets can lead to either the dampening (or complete disappearance) of the trade liberalisation benefits predicted by the classical literature, or the benefits of trade liberalisation being unequally shared as a result of labour market segmentation and high economic inequality. The authors note that trade liberalisation may reduce the capacity (and choice of instruments) for developing-country governments to conduct redistribution programmes, and thus help smooth the short- and medium-term impacts of trade reforms. Moreover, the analysis of adjustment costs in developing countries is particularly difficult (*vis-à-vis* similar efforts for developed countries) given lack of data on trade, production and consumption, as well as small sample sizes and – perhaps most importantly – the lack of comprehensive, up-to-date economic models of individual economies.⁵

SVEs and LDCs face particularly acute adjustment costs. In the case of the smallest and least developed economies, TRA is a pressing issue because of several well-documented factors, including:

- the SVEs' relative openness to trade, particularly in those countries that have already undertaken wide-ranging trade reforms;
- the high levels of poverty and high incidence of informal economic activity within many SVEs and LDCs, leading to unclear transmission channels for economic shocks and public policy responses;
- the small market size and isolation from major markets, leading to high-cost, small-scale, import-dependent and low-efficiency economic platforms; and
- the dependence of many SVEs and LDCs on unilateral preference regimes that provide an economic advantage over larger and lower-cost producers – with many regimes now being threatened with erosion and/or elimination due to multilateral negotiations and bilateral agreements.

Given the SVEs' and LDCs' dependence on unilateral preference schemes for their participation in export trade, the erosion of the preferential margin within these schemes is of particular concern with respect to TRA. Based on a 2010 joint study by the Commonwealth Secretariat and Overseas Development Institute, some 15–29 per cent of the total estimated loss of developing-country exports due to preference erosion would come from SVEs. For certain countries, such as St Vincent and the Grenadines, St Lucia, Dominica, and São Tomé and Príncipe, the loss of exports due to preference erosion could be as high as 29–60 per cent of their merchandise exports (see Calì et al. 2011).

13.3.2 A multiplying SVE/LDC trade agenda

The light emphasis on adjustment needs in the AfT debate is at odds with a heavy trade negotiations agenda, particularly for SVEs and LDCs, beginning at the national level. While AfT databases and strategies from donors and recipients alike seem to marginalise the notion of supporting adjustment costs, developing countries – particularly small and least-developed economies – face a trade agenda on multiple fronts. This agenda begins at the national level, with several LDCs and SVEs either embarking on or having previously implemented wide-ranging unilateral trade reforms (and, in the latter case, with many countries still managing the adjustment costs). Many SVEs and LDCs have implemented trade reform programmes at the behest of major donors and international financial institutions, with the reforms ranging from significant reductions/simplifications of national tariff rates and introduction of new ‘behind the border’ taxes such as value added tax (VAT) and excise. In the Pacific islands, for example, several countries (including Papua New Guinea, Vanuatu and Samoa) implemented Asian Development Bank-funded ‘Comprehensive Reform Programmes’; in some cases (e.g. Vanuatu) the programme is still under implementation after several false starts (see Soni et al. 2007). In Jamaica, tax reform has been under way for two decades, from a 1994 World Bank-funded project to a current effort funded by the Inter-American Development Bank. Well before the current rush of preferential trade negotiations, regional integration projects and WTO accession, many SVEs and LDCs were undergoing adjustment challenges to transform their import duty-heavy revenue systems to less trade-distorting (but often far more difficult to implement) internal taxes.

These national reforms are being undertaken in a context of an ambitious schedule of bilateral and regional trade negotiations. All LDCs and SVEs are engaged in free trade agreements (FTAs) with countries both within and outside their geographic regions. At the regional level, Table 13.4 shows that small and least-developed countries are engaged in RTA negotiations, in many cases in multiple theatres: for example, the Organization of Eastern Caribbean States (OECS), Pacific Melanesian Spearhead Group (MSG) and East African Member States are also engaged in both sub-regional and regional trade negotiations; Afghanistan is a member of the Greater Arab Free Trade Area (GAFTA) but also pursuing FTA negotiations within the framework of its membership of SAARC. Outside their regional groupings, SVEs and LDCs have either signed, or are in the process of negotiating, bilateral trade agreements with both developed and developing countries. These agreements range in scope from unilateral grants of preference (e.g. the Australia–Papua New Guinea PACTRA) through bilateral FTAs (e.g. India–Bhutan) to partial scope agreements (e.g. India–Afghanistan, Guyana–Brazil, Laos–Thailand, Belize–Guatemala). In several instances, bilateral agreements have been concluded by SVEs and LDCs as part of their memberships of regional groupings, such as CARICOM’s bilateral agreements with Costa Rica, Colombia, the Dominican Republic and Venezuela, and ASEAN’s FTAs with Australia, New Zealand, China, India, Japan and South Korea (Table 13.5).

SVEs and LDCs are also taking part in biregional negotiations, particularly the EU–ACP EPAs. All 78 ACP Member States, divided into regional groupings, are

Table 13.5 Regional trade negotiations/agreements involving SVEs and LDCs

Region	Agreement/negotiation
Caribbean	CARICOM, OECS
Sub-Saharan Africa	SADC, SACU, UEMOA, COMESA, ECOWAS, EAC, CEMAC, WAEMU
South and South-East Asia	ASEAN, APTA, SAFTA, SAPTA, BIMSTEC
Middle East	GAFTA, PAFTA
Pacific	PICTA, MSG, PACER

Source: WTO Regional Trade Agreements database, accessed online at www.wto.org

currently in the process of either implementing or negotiating biregional trade and development agreements with the European Union. As shown below, the adjustment costs of the EPAs have been estimated in billions of euro, despite the fact that the EU is – for most ACP countries, particularly in the Caribbean and Pacific – a currently and increasingly marginal trading partner compared with such hemispheric neighbours as Canada, the United States, Australia and New Zealand. Despite the fact that EU negotiations in all regions apart from the Caribbean are still ongoing, several attempts have been made at quantifying potential adjustment costs (largely in terms of tariff-related fiscal losses). The 2005 study prepared for the Commonwealth Secretariat in 2005 (albeit before substantive negotiations began) estimated that ACP countries would undergo more than €9 billion worth of adjustment (Milner 2005).⁶ The United Nations Commission for Africa (UNECA) estimated, also in 2005, that some sub-Saharan economies could see EPA-related fiscal losses of up to US\$55 million (Ethiopia) and 26 per cent of customs revenue (Tanzania). Pan-ACP studies commissioned by the European Union in 1998 also showed large potential falls in customs and total public revenue following the implementation of an EPA.

SVEs and LDCs are also actively engaged in trade negotiations at the multilateral level. Further TRA costs are likely to occur from the participation of small and least developed economies in the WTO Doha Round of trade negotiations. Despite the fact that the Round is still ongoing (and currently on indefinite hiatus), the few studies that assess the potential impact of Doha liberalisation on SVEs and LDCs generally reach pessimistic conclusions. For example, a 2006 study by the Carnegie Endowment for International Peace found that East Africa, Bangladesh and sub-Saharan Africa (minus South Africa) would be net losers under proposed modalities for agriculture and manufactures, regardless of whether the scenario ambition is set at ‘high’ or ‘modest’ (Polanski 2006). A follow-up 2009 study on Kenya by the Carnegie Endowment found that Doha-related impacts are ‘likely to be significant’, with decreases in output of up to 10 per cent for certain economic activities, and job losses of up to 5 per cent for total employment and unskilled workers (Zepeda et al 2009). An otherwise positive 2011 study by the European Commission shows an overall welfare decrease for many SVE- and LDC-heavy regions (e.g. sub-Saharan Africa and the Caribbean) (Decreux and Fontagné 2011). It is worth noting that many of these studies were calibrated to measure the long-run impact on various economies from multilateral liberalisation, not adjustment costs *per se*.

Several SVEs and LDCs that are acceding to the WTO face significant adjustment costs. Although there is no established template for WTO commitments for acceding countries, the experience of recent accessions suggest that many new entrants are required to agree to significant commitments – i.e. going well beyond those agreed to by established WTO members (even those with larger economies and incomes).⁷ Recent experience also suggests that LDCs and SVEs have not been spared this WTO-plus requirement, creating significant adjustment costs for becoming a WTO Member State. Assessment of the costs of implementing commitments undertaken by WTO acceding countries has not been given much analytical attention to date. A recent study on Nepal and Cambodia, however, provides anecdotal evidence in selected sectors (Sauvé 2005). The study suggests that the estimated technical assistance costs involved in implementing the WTO Customs Valuation Agreement for Cambodia alone total more than US\$4 million over a six-year period, further acknowledging that (a) technical assistance could still leave key institutional gaps and (b) assistance from some donors (e.g. the World Bank and Asian Development Bank) could be provided in the form of loans, rather than grants, putting further pressure on government budgets. The study suggests that the total of potential costs is much wider: acceding countries may lose large amounts of revenue (either by the implementation of bound duties, which may be lower than applied duties, or when the transaction value is introduced in place of the minimum price system, according to the WTO Customs Valuation Agreement); government budget expenditures may increase in order to create or strengthen regulatory agencies and ministries responsible for regulatory oversight and compliance with international commitments, and/or repay technical assistance loans from international financial institutions.

13.3.3 Adjustment as strategic priorities: on paper

The low emphasis on TRA is also at odds with the stated co-operation priorities of many donors and recipients. A brief overview of trade-related aid programming documents and legal agreements suggests that TRA flows should be higher than are suggested by current data, particularly when considering that terms such as ‘diversification’ implicitly suggest a recognition that trade-related economic adjustment will need to take place. The range of documents that makes specific reference to adjustment/diversification needs includes:

- *bilateral/biregional North–South trade agreements* such as the CARIFORUM–EU EPA text, which lists ‘the provision of support measures aimed at promoting ... diversification of the CARIFORUM economies’ (EPA 2008, Article 8.1.iii) as a key co-operation priority, and contains explicit language recognising the adjustment needs in both agriculture and labour;
- *donor-country strategy papers* such as the EuropeAid Country Strategy Papers, virtually all of which make specific reference, in the SVE and LDC case, to the need to support diversification away from traditional commodity exports;
- *AfT recipient-country strategies* such as the Poverty Reduction and Growth Strategies for heavily indebted and low-income countries – which often form the

basis of donor country strategies – that unanimously refer to the need to support trade diversification as a tool of poverty reduction;

- *AfT recipient-country questionnaires* such as those submitted to the annual OECD review of AfT flows, which stated in 2011 that ‘export diversification is what partner countries expect most from aid for trade’ – with a higher importance assigned to it by recipients than to economic growth, poverty reduction or increased AfT flows (OECD/WTO 2011: 94); and
- *loan documents*, such as the written requests submitted for International Monetary Fund (IMF) loan facilities (e.g. St Kitts and Nevis’s 2011 and Jamaica’s 2009 Request for a Stand-by Arrangement), that specifically refer to the financing difficulties created by adverse trade developments, including the erosion of trade preferences for traditional agricultural products.⁸

13.4 Sources and solutions: (i) definitions

The previous two sections of this chapter suggest a contradiction. On one hand, a review of existing AfT data and key documents suggests that TRA is not a priority for either donors or recipients. On the other hand, an overview of trade negotiations, trade agreements and aid programming priorities suggest that adjustment needs should be front and centre in the AfT debate. This section and the following three discuss hypotheses to explain (and solutions for) this paradox, which is that:

- definitional problems related to TRA are leading to both donors and recipients either avoiding the category entirely or misclassifying and ignoring potential adjustment flows;
- the global level at which AfT data are collected creates a bias against a focus on adjustment needs; and
- AfT donors are reluctant to address adjustment needs, based in part on past experience.

13.4.1 Novelty, vague definitions and misclassifications

The first hypothesis points to problems in defining, monitoring and measuring AfT flows. Since the creation of the various AfT categories by the WTO Task Force, both the aid and trade policy communities have been struggling to clearly define different AfT flows. Although improvements have been made to the AfT classification process, particularly within the context of the development of the CRS database, the AfT monitoring and evaluation system continues to suffer from a lack of clarity about exactly which projects are meant to fall under individual CRS codes. This has resulted, for example, in overlaps between different categories (explicitly recognised within the CRS by, for example, the demotion of ‘trade development’ to a sub-category within ‘building productive capacity’). Donor reporting of AfT is also plagued by discrepancies between not only donor and recipient classifications of the same project, but also classification of an entire project under a single category and

its component parts, which may fall under different CRS codes. Thus the accuracy of AfT data depends heavily on individual donors' perceptions about definitions of categories, and the level of attention paid to allocating individual project budget lines to their appropriate CRS code. This complexity is further increased in multi-donor and multi-recipient projects (e.g. where projects are being administered and/or funded by different agencies), resulting in a multiplicity of expenditure, accounting and reporting databases (Turner 2008). This lack of clarity has, in addition to its technical challenges, a strong political dimension as well.

The problems of defining and measuring AfT are particularly acute in the case of TRA. The definitional problems in the wider AfT debate are prevalent within discussion of TRA – so much so that, within the European Union's own AfT strategy, one of the document's 'quantitative ambitions' (and the only substantive mention of addressing TRA needs) is to 'seek to establish a common understanding of the notion of "trade-related adjustment" at [the] EU level, in conjunction with promoting an international understanding of this concept' (Council of the European Union 2007: 5). Several definitions have been provided for TRA, with different sources emphasising different areas:

- Some sources take an *expansive* view of TRA, such as the OECD CRS database, which defines TRA (CRS code 33150) as 'contributions to the government budget to assist the implementation of recipients' own trade reforms and adjustments to trade policy measures by other countries; assistance to manage shortfalls in the balance of payments due to changes in the world trading environment' (OECD 2008: 1). Another OECD paper refers to costs 'associated with trade liberalisation such as tariff reductions, preference erosion, or declining terms of trade' (OECD/WTO 2010a: 2). Other observers see TRA as a general form of compensation to the 'losers' of trade liberalisation, without a specific sectoral target (see Azis 2011). The structure and definition of the EU's STABEX fund – whereby payments for declines in certain sectors (e.g. bananas, sugar) were compensated by payments for budget and programme support for other products – suggests that the aid institutions of the European Union share (or once shared) a similar philosophy; this is partially confirmed by the dominance of STABEX payments under TRA in the CRS database. The 2006 AfT Task Force took a more positive but equally vague/expansive view of TRA, defining it as 'supporting developing countries to put in place accompanying measures that assist them to benefit from liberalised trade' (WTO 2006: 6).
- Others however (even within the same organisation) look at adjustment needs in a *narrow/specific* context. Notwithstanding the wider definition above in its own donor database, the most recent OECD global review of AfT, for example, focuses primarily on TRA as support for tax reforms that respond to trade-related declines in tariff revenues, with some consideration of TRA as support to balance-of-payments – although the discussion is primarily focused on domestic macroeconomic instability, rather than trade, as a cause of external imbalances. The same global review defines TRA (during a discussion on AfT case studies) even more narrowly as dealing exclusively with adjustment programmes arising from the reform of tariff and non-tariff barriers.

TRA is also a relatively new category within AfT, suggesting that low measured adjustment flows might result in part from a problem of data availability. Data on TRA within the CRS database are available only for 2007 onwards. This is because the CRS code (33150) for TRA was added to the CRS database only in 2008, two years after the creation of the TRA category by the WTO Working Party. As a result of the novelty of the TRA category and ongoing struggles by donors to define its scope, the CRS database does not yet provide a full coverage of TRA activities, unlike other AfT categories/codes (such as 'trade policy and regulations'), which were in existence before 2007. This results in sporadic coverage of TRA activities within the CRS database. For example, in 2007 there is only a single entry (a Canadian aid project in the Nile Basin with a disbursement value of only US\$14,000); in 2008 the coverage increases significantly (30 projects with disbursements valued at \$27.2 million), and later years see increases as well (48 projects in 2009 valued at \$36.1 million, and 43 projects in 2010 valued at \$68 million). The novelty of the classification suggests that the year-by-year TRA values reported by donors may not reflect actual spending on adjustment-related activities. More importantly, data trends suggest that reporting may improve over time as donors become more familiar with the TRA category.

The problems of vague definitions and novelty have led to classification problems. The issues raised above have probably led to outright errors in the classification of projects within the TRA category. As noted earlier in this chapter, donors are primarily responsible for classifying projects into the various AfT categories; consultations with stakeholders suggest that a minor degree of validation is done by the OECD Secretariat. This has resulted in a number of clear misclassifications of TRA within the CRS database, including a 2009 EU project in Azerbaijan on food quality and safety assurance, and a 2010 International Development Association project in Afghanistan to reform customs administration and trade facilitation – both of which, based on the CRS guidelines, should fall under the 'trade facilitation' sub-category (CRS code 33120) of the 'trade policies and regulations' category, but were in fact classified under TRA.

The same problems have led adjustment-related flows to be classified elsewhere in the CRS database, such as tax reform programmes. Aid flows that deal with fiscal adjustment – for example, tax reform programmes – are often classified under non-TRA categories. In both 2009 and 2010, aid programmes focused on tax reform were found under 'economic infrastructure', 'building productive capacity' and 'trade policy and regulations', but not under TRA. In some instances, the programmes in question have several different budget lines, and the classification suggests that the non-TRA categories are given stronger weight. In other instances, however, even programmes where tax reform is the only budget line are classified in non-TRA categories; for example, a 2010 reform of Ghana's public finances by the German government was classified not under TRA but under the 'financial policy and administrative management' sub-category of 'building productive capacity'.

Similarly, adjustment programmes funded by general budget support are not listed as TRA. The CRS database lists general budget support under CRS code 51010 and, as late as 2007, the OECD itself considered budget support as the 'best proxy

Table 13.6 ‘Structural adjustment’ as a share of total AfT (2007, US\$ billion)

	2001	2002	2003	2004	2005
Trade policy and regulations	0.9	0.8	1	0.8	0.9
Infrastructure	9.8	9.4	9.7	13.7	12.1
Productive capacity building	9.3	7.4	9.2	9.6	9.5
Structural adjustment	4.8	5.9	6.4	5.2	3.5
<i>Structural adjustment as % of total</i>	19%	25%	24%	18%	13%

Source: OECD (2007)

for capturing trade-related structural adjustment’, covering flows such as unmarked/general contributions to the government budget, support for the implementation of macroeconomic reforms (e.g. structural adjustment programmes, poverty reduction strategies), and transfers for the stabilisation of the balance of payments and general programme assistance (when not allocable by sector) (OECD 2007: 4). For reasons that are not immediately clear, the OECD discontinued using budget support as a proxy for adjustment. The impact, however, has been dramatic: as shown in Table 13.6 (drawn from a 2007 study by the OECD on AfT), the use of the budget support proxy implied that TRA captured a major share (up to a quarter) of total AfT flows, with the levels (up to US\$6.4 billion) contrasting sharply with the current measured share of TRA (i.e. less than \$68 million). This aspect has not been overlooked by the OECD, which notes in its 2011 AfT review that one reason for the absence of TRA flows may be that budget support assistance – the main form that adjustment assistance takes – often involves a ‘package’ of policy reforms, including trade, and thus the relevant policy-makers were simply unaware of the call for trade-related case studies.

13.4.2 Multilateral flows

Another problem arising from a vague definition of TRA is the exclusion of potential multilateral flows from AfT databases and debates. As noted earlier, one OECD/WTO paper refers to adjustment needs arising from, inter alia, preference erosion and declining terms of trade. However, flows from multilateral lenders – such as IMF Stand-By Arrangements – that are specifically aimed at this purpose are not registered in the CRS database. For example, the most recent Stand-By Arrangement agreed to by the Government of St Kitts and Nevis makes specific reference to the fiscal pressures of funding the country’s adjustment away from sugar production to high-end tourism, and a similar document for Jamaica’s latest IMF arrangement refers to the difficulties in divesting the country’s main alumina-processing plant. The recent global food price spikes – when some net food-importing countries saw large terms-of-trade declines – resulted in an unprecedented increase in demand for IMF assistance: from 2007 onwards, the IMF approved 82 new financial engagements under concessional facilities and 33 augmentations of existing arrangements, 14 of which were directly related to increases in international food and fuel prices; total new commitments of concessional resources to low-income countries increased almost ten-fold in 2008, peaking at US\$3.8 billion in 2009, four times the historical average (IMF 2012). Multilateral agencies are, however, not members of the OECD,

and so are not obliged to report to the CRS (and, even where such flows are reported, the data may be incompatible with the CRS) (Turner 2008). More importantly, the CRS database focuses on measuring ODA flows – i.e. concessional lending, such as the IMF's Concessional Trust Fund – for which many SVEs do not qualify, with other flows captured in an 'Other Official Flows' category.

13.4.3 Category or marker?

One potential solution involves choosing an approach to identifying TRA that arguably fits more closely how donors and recipients see adjustment needs. One potential approach to solving the definitional ambiguities surrounding TRA is to change the scope and application of the TRA category itself. At present, the classification of projects in AfT databases is constrained by the fact that donors can 'tick' only one box (i.e. assign only one CRS code) to individual aid flows. This exclusivity is hard-wired into the CRS system by design, in order to avoid any donor potentially double-counting contributions across different AfT categories. As noted earlier, this avoidance of double-counting has a strong political rationale, given that some donors have made written pledges to reach quantitative targets for their AfT contributions. However, this rigidity – whereby an AfT project can be seen as related to adjustment or infrastructure, for example, but not both – works at cross-purposes with how many donors and recipients see the support of adjustment needs. The literature on adjustment and consultations with AfT recipients suggest that minuscule TRA flows should not be interpreted as a sign that recipients and donors do not see adjustment needs as a policy priority. Rather, the aid-programming documents reviewed in section 13.3 suggest the opposite: that adjustment and diversification are seen as primary priorities for all stakeholders in the AfT debate. One observer from a major Southern development bank, echoing similar interventions from other AfT recipients, even went so far as to say that he considered nearly every project that he implemented – whether it involved infrastructure, trade facilitation, tax reform or trade policy training – as related to supporting TRA.

The approach needs to acknowledge a difference in the way TRA is seen relative to other AfT categories. A quick glance at the categories and sub-categories of AfT within the CRS database (listed in Table 13.7) shows an immediate difference between TRA and the other AfT categories: it is the only category that is not split into several sub-categories. Moreover, the CRS code descriptions for non-TRA categories are generally clearly defined either in terms of a sector (e.g. tourism, industry, agriculture) or a certain activity (e.g. training, management). TRA, however, does not have that same level of specificity. This suggests a crucial difference: whereas other AfT categories can be easily defined by *what aid is spent on*, TRA is viewed more through the lens of *why aid is being spent*. This subtle but important difference, in turn, suggests that TRA cannot be confined to the same 'tick one box' mechanism of the other AfT categories.

This multiplicity is reflected in part in the academic debate over trade adjustment costs. A recent study on TRA costs (Francois et al. 2011) notes that, compared with the attention that adjustment challenges have received in the political debate, the academic literature on the subject is rather meagre, notwithstanding a certain revival

Table 13.7 Aid for Trade CRS purpose codes and categories

1. Trade policy and regulations	
33110	Trade policy and administrative management
33120	Trade facilitation
33130	Regional trade agreements
33140	Multilateral trade negotiations
33181	Trade education/training
2. Economic infrastructure	
21010 to 21081	Transport and storage
22010 to 22040	Communications
23010 to 23082	Energy supply and generation
3. Building productive capacity (<i>including trade development</i>)	
25010	Business support services and institutions
24010 to 24081	Banking and financial services
31110 to 31195	Agriculture
31210 to 31291	Forestry
31310 to 31391	Fishing
32110 to 32182	Industry
32210 to 32268	Mineral resources and mining
33210	Tourism
4. Trade-related adjustment	
33150	Trade-related adjustment

Source: OECD (2008)

of interest in the subject in recent years. The relevant lack of academic interest in the topic may be because in early empirical work adjustment costs have been estimated to be negligible when compared with the long-run gains for the economy as a whole. It can also partly be explained by the difficulty of obtaining data necessary to estimate adjustment effects and by the complexities adjustment considerations introduce into standard trade models (Francois et al. 2011).

In part, this complexity arises from the fact that in the academic debate over adjustment costs – much like the policy debate in AfT – adjustment is seen as a process that can potentially affect many different sectors and activities. In two recent overviews of trade adjustment in developing countries, a partial list of the range of areas affected by adjustment costs included, inter alia, the public sector (e.g. tax reform, revenue replacement, civil service retrenchment/retraining and increased expenditures); industry (e.g. reallocation of capital and investment, support against profit fluctuations); labour (e.g. unemployment insurance, retraining); and wider social costs (e.g. health, internal migration) (Francois et al. 2011; Porto and Hoekman 2010). A similarly wide-ranging view is taken in Milner's (2005) study on EPA adjustment costs for the Commonwealth Secretariat, which considers adjustment across several sectors/activities, including fiscal reform, trade facilitation, labour retraining and financial sector reform. This reinforces the idea of adjustment as a motivation for a given aid intervention, rather than a sector or activity unto itself.

The solution involves changing TRA from a separate category into a multicategory 'marker'. This suggests that the current approach to counting adjustment flows may be underestimating the true value that donors and recipients place on supporting adjustment needs. It also suggests that the currently expansive definitions of TRA – such as the OECD's suggestions that it covers all 'contributions to the government budget to assist the implementation of trade reforms' (OECD 2008: 2) – are, while subject to excessive overlap and lack of clarity, closer to how the AfT community actually perceives adjustment needs. The change in approach to TRA would thus involve transforming TRA from a 'tick one box', mutually exclusive category, into a 'marker' that could be applied to any AfT flow. This would be the same approach that was taken by the OECD and the WTO when the original 'trade development' category was changed into a marker within the 'building productive capacity' category, for the same reason that the goals of trade development (e.g. investment promotion) were seen as *why* the funds were being spent on an AfT project, not *where* or on *what* activities.

The definition of the TRA marker should still maintain its current focus. In order to guide stakeholders in which projects should be marked as TRA, the focus of the new marker should remain focused on those projects which support TRA. Thus a potential definition, one that builds on and combines current approaches, could be 'support for adjustment costs arising from the implementation of recipients' own trade reforms, or trade policy measures by other countries, allowing recipients to benefit from trade liberalisation.' This definition would include, for example, a tax reform programme specifically linked to reducing reliance on border taxes, but would exclude an infrastructure project by a country that has not undertaken recent reforms, or where the investment in question is not linked to a particular trade policy. The definition could be further augmented by specific reference to the adjustment costs that might arise (e.g. labour force retraining, capital retooling) or the impact of TRA (e.g. deteriorating balance of payments), or to sources of adjustment (e.g. preference erosion). Developing countries might, however, wish to avoid excessive specificity, allowing the recipients and donors who are more familiar with project design and motivations to mark budget lines as TRA.

This change could have several potential benefits, particularly for SVEs and LDCs. There would be several potential benefits of transforming TRA from a category to a marker designation within the CRS, including the following:

- First, it could potentially vastly increase the amount of AfT considered as adjustment-related, given that many donors and recipients see adjustment/diversification as a wider goal for a large number of projects that, under the current system, are classified under non-TRA CRS codes. This increase in flows classified under the TRA marker could provide a higher profile for adjustment concerns within the AfT debate, which could in turn be particularly beneficial for SVEs and LDCs, which have often struggled to give adjustment concerns their commensurate political profile within multilateral/intragovernmental organisations such as the WTO, World Bank, IMF and OECD.
- Second, a higher profile for TRA flows would lead to more investments in monitoring and evaluation, more resources invested in the analysis of adjustment concerns, and better design of both AfT strategies and TRA interventions.

- Third, the projects tagged with the TRA marker could provide useful quantitative and qualitative inputs into the academic debate over adjustment costs, which until now has been constrained by a lack of case studies over the size and scope of TRA costs.⁹ It would provide a direct report ‘from the field’ about what AfT projects are considered to be driven by adjustment considerations, and assist economists in better calibrating trade models to account for real-world views of adjustment costs.

The alternative solution would involve maintaining an exclusive category for TRA, although this may not ultimately solve the debate over definitions. If AfT donors and recipients wish to keep the current structure of CRS categories, then the definition of TRA by necessity would require narrowing to a clearly identifiable activity or sector, in order to avoid the misclassification and confusion that currently constrains TRA measurement. The single and exclusive definition could be drawn from the current set of competing TRA definitions: for example, AfT flows solely for the purpose of boosting hard-currency reserves that have been depleted by adverse trade developments (which in turn would require wider reporting from multilateral institutions such as the IMF, particularly for flows to non-LDCs); or funds such as STABEX that have the explicit and primary purpose of compensating shortfalls in trade income. Although this may solve some of the confusion over donor reporting of adjustment flows, it may not definitively solve the adjustment debate, given that recipients and donors continue to see TRA from different perspectives.

13.5 Sources and solutions: (ii) country/sector bias

This section proposes that the global view of AfT results in a bias away from emphasising TRA needs. In statistics, sampling bias is when a sample is collected in such a way that some members of the intended population are less likely to be included than others. If sampling bias is not accounted for, results can be erroneously attributed to the phenomenon under study rather than to the method of sampling. In the case of measuring AfT flows, the dominance of certain sectors and CRS codes may be partially accounted for by the dominance of certain developing countries in the AfT data, whose policy priorities may in turn be skewing AfT statistics away from emphasising trade adjustment needs.

13.5.1 Country bias

The top recipients of AfT are mostly large, non-LDC and non-SVE developing countries. Table 13.8 shows the income distribution of the top 50 AfT recipients in the CRS database for 2010. Although LDCs are well represented, the sample is dominated by large non-LDCs, and only a single SVE (Papua New Guinea) is listed. This skewed sample is significant given that the top ten AfT recipients in 2010 – India, Afghanistan, Egypt, Vietnam, Kenya, Tanzania, Morocco, Bangladesh, Pakistan and Turkey – accounted for nearly 40 per cent of total commitments. Before 2009, AfT flows were dominated by lower middle-income countries in Asia (particularly Vietnam and India), with the dominance of LDCs as an income group, and sub-Saharan Africa as a region, coming only within the last three years.

Table 13.8 Income distribution of top 50 Aid for Trade recipients (2010)

Least developed (LDCs)	Non-LDC low income	Lower middle-income	Upper middle-income
Afghanistan	Côte d'Ivoire	Bolivia	Brazil
Bangladesh	Ghana	Bosnia-Herzegovina	Serbia
Benin	Kenya	China	Turkey
Burkina Faso	Nigeria	Egypt	
Cambodia	Pakistan	Georgia	
Congo, Dem. Rep.	Papua New Guinea	India	
Ethiopia	Tajikistan	Indonesia	
Haiti	Uzbekistan	Iraq	
Laos	Vietnam	Moldova	
Malawi		Mongolia	
Mali		Morocco	
Mozambique		Nicaragua	
Nepal		Sri Lanka	
Rwanda		Thailand	
Senegal		Tunisia	
Sudan			
Tanzania			
Uganda			
Yemen			

Source: OECD/WTO (2011)

For many of the top AfT recipients, trade adjustment – for example, arising from preference erosion – may not be a primary policy priority. In 2009, nearly half of AfT commitments to India went to funding transport projects, with the remainder dominated by flows to agriculture, electricity and banking/financial services. The same three sectors dominated AfT flows to Afghanistan in 2009, and not a single project related to adjustment was listed for either country. For many large developing countries – particularly those in Asia – the main imperative for channelling AfT flows is the need to address infrastructural weaknesses (particularly in energy, transport and telecommunications), improve private sector growth and public sector efficiency (through regulatory reform), and address the high costs of trade (e.g. through trade facilitation initiatives) (ADB 2009: 6). Global trends that lead to adjustment costs – preference erosion, for example – are often not a primary policy priority in these large, lower middle-income developing countries, particularly those (such as India) that undertook trade reforms several decades ago. Table 13.9, for example, shows the top 25 countries with the highest trade-weighted preferential margin for their exports – that is, those countries that stand to face adjustment costs due to the erosion of these preferences, either by multilateral liberalisation or by FTAs signed by preference-granting countries with competing exporters (e.g. the EU–Latin America Trade & Association Agreements). Only four countries – Afghanistan, Bangladesh, Mozambique and Kenya – are among both the 25 countries most heavily dependent on trade preference and the top 50 recipients of AfT. This aspect was recognised in the 2011 OECD/WTO review of AfT, which noted that the silence on adjustment assistance may also reflect shifting concerns of the

Table 13.9 Top 25 countries with highest trade-weighted preferential margins for exports

Mauritius	24.1
Swaziland	21.8
Fiji	21.6
Seychelles	19.4
Belize	16.8
Guyana	16.2
Haiti	15.0
St Lucia	15.0
Malawi	14.6
Cape Verde	14.1
El Salvador	12.4
Afghanistan	11.2
Barbados	11.0
Lesotho	10.9
Honduras	10.9
Nepal	10.6
Madagascar	10.1
Maldives	9.4
Nicaragua	9.4
Greenland	9.1
Samoa	8.1
Bangladesh	7.8
Mozambique	7.4
Guatemala	7.4
Kenya	6.8

Source: Carpenter and Lendle (2010)

trade community, that the previous preoccupation with adjusting to lower tariffs and shrinking preferences has diminished in the light of the Doha Development Agenda's slow progress, and that countries are now more concerned with overcoming supply constraints to take advantage of market opportunities.

Even for some SVEs and LDCs, supporting adjustment costs may not be seen as an immediate priority, particularly where trade reforms were taken several decades ago. Within individual SVEs and LDCs, the balance of policy priorities may not always fall in favour of adjustment costs, particularly for those small and least developed countries that have already undertaken wide-ranging unilateral domestic reforms, in many instances with a trade rationale and/or impact. Among the LDCs for example, Bangladesh undertook deregulation and privatisation measures as early as the late 1970s, and was one of the first countries to adopt IMF and World Bank Structural Adjustment Programs, resulting in, inter alia, substantial reductions in tariff and non-tariff barriers (North South University 2005: 2). Several Pacific island developing countries (such as Papua New Guinea, Vanuatu and Samoa) undertook substantial tariff reductions and elimination of quantitative restrictions in the mid-1990s, as did Jamaica during the 1980s and Mauritius from 2000 onwards. Although only some of

these reform processes were successful – Jamaica, for example, continues to struggle for fiscal solvency (see Hudson 2003) – the immediate TRA costs for these countries, in several cases, were felt many years before the current AfT debate. This does not imply, however, that adjustment is a non-issue for SVEs and LDCs. Many of the same countries face immediate or future adjustment needs arising from unilateral reform; in the Pacific alone, Vanuatu and Samoa are continuing to implement deep fiscal reforms in response to their recent WTO accessions. Other SVEs and LDCs such as Nepal and the Bahamas are only now undertaking deep trade-related reforms, again often in response to the requirements of WTO membership.

TRA may also not be an immediate priority for those SVEs and LDCs whose main preference margin has already been eroded, although this does not apply to most exports. For some key preferential exports from SVEs and LDCs, the lack of interest by AfT recipients in TRA funds may result from a perception that the costs of preference erosion – like those arising from the unilateral reforms discussed in the earlier paragraph – have already been borne by the economy. In the case of bananas, Windward Island producers have faced declining real prices since the early 1980s, in part due to booming export levels from competing Latin American producers; and recent bilateral deals such as that reached between the EU and Latin American producers (to settle a WTO dispute) have in many instances already been priced into the global market (FAO 2003: 24). The end of the Multi-Fibre Arrangement in 2005, removing commercially valuable quotas for major textiles producers, was implemented before the current AfT debate, and had particularly large impacts on SVEs and LDCs such as Bangladesh, Mauritius, Swaziland, Lesotho and Madagascar. This suggests that preference erosion remains an adjustment concern for SVEs and LDCs, particularly for non-agricultural products such as textiles and fish that will be subject to steep tariff-cutting formulas under the current set of proposed WTO non-agricultural market access modalities (see Lawrence and Rosito 2006).

The divergence in responses to AfT questionnaires is particularly revealing. Developing countries (including SVEs and LDCs) were asked to complete questionnaires that assessed changes in their AfT priorities since 2008, and the first chapter of the OECD/WTO 2011 review was dedicated to analysing their responses (which does not include SVEs as a separate category). The analysis found that competitiveness was the top priority across all regions and income groups ‘but particularly for West Africa, Central America and the Caribbean’ (OECD/WTO 2011: 32); for LDCs, economic infrastructure is their second priority, followed by export diversification. Only for some countries – such as the Gambia – did export diversification away from traditional exports remain a top priority (OECD/WTO 2011). This lack of emphasis on TRA issues, however, is contrasted with country questionnaires submitted by LDCs within the context of the EIF and publicly available on the WTO website. Malawi’s submission, for example, lists several adjustment-related projects as ‘priority’ technical assistance needs, particularly in agriculture, where Malawi wishes to:

- determine the support for adjustment problems arising from reforms that improve agricultural productivity and supply in terms of least-developed and net food importing from Malawi;

- calculate welfare gains and losses for Malawi's current and potential exports; and
- examine the erosion of preferences on the Generalised System of Preference (GSP), the GSTP and the Lomé Convention as a result of the reduction of the MFN rates (WTO 1998).

13.5.2 Sector bias

The value of individual projects within the CRS database also weighs heavily towards non-TRA flows. The marginalisation of adjustment flows within AfT database and policy debates may be rooted in the fact that undertakings in areas such as infrastructure (in particular transport), mining, banking/financial services and energy are often much more expensive, on an individual project basis, than those classified under TRA. Table 13.10 compares a random sample of large non-TRA and TRA projects. It shows that, in 2010, the US dollar values of the largest TRA commitments paled in comparison with the size of non-TRA commitments in areas such as transport and energy. Viewed from another metric, the 2010 value of commitments under all 43 projects classified under TRA totalled US\$29 million; this figure is significantly lower than the total disbursement for the top 43 projects in non-TRA areas, such as transport (US\$8.1 billion), energy (\$7.1 billion), agriculture (\$3.36 billion) and banking/financial services (\$1.5 billion). This demonstrates that, although adjustment considerations are important for many developing countries (particularly LDCs and SVEs), both donors and recipients choose to allocate scarce development resources to non-TRA categories – particularly in improving infrastructure, which is seen by many developing countries as having a higher pay-off in terms of increasing exports.

In many LDCs and SVEs, the significant year-on-year fluctuations in AfT disbursements are often caused by the initiation and/or unwinding of major projects in these non-TRA areas. The 2011 OECD/WTO AfT review shows that, even in sub-Saharan African LDCs and SVEs, non-TRA areas significantly influence aid investments. AfT flows to Nigeria, for example, are dominated by banking/financial services and mining; in Ghana, 62 per cent of almost US\$700 million of total AfT was used in 2009 to improve the transport sector; and, during the same year, the Democratic Republic of Congo (DRC) received US\$725 million, with energy-related projects receiving 36 per cent of total support. Even in Bangladesh, with its strong concerns over TRA in sectors such as textiles, more than half (55.9 per cent) of total AfT flows in 2009 went to fund projects in electricity generation and supply, and a further one-quarter between transport (20.1 per cent) and banking/financial services (3.4 per cent). During the same year, nearly half of all AfT flows to Burkina Faso and Mali went to agriculture (OECD/WTO 2011). Although these flows may have been fundamentally driven by TRA concerns, the current reporting framework places them outside the TRA category.

13.5.3 Addressing country and sector bias

A potential remedy involves increasing the involvement of non-OECD agencies in collecting and reporting AfT data, although the current system may partly work in

Table 13.10 Comparison of sample Aid for Trade project values (2010)

Donor	Recipient	CRS Classification	Project description	Commitment
Non-TRA				
Japan	India	Transport and storage	Construction of dedicated freight corridor between Delhi and Mumbai	US\$1 billion
Japan	Kenya	Energy	Geothermal power plant construction	US\$336 million
USA	Senegal	Transport and storage	Road construction	US\$320 million
USA	Afghanistan	Agriculture	Agricultural sector productivity	US\$314 million
TRA				
EU/EDF	Trinidad and Tobago	Trade-related adjustment	2010 sector budget support programme under the framework of Accompanying Measures for Sugar Protocol Countries	US\$22 million
Australia	CARICOM (regional)	Trade-related adjustment	Contributions to CARICOM Development Fund	US\$917,000
Canada	Benin	Trade-related adjustment	Improvement of Benin markets	US\$56,000

Source: OECD CRS database (accessed April 2012)

favour of SVEs and LDCs. The OECD's mandate to report global AfT flows is based on two aspects:

- first, the 2006 WTO Task Force's direction to the OECD/DAC to assist with periodic reviews of AfT; and
- second, the fact that – upon creation of the AfT framework – donors were reluctant to create a reporting process separate from the DAC/CRS process, preferring instead to adapt the CRS to the newly created AfT categories.

The channelling of AfT reporting through the OECD DAC process may, in part, work in favour of SVEs and LDCs, many of which face severe human resource constraints in their public sectors and are already overwhelmed with reporting requirements for agencies such as UNCTAD, WTO, World Bank, IMF and others. Given that donors (a) have much higher levels of reporting capacity and (b) are probably best placed to determine the sector- and priority-specific categories within their own funding programmes, donor reporting via the CRS is a means to ensure that global AfT databases continue to be populated by detailed/sector-specific, budget line-by-line data on aid flows that has the historical depth to allow for meaningful

analysis. Furthermore, there are fewer donor agencies (the CRS collects data from 23 DAC countries, 21 non-DAC countries and 28 multilateral agencies) than recipients (the CRS lists 180 recipient countries in total), and thus it makes a degree of sense to impose reporting requirements – many of which periodically change – on the smaller and more homogeneous group of donors than on a set of recipients that vary considerably in their capacity to regularly report detailed AfT flows.

This chapter has, however, highlighted ways in which the OECD's global view of AfT has led in part to a marginalisation of TRA considerations within the AfT debate. This section has shown that the dominance of non-LDC and non-SVE countries in global AfT flows has led to a sidelining of TRA concerns. This, in turn, has resulted to calls within the AfT community for the AfT reporting mandate to be shifted away from the OECD and the WTO, and towards other organisations, such as UNCTAD, that are considered more representative – given that the OECD's membership is composed exclusively of developed countries and many large, middle-income developing countries – and friendly towards SVE and LDC concerns, given that the WTO has resisted the creation of an SVE sub-group of Member States, and the OECD CRS does not recognise SVEs as a separate category. Moreover, there is a potential for conflict of interest between, on one hand, creating a political imperative for donors to make specific commitments on AfT flows, and, on the other hand, relying exclusively on those same donors' reporting systems to verify if those commitments have been met.

The immediate priority to balance the AfT debate in favour of adjustment needs is for other organisations to become actively involved in reporting AfT flows and case studies. Any transfer of the AfT reporting mandate away from the OECD is likely to be strongly resisted by donors (which, as noted above, wish to avoid multiple reporting streams for the same project) and large developing countries (which will probably not wish to see their AfT flows, case studies and policy priorities downgraded in the AfT debate, or are content with the status quo). Besides, as noted earlier, SVEs and LDCs may not wish to see their own reporting requirements increased by a transfer of the AfT mandate to another multilateral organisation. This implies that existing SVE and LDC advocates – including both multilateral organisations (e.g. UNCTAD, the Commonwealth Secretariat) and trade and development research centres (e.g. the South Centre, the Overseas Development Institute) – need to become more actively involved in preparing SVE- and LDC-specific perspectives on the AfT debate, including, *inter alia*:

- providing support to SVEs and LDCs to submit case studies that speak to adjustment needs;
- providing regular reviews of AfT flows that separately address SVEs and LDCs, providing an overall policy perspective that may differ substantially in tone and focus from the OECD's review at a global level; and
- ensuring that their own contributions for AfT activities are reflected in the CRS, by providing their own statistics to the CRS (for example, neither UNCTAD nor the Commonwealth Secretariat appears in the CRS, despite being – in some countries – major donors on trade-related issues).

As a basic first step, SVE advocates should ensure that – regardless of the reluctance of the WTO to create a separate sub-group – there is a separate SVE category within the CRS (building on the current ‘small island developing state’ category), which will facilitate analysis of SVE trends and policy concerns.

13.6 Sources and solutions (iii): donor bias

13.6.1 TRA and donor reluctance

Low TRA flows may arise from donors’ reluctance to fund programmes with an explicit focus on adjustment. An overview of donor AfT strategies shows, in several instances, a clear preference for funding AfT programmes that are not directly linked to addressing adjustment costs. The EU AfT strategy, for example, states a clear preference for non-TRA categories, setting quantitative goals for trade policy and regulations and for trade development, and relegating other categories to a ‘wider aid for trade agenda’ (EU 2011: 3) for which the EU declines to set specific financial commitments. The document clarifies that the ‘EU is already a major donor in trade-related infrastructure and productive capacity’ (EU 2007: 3), leaving adjustment as the only category not addressed to in any substantive depth. (In fact, the only explicit goal the EU sets for TRA is to resolve the definition and reporting difficulties referred to earlier in this study.) The Canadian government’s AfT support is focused primarily on areas such as private sector support, policy formulation and trade facilitation; no mention is made of funding adjustment needs (OECD/WTO 2010a). In a similar vein, the United States’ Aid for Trade strategy is primarily focused on pro-growth market reforms and private sector development, rather than supporting adjustment costs (OECD/WTO 2010b). The non-TRA emphasis is arguably even more acute in the case of South–South co-operation, given Southern donors’ traditional AfT focus on funding technical assistance, training and infrastructure projects (OECD/WTO 2011).

In part, this reluctance stems from past experience of adjustment programmes, particularly in the banana sector. Within the context of previous adjustment programmes, arguably the two most valuable case studies are those of the EU–ACP support programmes for bananas and sugar. A brief overview of the experience of these programmes suggests reasons for donor reluctance to propose further funds linked to TRA. In the case of *bananas*, targeted EU assistance took the form of the €95 million Special Programme of Assistance (SPA) in 1994 and the €287 million Special Framework of Assistance (SFA) from 1999 to 2005. Although both programmes were originally planned, in part, to assist in increasing the competitiveness of ACP producers, the focus of assistance gradually shifted over time to favour diversification into other economic activities. The gradual decline of both the banana sector and the general agricultural sector in many banana-producing ACP countries points to several obstacles faced by the EU and ACP in delivering banana-sector adjustment funds: the programmes often resulted in spikes in aid flows that overwhelmed the capacity of countries and producers to use the resources effectively; EU aid mechanisms were often unable to deliver funds in a market-sensitive and time-critical manner; the difficulties in delivering aid to smallholder farm systems at the right time hindered efforts to

create close and effective aid co-operation. In the case of *sugar*, targeted EU financial assistance has emerged relatively recently – within the context of reforms to the EU's sugar regime and the introduction of the Everything But Arms duty-free regime for LDCs – with the creation of a €1.25 billion envelope in addition to normal European Development Fund flows. The assistance provided to sugar producers has explicitly sought to avoid repeating the mistakes of the SFA and SPA in bananas, in part by emphasising adjustment/diversification measures for countries deemed uncompetitive in the long run. Early reports, however, indicated that funding arrangements for sugar adjustment were subject to many of the same obstacles (e.g. delays in disbursements, disillusionment of industry actors with the crafting of national response strategies) as those that had limited the effectiveness of the banana measures.¹⁰

Further caution may be grounded in the STABEX experience. The EU's STABEX facility was established in 1975 under the Lomé Convention; the mechanism was envisaged as a compensatory finance scheme to stabilise earnings from ACP exports of agricultural commodities, and operated until abolished under the 2000 Cotonou Agreement. In 1998, the EU undertook a major review of the STABEX regime (CERDI et al. 1998). Although the review found that STABEX had in part achieved its central objective – the prices of eligible ACP exports were more 'stabilised' than ineligible products of the same countries – it found some of the same problems listed above in the banana and sugar context, and several additional concerns, including:

- delays in disbursing funds – measured in one case at 22 months after a price fall, despite the 'automatic' nature of the STABEX mechanism;
- frequent failures to distinguish short-term revenue falls from a longer-term decline in the export prices of many products, resulting in serious resource constraints, including the inability of the EU to mobilise adequate resources when export prices experienced record falls (e.g. during the Lomé III and IV Conventions of 1985–99);
- the difficulty in measuring whether or not STABEX funds were truly additional to other EU flows, and concerns that STABEX negatively impacted other aid flows;
- difficulties in measuring the impact of STABEX funds in agricultural sector restructuring, with the review finding that STABEX 'has had no clear effect' on either export diversification or stabilisation of government revenue in ACP countries, and was 'likely to be more destabilizing than stabilizing' for export receipts of ACP beneficiaries (CERDI et al. 1998: 3).

This anti-adjustment bias is reflected in part in templates used to prepare national and regional assistance strategies. According to the most recent OECD review of AfT flows, 'the delivery of Aid for Trade is increasingly guided by the principles of the Paris Declaration on Aid Effectiveness', implying inter alia that 'partner countries need to integrate trade objectives into their development strategies and take the lead in their implementation' (OECD/WTO 2011: 70). This in turn implies that the process by which national development strategies are formulated, and their specific content (particularly the key priorities listed in the text), fundamentally determine

which sectors and programmes receive AfT funding. In the particular case of the LDCs and their funding via the EIF, the preparation of a Diagnostic Trade Integration Study (DTIS) is considered by its explanatory note as the ‘cornerstone’ for integrating trade into national development strategies, with EIF, donor and national budget flows meant to focus on the action identified within the DTIS. However, the template which guides external consultants in the preparation of the DTIS contains no specific reference to addressing the costs of TRA, although the document refers to the need to, for example, address technical assistance needs in the context of WTO accession (although this is applicable only to a handful of LDCs) (EIF 2011). This has, fortunately, not prevented some LDCs from addressing trade-related adjustments in their own DTIS: Samoa, for example, mentions adjustment arising in the private sector to improve competitiveness as a result of dramatic tariff reforms; and the Solomon Islands refers to the adjustment costs arising from tax reforms.

13.6.2 Making a stronger case for TRA

AfT recipient countries need to ensure that discussions of support for adjustment costs are central to policy debates. Although some donors may seek to focus on other areas of AfT, recipients should ensure that TRA is fully integrated into national development strategies, funding agreements and the legal texts of trading arrangements; for example, by crafting the terms of reference or other templates provided to consultants in the preparation of such documents to clearly specify that TRA needs should be addressed conceptually, qualitatively and quantitatively. More importantly, however, aid recipients should seek to influence the AfT debate by referring to best-practice case studies and current innovative approaches to supporting TRA, beginning with a concerted effort to highlight positive case studies in previous support programmes. In the case of the EU–ACP SPA/SFA banana measures, while regions such as the Windward Islands struggled with a declining banana sector, other producers – such as Côte d’Ivoire, Cameroon and Belize – were more successful in using EU resources to adjust to changing trade conditions, improve competitiveness and increase market share. The adjustment funds in these countries were more effectively mobilised by, *inter alia*, more closely involving larger-scale industry players in the process of restructuring, particularly through cofinancing arrangements that ensured that private agents had a direct financial stake in aid projects, and by relying on competitiveness and expansion plans drafted by firms rather than external consultants (Goodison 2007). These specific positive examples of adjustment funding should be highlighted in AfT policy debates, rather than the more general and pessimistic overview that currently dominates.

Recipients should also encourage donors to revisit the lessons learned in previous arrangements for new adjustment-related undertakings. In 2009, the European Commission approved a €500 million funding mechanism called Vulnerability FLEX (V-FLEX) to help ACP countries cope with the impact of the global financial crisis, focusing on those countries most affected by their poor resilience to external shocks. Although it is still too early to evaluate the degree to which V-FLEX flows are a direct improvement on earlier mechanisms, the language of the EC in launching V-FLEX suggests a concerted effort to avoid previous mistakes; for example, the fact

of its working ‘pre-emptively ... helping to ease the impact rather than acting after the damage is done’; its ‘acting as a complement’ to other aid flows; its targeting at countries that have ‘sufficient absorptive capacity’ and where ‘EU support can make a difference’ (see European Commission 2010). The design of the current financing arrangements for ACP sugar producers, in the context of reforms to the EU’s sugar regime and the advent of Everything But Arms for LDCs, also suggests an effort by the EC to absorb lessons from previous adjustment mechanisms, rather than abandon them entirely (Goodison 2007).

Both recipients and donors should look to recent TRA best practices. Following the signing of the COMESA FTA in 2000, South and East African countries established (in Article 150 of the COMESA Treaty) a ‘special Fund for Cooperation, Compensation and Development for tackling the special problems [...] arising from the integration process’. The COMESA Fund was established in 2002 and operates with two interlinked instruments: an Adjustment Facility and an Infrastructure Facility. The Adjustment Facility – to which the EC contributed €78 million under the 9th EDF – is aimed at supporting Member States in the implementation of internal FTA policies that may have potential short-term negative socio-economic impacts; funds are channelled through COMESA institutions rather than via the standard programme approach. Already, the Adjustment Facility has disbursed funds to two COMESA States (€4.4 million for Burundi and €10.3 million for Rwanda, both in 2009), representing in the Rwandan case approximately 65 per cent of COMESA-related customs duties and trade taxes (AllAfrica 2009). Whereas in these cases the funding was granted on the basis of revenue losses, future support will be channelled towards more broadly supporting the implementation of regional commitments at the national level, i.e. rewarding countries for their progress made, based on well-defined integration indicators that will in turn trigger disbursements and allocations under the Adjustment Facility (ECDPM 2006). Similar best practices within SVEs and LDCs suggest that a two-pronged approach – first, openly acknowledging the existence of TRA costs and, second, linking support to implementation of clearly defined market-opening measures – could potentially dispel donor hesitation regarding the support of adjustment facilities.

13.7 Conclusions: assessing trade-related adjustment costs

The current tools for measuring TRA are not optimally crafted to contribute to the discussion on AfT. This chapter has argued, in turn, that TRA flows are marginal not only within existing AfT databases but also within key AfT reviews and case studies (section 13.2), and that this low emphasis on TRA is at odds with heavy schedule of trade negotiations facing most SVEs and LDCs (section 13.3). In sections 13.4–13.6, the chapter has also argued that this disconnect could be explained, and solved, by, *inter alia*:

- the existence of TRA as a stand-alone category that refers to *why* funds are being spent on a given project, rather than *on what* activities – requiring a choice of either (a) a narrow sector- or activity-based definition, or (b) a cross-sector ‘marker’ approach, with a preference for the former approach;

- biases on the recipient side, including the dominance of non-SVE and non-LDC countries (and their policy concerns) in global AfT flows and the higher valuations for non-TRA projects, particularly in infrastructure and energy – requiring a broadening of the AfT reporting mandate to organisations that have SVE and LDC concerns at the heart of their mandate; and
- biases on the donor side, particularly the negative perception of funding adjustment programmes, requiring a concerted effort to implement both the lessons learned from past experience and the best practices being implemented among developing countries.

These reforms are urgently needed, given that the debate over TRA costs for SVEs and LDCs is highly political. There exists, at the multilateral level, an *acquis* suggesting that – among developing countries – SVEs and LDCs should be extended special flexibility within the context of trade negotiations, given their particular vulnerability to the negative impacts of trade liberalisation.¹¹ Moreover, SVE and LDC advocates have strongly resisted any effort to erode this *acquis* both inside and outside the WTO, building on the ACP–EU model, which explicitly recognises the need to support adjustment costs that arise from trade liberalisation. As a result – and particularly since SVEs and LDCs are being asked, with the EPAs and their associated regional integration processes, to undertake reciprocal tariff commitments for the first time – the participation of many Member States in trade negotiations is increasingly being predicated on a sufficient ‘development package’ or ‘development dimension’ as an incentive to implement trade measures (ECDPM 2006). The link between funding adjustment costs and agreeing to wide-ranging trade commitments has, as a result, become a highly sensitive and highly political element of trade negotiations, with close involvement from trade officials up to the Heads of State level.¹² The low measured TRA flows, however, may allow both donors and developed-country FTA partners to conclude that the concerns over TRA are either misplaced or overstated. Unless there is a stronger emphasis on TRA and an AfT framework that allows for adjustment concerns to be more clearly measured, then donors may not respond to requests to support adjustment costs when they actually occur, leaving already-overstretched SVE and LDC governments to foot the bill.

The need is particularly acute given that TRA programmes are often crafted without clear reference to actual adjustment costs. Whereas there is a clear push from the SVE and LDC Member States to recognise the need to support adjustment cost, there is often little to guide their negotiators, trade officials or Heads of Government regarding what might constitute an ‘adequate’ support package. This is because:

- funding support is considered a precondition to participation and/or signing of the final text, resulting in discussions on development financing occurring before specific country-by-country commitments have been agreed to and analysed; and/or
- economic data are lacking for key economic indicators (e.g. production, actual revenue collection, trade and employment), with the shortage being particularly acute in the case of most SVEs and LDCs.

Thus, in the absence of a clear signal from the global AfT debate of what constitutes adjustment costs, and therefore adjustment priorities, discussions within particular trade agreements are often conducted in a vacuum, largely limited to a consideration of the 'additionality' of funds vis-à-vis both previous and current support programmes, or previous adjustment measures agreed by the donor in question, or aid commitments made by donors (e.g. the DAC donor target of 0.7 per cent of GDP).

Only when TRA is more clearly recognised can SVEs and LDCs better integrate adjustment concerns into their negotiating positions, and into their national development strategies. Clarifying both the scope and level of TRA in overall AfT flows will create several benefits for the multilateral system. Donors will be better able to programme funds in the event of trade-related reforms, and provide a more measurable AfT 'carrot' to the 'stick' of trade liberalisation, particularly for SVEs and LDCs whose precarious finances or lack of competitiveness suggest that adjustment costs could overwhelm short- and long-term socio-economic benefits. Recipients will be better able to infuse the concept of TRA within their key planning documents, particularly their national development strategies that form the basis of country assistance programmes and ultimately determine the destination and level of AfT flows.

Notes

- 1 The use of TRA in this study for 'trade-related adjustment' should not be confused with the more common use of TRA as 'trade-related assistance' in the AfT literature.
- 2 The CRS defines aid activities as 'a project or a programme, a cash transfer or delivery of goods, a training course or a research project, a debt relief operation or a contribution to a non-governmental organization' ('Technical Guide to terms and data in the Creditor Reporting System (CRS) Aid Activities database', OECD website, www.oecd.org, accessed 23 July 2013).
- 3 A number of non-DAC countries with large aid programmes, such as China and India, do not report their AfT flows to the CRS database.
- 4 According to the AusAid website (www.ausaid.gov.au), the Laos support takes the form of funding a trade specialist, based within the Ministry of Industry and Commerce, who supports effective implementation and co-ordination of trade-related assistance and provides technical and policy advice to the Ministry. Australia also contributes to a multi-donor programme, the Trade Development Facility, which provides technical assistance in support of the Government of Laos's trade reform and economic integration agenda. The Trade Development Facility operates in five main sectors: trade facilitation, sanitary and phytosanitary (SPS) and technical barriers to trade (TBT), capacity building, trade policy and global opportunities, and strengthening trade programme co-ordination and implementation. The Caribbean funding is part of a C\$60 million development assistance programme that covers four areas: climate change and disaster risk reduction (C\$17.5 million); economic resilience (C\$10 million, with explicit trade components); people-to-people and institutional linkages (C\$16.5 million); and direct assistance to individual countries (C\$16 million).
- 5 See a list of relevant studies in UNCTAD (2010: 11).
- 6 The study identified four types of adjustment assistance that would be required (i.e. fiscal adjustment, trade facilitation and export diversification, production and employment adjustment, and skills development and productivity enhancement), and classified ACP countries according to size (micro, small, medium, large and very large) and degree of adjustment required (low, medium and high). The estimates were based on the implementation cost of representative World Bank programmes for each type of adjustment assistance, interpolated across the different country classifications. Other authors have used similar methodologies to derive competing estimates of EPA adjustment costs. Smith

- (2006), for example, provides a downward revision of Milner (2006) for the Pacific island economies, estimating adjustment costs of €170 million (relative to the original estimate of €430 million).
- 7 This may be remedied by the creation of guidelines within the WTO for LDC accession. Recent experience, however, suggests that these largely exhortatory guidelines – for WTO Members to ‘seek restraint in seeking concessions and commitments’, with ‘transitional periods taking into account individual development, financial and trade needs’ – have been largely ignored. See ‘Expediting and Facilitating the WTO Accession Processes for the Remaining Commonwealth non-WTO Members: Obstacles Demystified, Lessons Learned and Challenges Ahead’, study prepared by for the Commonwealth Secretariat, WTI Advisors (2012: 12). Although new guidelines have been established (WTO 2012), setting, inter alia, average bound rate levels for agricultural and non-agricultural market access, the language of key provisions remains non-binding.
 - 8 Poverty Reduction Strategy Papers and Requests for Stand-By Arrangements are available online at www.imf.org
 - 9 See, for example, Francois et al. (2011) and Porto and Hoekman (2010).
 - 10 This paragraph draws heavily from Goodison (2007).
 - 11 In the WTO, LDCs are provided a range of flexibilities in nearly all substantive areas of multilateral negotiations, ranging from exemptions from making tariff reductions in both agriculture and NAMA to targeted technical assistance and longer time frames for implementation. SVEs are similarly provided with flexibilities within WTO draft modalities (though not as generous as those granted to LDCs), including special product categories that allow for more moderated tariff cuts than those provided to non-SVEs.
 - 12 See Miller (2010) for a detailed discussion of the CARIFORUM–EU context.

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