

Aid for Trade

Twenty lessons from existing aid schemes

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List of Acronyms

ACP	African, Caribbean and Pacific
ADE	Aide à la Décision Économique
AFT	Aid for Trade
BLNS	Botswana, Lesotho, Namibia, Swaziland
BoP	Balance of Payments
CB	capacity building
CPA	Cotonou Partnership Agreement
CSP	Country Strategy Paper
DDA	Doha Development Agenda
DFID	UK Department for International Development
DIE	German Development Institute
DTIS	Diagnostic Trade Integration Study
EC	European Commission
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EFF	Extended Fund Facility
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
ERO	European Research Office
ESA	Eastern and Southern Africa
ESF	Exogenous Shocks Facility
EU	European Union
GAERC	General Affairs and External Relations Council
GNI	gross national income
ICCO	Interkerkelijke Coördinatie Commissie Ontwikkelingssamenwerking
IF	Integrated Framework
IFSC	Integrated Framework Steering Committee
ILEAP	International Lawyers and Economists against Poverty
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	Least developed country
LPAC	Local Project Appraisal Committee
MDG	Millennium Development Goal
MEDA	EU-Mediterranean Economic Development Area
MFA	Multifibre Arrangement
MTR	mid-term review
NAO	National Authorising Officer
NFP	National Focal Point
NIP	National Indicative Programme
NSC	National Steering Committee
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PMU	project management unit
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RAO	Rational Authorising Officer
RIP	Regional Indicative Programme
ROM	Result-Oriented Monitoring System
RSP	Regional Strategy Paper
RTA	regional trade agreement
SBA	Stand-by Arrangement

SC	South Centre
SDR	special drawing rights
TACIS	Technical Aid to the Commonwealth of Independent States
TF	task force
TIBS	Trade Integration Budget Support (Facility)
TIM	Trade Integration Mechanism
TRA	Trade-related Assistance/Aid
TRTA	Trade-related Technical Assistance
UEMOA	West African Economic and Monetary Union
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organization
WTO AFT TF	Aid for Trade Task Force of the World Trade Organization

Executive Summary

Following from the widespread acknowledgment that developing countries need support to benefit from trade liberalisation, debates on 'aid for trade' (AFT) have attracted much attention over the past years. This is not surprising since current AFT initiatives seem unprecedented in their purported geographical scope, thematic coverage and, possibly, resources involved. Aid for trade is discussed under the overarching framework of the World Trade Organization (WTO) but also in the context of regional and bilateral trade talks such as the Economic Partnership Agreements (EPAs) currently being negotiated between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries. Precisely because of this level of ambition, and the possible thematic and geographic scope, the actual operationalisation of AFT initiatives to deliver incremental trade-related aid is a complex exercise that presents many challenges for all involved.

While potential donor and recipient countries discuss issues surrounding the demand side and the supply side of AFT, it is important to have clear ideas on what is already working (and what is not) at the multilateral, regional and national levels. To make concrete proposals for moving forward with AFT, donors and recipients have to take stock of existing programmes and identify financing gaps and needs for improvements of delivery mechanisms. Therefore, the current study aims to inform the ongoing debates by highlighting lessons learnt from existing trade-related aid schemes. These lessons are informed by an exploration of the European Commission (EC) trade-related assistance (TRA) (in the framework of ACP-EU relations) as a significant example of regional and bilateral schemes, as well as the multi-agency Integrated Framework (IF) and the International Monetary Fund (IMF) Trade Integration Mechanism (TIM) as major multilateral aid schemes.

The analysis provided may be beneficial in assessing whether existing trade-related aid mechanisms can play a key role in channelling AFT, as there is no need to reinvent the wheel. Indeed, a comparative assessment of existing aid instruments on the one hand and AFT mandates and objectives on the other will be a precondition for the identification of possible gaps in thematic and geographic coverage between the two as well as to extract best practices in delivery mechanisms and procedures. It is also hoped that this study will be useful in terms of translating some elements of the overall debate on aid effectiveness into the language of trade, as a first step in bridging the two separate worlds of the ministries of trade and ministries for development cooperation, as these two often lack sufficient exchange of information and interaction, both in developed and developing countries.

The study is structured as follows. After an introductory section, Part I discusses the relevance of the ACP-EU aid and trade partnership, and in particular EC support to ACP countries, for recent AFT developments. Particular emphasis is put on the European Development Fund (EDF), to highlight lessons learnt in terms of levels, scope, ownership, monitoring and effectiveness of trade-related assistance.

Part II addresses the multilateral framework. Part II.A explores the Integrated Framework (IF), a global, multi-agency, virtually all-encompassing trade-related aid instrument for least developed countries (LDCs) only. The analysis shows that its objectives and holistic approach strongly resemble those of the AFT initiative at WTO level. Issues of management, country ownership and availability of funds under the IF process are also addressed. The Trade Integration Mechanism (TIM) managed by the IMF is presented in Part II.B. Lessons are drawn in terms of eligibility and access criteria, coverage and operational aspects for this instrument, often cited as a key example of support to

countries experiencing balance-of-payments or macroeconomic difficulties directly resulting from trade liberalisation.

By pointing to strengths and weaknesses in the functioning, institutional set-up, scope and monitoring of existing instruments, this study identifies lessons on how to operationalise the delivery of AFT and points to some best practices towards increased aid effectiveness. While many lessons could be drawn, the conclusions of this study present twenty lessons deemed particularly relevant in terms of underlying principles, improving the demand and supply of AFT during design phases, as well as improving its management and delivery.

Twenty principles and lessons from existing TRA facilities (EC TRA, IF & TIM)	
<i>Underlying principles of AFT</i>	1. AFT should be based on a partnership approach whereby the parties choose aid and trade as instruments to achieve common objectives and do not consider aid as donor compensation (or conditionality) for trade liberalisation by the recipient country.
	2. AFT should be aligned to the trade priorities endogenously set by developing countries and rooted within their overall national development plans.
	3. Any AFT initiative should concretely reflect full ownership of the interventions by all relevant stakeholders in the beneficiary countries.
	4. Capacity building in the context of AFT should include both long-term and short-term interventions with a focus on participation and endogenous change.
<i>Improving demand & supply of AFT during design phases</i>	5. Multi-stakeholder involvement towards a large consensus around the projects to be implemented, with adequate balance between inclusiveness and efficiency, can boost the credibility of the AFT initiative.
	6. AFT objectives must match existing delivery instruments and actually available resources; donors should avoid re-labelling existing aid and raising unrealistic expectations.
	7. Recognition that trade can make a vital contribution to development should be matched by a broad scope of AFT programmes and the policy decision by donors to support trade reforms in developing countries with substantial levels of predictable funding.
	8. The broader the scope of interventions the more important the proper articulation, definition, timing and reporting of AFT initiatives.
	9. AFT interventions should integrate regional priorities without losing focus on national-level interventions.
	10. AFT country and regional interventions should be designed through thorough diagnostic analyses.
<i>Improving the management & delivery of AFT</i>	11. Given the possibly large amounts disbursed and numbers of donors, beneficiaries and projects, AFT should be subject to regular evaluation and improvement through formal monitoring and review processes.
	12. A solid institutional architecture is fundamentally important, especially with regard to the wide scope of activities carried out under the AFT initiative.
	13. Several different types of stakeholders need to be closely involved in the programming, delivery and evaluation of AFT.
	14. Country-level and sub-regional- level management plays as important a role as global-level governing bodies.
	15. With regard to the multi-actor and multi-level dimension of the AFT initiative, effective coordination has to be ensured (going beyond solely the exchange of information).
	16. Complementarity and coherence of AFT interventions should be guaranteed through joint programming and each donor's role defined on the basis of expertise and comparative advantages.
	17. AFT resources must be commensurate with objectives and made predictable as well as timely and effectively available.
	18. Support under the AFT initiative should not lead to indebtedness in the recipient countries.
	19. Modalities for AFT disbursement must be flexible and user-friendly to ensure the timely and effective delivery of aid (e.g. use of budget support and locally owned management procedures).
	20. Adequate procedures for timely and efficient delivery of AFT may require improvements both on the donor side and on the recipient side.

Several of these principles and best practices cut across experiences in the three trade-related approaches analysed, suggesting that some of these lessons lie at the heart of the effectiveness of TRA delivery. The relevance of these lessons is strengthened by the fact that many of them reflect elements of the Paris Declaration on Aid Effectiveness, widely recognised as a qualitative benchmark for aid delivery. Moreover, these principles coincide in part with the lessons identified in the recommendations prepared by the WTO Aid for Trade Task Force. More than a simple coincidence, the commonalities enhance the legitimacy of the elements identified in these recommendations and highlight the importance of rendering these elements fully operational.

A number of fundamental questions remain to be answered before any assistance is implemented under the AFT umbrella. Firstly, yet to be determined is whether the AFT initiative will constitute a source of funding or whether it will function as a mechanism coordinating access to funding, but not having any funds of its own. In addition, there could be significant variations in the amount of aid available depending on how AFT programmes are defined and classified. To what extent AFT commitments will be additional to current spending and which categories of existing aid can be classified as AFT are still ongoing discussions. Even assuming that there are additional resources available, these will of course not be endless and will definitely not be made available at one time. Hence, a kind of prioritisation of interventions or prioritisation of countries and sectors will be required. Those choices will have an enormous influence on the actual operationalisation of AFT and will determine its architecture and functioning, thereby influencing the validity of the lessons elaborated here.

INTRODUCTION

The recent discussions on the operationalisation of the World Trade Organization (WTO) Ministerial Decision to create an aid for trade (AFT) initiative¹ have attracted much attention over the past months. This is not surprising since the initiative is unprecedented in its purported geographical scope, thematic coverage and, possibly, resources involved. However, precisely because of its ambition and thematic and geographic scope, the actual operationalisation of an AFT initiative for the delivery of incremental trade-related aid is a complex exercise that presents many challenges for all involved. In discussing its details, negotiators and stakeholders would greatly benefit from additional insight into experiences gained through existing aid mechanisms. This study contributes to the collection of such useful lessons by highlighting strengths and weaknesses of three existing aid delivery schemes: the European Commission (EC) trade-related assistance (mainly in the context of the European Development Fund (EDF) for African, Caribbean and Pacific (ACP) countries); the multi-agency Integrated Framework (IF); and the International Monetary Fund (IMF) Trade Integration Mechanism (TIM).

It is widely accepted that certain preconditions must be in place for trade to contribute to economic development and poverty reduction. On the one hand, import liberalisation affects government revenues due to reduced collection of tariff duties, and liberalisation may cause disruption in domestic economic sectors due to increased competition from foreign producers. On the other hand, poor economic infrastructure, unfavourable investment climates, weak institutions and the lack of trained workforces (generally referred to as *supply-side constraints*) prevent several developing countries from taking advantage of the new export opportunities created by trade liberalisation in developed economies. AFT initiatives follow from the recognition that developing countries need support in order to benefit from trade and face possible liberalisation costs.

At the last WTO Ministerial Conference in Hong Kong, in December 2005, the European Union (EU) announced an increase of its trade-related assistance (TRA)² spending to € 2 billion per year by 2010, Japan announced development assistance spending on trade, production and distribution infrastructure of US\$10 billion over three years, and the United States pledged AFT grants of US\$2.7 billion a year by 2010. In general, such announcements and the consolidated trend of a growing share of TRA in official development assistance (ODA) are to be read in the context of a policy shift, with trade issues acquiring increasing importance within overall development cooperation debates. It has become widely accepted that capacity building and measures to address supply-side constraints in developing countries should accompany trade liberalisation. In most cases what is missing are not the resources to finance those measures, but the design of appropriate programmes and their expeditious and effective implementation. This is a general problem in increasing the poverty-reduction impact of aid; it is not specific to TRA.³ The explicit reference of the recommendations of the WTO Aid for Trade Task Force (WTO AFT TF) to the Paris Declaration on Aid Effectiveness confirms that ensuring the quality of aid is as urgent as defining the quantity of aid that should accompany trade reforms. Thus, given the large amount of funds already dedicated to AFT, the debate should not be limited to the question of additionality of funds, but also focus on how to spend the enlarging pool of funds more effectively.

¹ Paragraph 57 of the Ministerial Declaration adopted in Hong Kong (WT/MIN(05)/DEC of 22 December 2005).

² Throughout this study, the terms 'aid for trade' (AFT) and 'trade-related aid' or 'trade-related assistance' (TRA) are used interchangeably unless otherwise stated and designate the broad range of assistance provided to developing countries on trade (both financial and non-financial).

³ As the OECD has put it, "Addressing the barriers that restrict a nation's trade-related capacity has proven to be a challenge stretching the capability of most recipient and donor agencies. In fact, aid for trade will face much of the same challenges inherent to all aid delivery" (OECD, 2007).

This study aims to identify key lessons on operational aspects of aid delivery to enhance effectiveness for the following reasons:

First, existing mechanisms have contributed to an awareness among decision-makers in beneficiary and donor countries of the elements that impinge on aid effectiveness, such as those contained in the Paris Declaration.⁴ Translating some elements of the overall debate on aid effectiveness into the language of trade will be beneficial for various liberalisation fora (where TRA is also increasingly addressed). This would help to bridge the two separate worlds of the ministries of trade and ministries for development cooperation, which often lack sufficient exchange of information and interaction, both in developed and developing countries. The WTO AFT TF has taken a first step in this direction. It made explicit reference to the importance of aid effectiveness, pointing out, *“Aid for trade should be guided by the Paris Declaration on Aid Effectiveness, applicable to all parties involved [], including key principles such as country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination [and] harmonization of donor procedures.”*⁵

Second, from the ongoing AFT discussions, it can be gathered that the AFT initiative will not constitute a new aid delivery mechanism as such, but rather an umbrella for the enhancement and better coordination of existing aid schemes. As a matter of fact, there is strong reluctance, particularly amongst the main bilateral donors, to create new aid instruments. As a consequence, the performance and adequateness of existing aid delivery schemes will have a direct impact on the performance and adequateness of the AFT initiative. It is hoped, in this context, that the AFT initiative will create incentives to effectively increase the total amounts of TRA delivered and will not lead to a simple re-labelling of existing aid as trade-related. The amounts (in addition to the quality) of aid channelled through several existing mechanisms will need to be more closely monitored to conclude that the AFT initiative has indeed contributed to increase net aid flows.

Third, the channelling of increased amounts of AFT through existing aid delivery mechanisms would mean that the combined operation of all schemes should be able to effectively implement the intended objectives of the AFT initiative, that is, to discharge the mandate to which WTO ministers agreed in 2005 as well as the recommendations of the Task Force on AFT. Many have, in fact, argued that there is no need to reinvent the wheel of aid, and the premise goes that current instruments should suffice. This creates a link between existing mechanisms and the WTO AFT mandate and recommendations, thereby adding a new set of benchmarks for gauging the adequateness of existing mechanisms. It also follows that this link could require a comparative assessment of existing aid instruments on one hand and the AFT mandate and objectives on the other, for the identification of possible gaps between the two in thematic and geographic coverage.

Fourth, the delivery of trade-related assistance and aid through current instruments has led to a wealth of experiences and lessons. Some of these schemes, for instance, the EDF or the revamped IF, have themselves been reviewed and improved in light of such lessons. This means that negotiators and stakeholders should be able to build on a relatively firm *acquis* for the identification (and possibly improvement) of existing mechanisms through which to deliver AFT.

⁴ The Paris Declaration on Aid Effectiveness was adopted on 2 March 2005 by over one hundred ministers, heads of agencies and other senior officials. It lays down fundamental principles and objectives that should guide aid efforts, such as harmonisation, alignment, results-orientation and accountability.

⁵ The Task Force on AFT was established by the Director General of the WTO at the request of WTO members. Its given mandate was to make a recommendation to the Director General on how to operationalise AFT and on how AFT might contribute to the development dimension of the Doha Round negotiations: “[AFT] should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade” (Paragraph 57 of the Hong Kong Declaration). The Task Force submitted its report and recommendations (WT/AFT/1) at the General Council meeting in July 2006 (<http://docsonline.wto.org/DDFDocuments/t/WT/AFT/1.doc>).

Finally, the TRA instruments analysed in this study are quite representative of the constellation of available TRA mechanisms. The European Development Fund (discussed in Part I) is the most important aid instrument of the EC, one of the world's largest bilateral donors, and it will be pivotal as a source of funds to support the implementation of trade agreements, particularly in the ACP countries. A main EDF characteristic is that it constitutes an exception to a seemingly general trend to focus only on the national level of intervention, which is one of the apparent shortcomings of the AFT initiative. The IF (discussed in Part II.A) is a global, multi-agency, virtually all-encompassing TRA instrument for LDCs only and its objectives strongly resemble those of the WTO AFT initiative. The TIM (discussed in Part II.B), managed by the IMF, has often been quoted as the instrument to support countries experiencing balance-of-payment or macroeconomic difficulties directly resulting from trade liberalisation. Strengths and weaknesses in the functioning, institutional set-up, thematic and geographic coverage, governance structure and monitoring of these instruments are highlighted in this study. It is hoped that these elements will provide useful insights and concrete suggestions to move the AFT debate forward.

PART I. BILATERAL AND REGIONAL SCHEMES: **THE ACP-EU PARTNERSHIP AND EC TRA**

1. Relevance of the ACP-EU partnership for recent AFT developments

The first part of this study focuses on the experience of ACP-EU cooperation as an important example of a North-South relationship covering national and regional AFT schemes. The ACP-EU partnership, particularly TRA activities implemented within the framework of the EDF, was selected for a number of reasons.

First, the ACP-EU cooperation represents a highly significant case in the context of North-South aid and trade relations. The Cotonou Partnership Agreement (CPA) framework explicitly establishes specific linkages between trade, aid and development. This feature is becoming even more central now with the Economic Partnership Agreements (EPAs) currently being negotiated between the EU and the six ACP regions.

Second, the EU - member states plus the EC - is the largest donor in the world⁶ and is increasing both its AFT funding and its overall assistance (pledged to rise to € 90 billion by 2015 to meet the United Nations target of 0.7% ODA/GNI). Between 2001 and 2004, the former (including contributions to multilateral AFT schemes) reached an annual average of € 840 million for the EC and € 300 million for the EU member states. Consequently, aid decisions by the EU, in particular in terms of its assistance to ACP countries (nearly half of the developing WTO members), will have a major impact on trade and development at the global level.

Third, WTO members have affirmed that "Aid for Trade is a complement to the Doha Round, but is not conditional upon its success", taking forward the debate on how to improve quality and quantity of AFT despite the suspension of the Doha negotiations for an indefinite period. Multilateral, regional and bilateral discussions on AFT initiatives can therefore benefit one another. This three-way link was confirmed by the formal decision of the EU General Affairs and External Relations Council (GAERC) in October 2006 to

⁶ EU ODA reached € 46 billion in 2005. This was around 55% of the world's total.

address EPA-related adjustment needs within the broader framework of AFT. On one hand, the EU recognises that the EU member states and the Commission cannot undertake their joint AFT strategy or implement any decision on development financing related to the EPAs (e.g. an EPA adjustment facility) without considering AFT developments in Geneva.⁷ On the other hand, WTO delegations in Geneva are unlikely to ignore the debates in Brussels on the quantity and quality of support to the ACP countries for EPA implementation, as the EU is a major TRA donor and the parties negotiating EPAs constitute more than half of the WTO membership.

Lastly, the case of TRA provided by the EC, devoted in substantial amounts to regional integration and regional economic communities in developing countries, constitutes an exception to the general trend amongst bilateral and multilateral AFT initiatives towards a country focus.⁸ As recognised by the WTO AFT TF, such a focus often underestimates the importance of assistance at the regional level. The design of future regional AFT programmes could thus benefit from the long-term experience of EC TRA in this area.

The following sections review lessons that may be drawn from EC TRA to the ACP (with particular emphasis on the EDF) and from the Cotonou partnership in general on the operationalisation of international AFT initiatives.

To prepare the stage, Section 2 outlines the main objectives and features of the ACP-EU CPA, which constitutes the overarching cooperation framework, also for TRA. Section 3 then presents an assessment of scope and levels of EC instruments for trade-related development assistance. In Section 4, attention shifts to the dimensions of country ownership, capacity and monitoring of EC TRA, while Section 5 addresses issues of the effectiveness of overall EC assistance to ACP countries, with particular emphasis on related procedural bottlenecks.

These sections present specific dimensions of the debate, referring first to the international aid context (including evidence where available) and then to examples from EC TRA. Throughout the discussion, possible lessons from the ACP-EU experience are identified especially with reference to the recent WTO AFT TF recommendations which are taken (as in international AFT debates) as guiding principles for both donors and recipient countries.

Given the objective of this study, the recommendations of the task force on 'Operationalising Aid for Trade', a sort of benchmark for the AFT debates, are particularly relevant. They are thus referred to directly (in boxes 3 to 5) when discussing possible lessons from the ACP-EU cooperation.⁹ This is not to suggest that any international AFT initiative should closely follow the ACP-EU partnership experience, but to indicate that changes similar to those recommended by the AFT Task Force are already taking place in specific donor-recipient relations, and significant lessons could be drawn from their achievements and drawbacks.

⁷ See GAERC 'Conclusions on Aid for Trade' (12 October 2006), Council of the European Union (<http://register.consilium.europa.eu/pdf/en/06/st13/st13882.en06.pdf>).

⁸ "Lending for regional trade-related projects is limited owing to the difficulties in securing agreement between countries and the appropriate guarantees for multi-country loans. More fundamentally, a key issue is that regional projects are less likely to find their way into national development plans as a result of coordination problems" (IMF and World Bank, 2006).

⁹ Details on existing multilateral mechanisms for AFT are the object of Part II of this study.

2. The CPA framework: key features and objectives of an evolving aid and trade partnership

ACP-EU relations, governed by successive Lomé Conventions and currently the Cotonou Partnership Agreement (CPA), have always been a comprehensive partnership. Indeed, the ACP and EU were among the first developed and developing country partners to establish tight linkages between trade and development as exemplified by Art 34 of CPA:

“Economic and trade cooperation shall aim at fostering the smooth and gradual integration of the ACP States into the world economy, with due regard for their political choices and development priorities, thereby promoting their sustainable development and contributing to poverty eradication in the ACP countries.”

The link between trade and other policies (accompanying measures) has become even more explicit with the negotiations of EPAs, which require the two parties to enter into reciprocal liberalisation commitments. The CPA states that in the context of the shift to such a new trading arrangement:

“The preparatory period shall also be used for capacity-building in the public and private sectors of ACP countries, including measures to enhance competitiveness, for strengthening of regional organisations and for support to regional trade integration initiatives, where appropriate with assistance to budgetary adjustment and fiscal reform, as well as for infrastructure upgrading and development, and for investment promotion (CPA Art 37.3).”

This recognises that without adequate policies and resources to adjust to economic transformation and to produce and market their goods competitively (including through cooperation with development partners), ACP countries are unlikely to fully benefit from international economic integration.

In the EU institutional set-up, the EC (the EU's executive body) enjoys exclusive competence on trade policy,¹⁰ while the competence for development cooperation is split between the EC and EU member states. Under the overall framework of the CPA, a large share of European assistance to ACP countries is channelled through the EDF. The EC administers the EDF together with ACP countries and on behalf of the EU member states, also overseeing disbursement also of trade-related development support. In addition, the EU member states have their own bilateral programmes (including TRA) and implementation agencies that are not financed by the EDF. This study focuses only on the CPA framework and the related EC TRA funded through the EDF. Analysing also the programmes carried out by the individual development cooperation agencies of the member states would be a complex undertaking and is beyond the scope of this study.

The EDF is the main European aid envelope for development cooperation with ACP countries. It also constitutes one of the major financing sources for development assistance relevant to trade and presents interesting features. EDF funds are provided in the form of grants and technical assistance disbursed in five-year cycles through multi-annual programming in national and regional indicative programmes as well as all-ACP financial envelopes.

¹⁰ The EC has the exclusive right to initiate trade policy proposals and represents the EU in trade negotiations. However formally, the Council, which represents the member states, retains the ultimate authority to endorse the trade agreements negotiated by the Commission. In conducting the EU's trade policy therefore, the Commission is officially acting on behalf of the member states.

Box 1. EDF programming instruments

Country and Regional Strategy Papers (CSPs and RSPs) are the main strategic frameworks for the programming of EU assistance and offer guidelines for allocation and implementation of EDF funds in different intervention areas. These papers set up the political guidelines for the implementation of cooperation policies and are instruments for directing, managing and reviewing EC assistance programmes, including on trade. The funds attached to the CSPs and RSPs are disbursed through multi-annual programming (in five-year cycles) in national and regional indicative programmes (NIPs and RIPs). The ACP authorities responsible for NIP and RIP implementation are the National and Regional Authorising Officers (NAOs and RAOs). In many national or regional assistance programmes, considerable funds have been explicitly reserved for TRA (and increasingly so with EPA negotiations). By way of example, the RIP for the West African region (ECOWAS-Economic Community of West African States and UEMOA-Union Economique et Monétaire Ouest Africaine) and NIP for Tanzania under the 9th EDF (2002-07) are sketched below.

- ECOWAS RIP – (total € 235 million), focus on regional integration and trade:
 - € 118m support related to building ECOWAS customs union;
 - € 82m transport facilitation.
 - Ongoing programmes:
 - € 65m UEMOA regional integration (PARI);
 - € 15m accreditation, standardisation, quality for private sector programme.
- Tanzania NIP – (total € 355 million), areas of support:
 - transport infrastructure (roads): € 116m (40%);
 - basic education: € 43.5m (15%);
 - macro-economic support: € 98.6m (34%);
 - other programmes (governance, non-state actors and reserve): € 31,9m (10%).

An important positive aspect of the EDF is that it is framed in the overall partnership spirit between the ACP and EU, whereby aid does not simply flow from donors to recipients, but is an instrument to achieve common objectives. Other major positive features of the EDF and its management relate to its adherence to key underlying principles and characteristics of effective donor assistance that are also included in the AFT Task Force recommendations and encompass the following: long-term character; predictability; accessibility; demand driven; flexibility and broad range of instruments (i.e. national, regional, sectoral coverage); partnership; light conditionality; joint management by donor and recipient; and country ownership.

Whether these principles are effectively translated into practice is discussed in sections below drawing on the results of existing external evaluations of EC TRA and literature on the CPA experience. A number of examples from TRA programmes for the ACP and other CPA instruments are cited to outline useful insights and specific lessons that could inform the ongoing debates on AFT.

An overarching principle is that for trade and aid to work together in delivering on development goals there has to be a shared vision that trade growth and development cooperation should accompany each other to make a vital contribution to poverty reduction. This is the case for the ACP and the EU, as together they have chosen aid and trade as two of the pillars of their partnership (enshrined in the CPA). But this cannot be taken as granted for all donor and recipient countries. Such a shared vision entails a partnership approach whereby the parties choose aid and trade as instruments to achieve common objectives and do not consider aid as compensation by the donor for trade liberalisation by the recipient country. Though this latter 'stick and carrot' approach should be unacceptable from both the donor and recipient perspectives, many stakeholders nonetheless indicate this is a concrete risk for the new AFT initiatives.¹¹ The debates on any aid and trade framework, regardless of its details and formats,

¹¹ For example see Oxfam (2005).

should probably take these caveats into account before moving into the discussions about operationalisation of the assistance programmes.

3. Levels and scope of EC development assistance relevant to trade

Given developing countries' serious weaknesses in terms of ability to both adjust smoothly to liberalisation and take advantage of the opportunities trade creates, the amounts of assistance required are substantial. The fact that the *levels of TRA* should be substantial was recognised, for instance, in the recommendations on the 'enhanced Integrated Framework' (IF)¹² recently adopted by the IF Working Group and the IF Steering Committee: "The IF has not provided adequate financial and human resources to the LDCs to deliver the intended outcomes" (WTO, 2006a).

Levels

The EC is among the main driving forces of TRA programmes at both the global and regional levels. TRA features throughout the EC's development cooperation agenda and over recent years several billion has been spent on trade capacity building and related programmes (EC, 2006). Unlike other schemes, like the IF, the **levels of funding mobilised by the EC are certainly substantial**, and have been deemed generally adequate to the beneficiaries' absorptive capacity.¹³

The actual levels of funds available for AFT support also depend on the definition of the scope of the assistance considered as 'trade-related'. The WTO AFT TF recommended a broad definition of the scope of AFT interventions, comprising infrastructure, trade facilitation, standards, private-sector capacity and trade-related adjustment. The recommended six categories are increasingly used in all AFT debates:

- (1) support for trade policy and regulations;
- (2) trade development;
- (3) trade-related infrastructure;
- (4) building productive capacity;
- (5) trade-related adjustment;
- (6) other trade-related needs.¹⁴

In recent years, most donors have concentrated their aid for trade efforts in the first two sub-categories only, classified in the Joint WTO/OECD Database as trade-related technical assistance and capacity building (TRTA/CB).¹⁵ Inclusion of the other categories in the new AFT debates has created uncertainty in the donor community on how exactly to distinguish between them and report the different assistance activities.

¹² Details on the Integrated Framework are provided in Part II of the study.

¹³ This and other specific points regarding the strengths and weaknesses of the EC TRA interventions can be gathered from the 'Evaluation of TRA by EC in third countries' (ADE 2004), which goes beyond the ACP to also cover countries from the MEDA (EU Mediterranean Economic Development Area) and TACIS (Technical Aid to the Commonwealth of Independent States) regions as well as Vietnam for Asia (i.e. all main partner regions of the EC).

¹⁴ Whereby the last three categories shall only be reported "when these activities have been explicitly identified as trade-related priorities in the recipient country's national development strategies, such as the PRSP" (WTO, 2006b).

¹⁵ See <http://tcdb.wto.org>

Box 2. Examples of the scope of EC-funded TRA

TRA instruments accessible to all ACP countries and regional institutions illustrate the scope of EC TRA, from preparation of negotiations, to longer term capacity building, to covering needs specific to an economic sector or a trade-related constraint. Under the 9th EDF (2002-07) they include the following:

- facility to support EPA negotiations (€ 24 million);
- facility to support ACP countries in WTO negotiations (€ 12 m);
- the Pesticides Initiative (€ 29 m); Livestock Disease (€ 72 m); Fisheries Programme (€ 42m);
- Trade.Com (€ 50m) (with its three components being strengthening local trade policy-making, research and training capacities; establishing a network of ACP experts through a so-called “hub and spokes” programme; pilot projects to address urgent institutional and supply-side constraints in technical standards and sanitary and phyto-sanitary requirements).

Recognising that some developing countries are likely to be faced with adjustment difficulties (erosion of trade preferences; reduction in government revenue resulting from lower tariffs, and increased cost of food imports resulting from reductions in export subsidies, for net food importers), the EC has recently ventured into adjustment mechanisms. They include commodity specific instruments to strengthen competitiveness and cope with erosion of preferences (e.g. on banana, rum, cotton, rice and other agricultural commodities), and more recently the Trade Integration Budget Support Facility (TIBS) under the Eastern and Southern Africa (ESA) RIP in view of revenue losses from East African Community's Customs Union and possible adjustment costs from the EPA (€ 40-50 million). For a discussion of an instrument directly managed by the private sector (the adjustment mechanism for the Caribbean rum industry) see Dunlop (2004).

Scope

In terms of scope, the **EC TRA covers a large range of activities** at the national level, the regional level and, in the case of the EDF, at an all-ACP level. Projects target implementation of international trade commitments, preparation for negotiations, institutional support such as for trade-policy formulation, private-sector development support, infrastructure improvements and product safety schemes. The EC therefore already provides funds and programmes in all of the abovementioned categories proposed by the Task Force, but with two interrelated downsides.

The first is that the **TRA activities for one region or country in most cases are not designed in a holistic manner and under a coherent framework**. This emerges from external evaluations of EC activities, according to which the scope often is not properly defined under each TRA initiative or cluster of interventions (ADE, 2004). This leads to:

- (i) Short-term needs, like improving preparation for negotiations, are generally satisfied, especially at the regional level, but systemic reforms of trade policy and institutions were not induced, especially at the national level.
- (ii) Support to the private sector is generally provided horizontally across sectors of activity, without differentiating actions according to whether the supported industry or enterprise belongs to an import-competing or export industry.
- (iii) The main incentives for using the services offered under some projects were their low cost or the fact that they provided concession schemes by which to bypass the constraints of the business environment instead of addressing them.

The second downside reflects the definitions of TRA adopted by the EC itself. The EC is the largest single donor in the world for trade policy and regulations and trade development programmes (TRA/CB), but other forms of support, for instance funds for adjustments to changing market conditions (such as in the context of the EU sugar market reform) or for infrastructure development (such as the EU-Africa Infrastructure Partnership Trust Fund) are not classified by the EC as trade-related assistance (see EC, 2006). Moreover, ‘general budget support’ provided by the EC (also that used, for

instance, to help offset government revenue loss due to liberalisation) is on the increase (including as a share of EDF) but it is very difficult to break it down to distinguish the TRA elements. **These problems of classification and reporting¹⁶ make it difficult to assess the exact scope and amounts of aid for trade already provided by the EC and the levels actually available in the framework of new initiatives and pledges** (such as the € 1 billion per year that the EC will provide for AFT according to the GAERC decision of October 2006, which covers only two out of the six AFT categories).¹⁷

The current debate in Europe on AFT and especially on the joint EC-EU member states AFT strategy could be helpful to clarify operational issues related to definition of the scope of AFT and be a useful contribution to the multilateral debates as well. This is particularly important as scope and definitions will have consequences for the debate on 'additionality' of AFT. It is by no means certain that current pledges will actually lead to additional AFT, not only because it is unclear how additionality is to be measured but also because the amounts announced differ and have been re-announced several times, with a risk of simple re-labelling.¹⁸ For instance, the EU recently confirmed that its pledges for increased AFT only refer to the first two categories recommended by the WTO AFT TF (TRA/CB). However, the EU will also "promote an effective response to the wider AFT agenda by continuing to strengthen Member States' and the Commission's support for demand-driven, pro-poor development strategies which incorporate building productive capacities, trade-related infrastructure, and trade-related adjustment" (European Council, 2007).

Despite such downsides, one particularly positive aspect that is usually associated with EC support is that the scope of assistance covers also the regional level of intervention, going beyond the national dimension. The WTO AFT TF recognised that "many countries require cross-border infrastructure and regional policy cooperation to trade more effectively". However, the lack of regional AFT has been identified as one of the major issues not yet adequately addressed in current multilateral discussions on AFT (ILEAP, 2007). The EC is well advanced on this. Regional-level assistance features prominently in both EDF programming in general and TRA interventions specifically. Trade is always a central part of the assistance offered by the EC for regional integration, based on its open regionalism policy and focusing on support for regional integration organisations, through which TRA interventions are identified and channelled.¹⁹ In the RIPs of some ACP regions, assistance related to trade and trade policy dominates the cooperation agenda, with TRA commitments comprising over half of total funding. However, so far the EC has rarely supported mainstreaming trade into national development strategies through NIPs.²⁰

Lessons

A number of lessons can be drawn from this brief analysis of the levels and scope of EC TRA instruments. First, **the recognition that trade can make a vital contribution to development should be matched by a policy decision by donors to accompany trade reforms in developing countries with substantial levels of funding for**

¹⁶ Reporting and classification uncertainties are common to several donors (see OECD 2007 for details). Some AFT activities, especially to support the private sector, could be classified under several of the categories of the WTO AFT TF, depending on how exactly these are defined.

¹⁷ For more details on the European debate on AFT, see ECDPM (2006).

¹⁸ Re-labelling all growth-promoting development assistance as AFT would reduce the impact of the AFT initiative and increase scepticism about its potential to effectively enhance developing countries' ability to better benefit from trade liberalisation (OECD, 2007).

¹⁹ According to the EU Strategy for Africa, "The 10th EDF will support the implementation of EPA[s]. The main focus of regional programmes will be regional economic integration, EPAs and trade" (see http://www.europe-cares.org/africa/partnership_next_en.html).

²⁰ See ILEAP (2007) for an overview of current regional and national aid for trade programmes supported by the EC.

programmes to help them benefit more from trade.²¹ **The EU has identified trade as one of the priorities of its development policy, but this would not be enough if the EU member states, and particularly the EC, were not to mobilise substantial financial resources in this direction.** Other donors would probably have to step up their trade-related programmes, in addition to their existing development assistance, to make the AFT initiative effective and credible and prevent it from conflicting with other developmental needs and funding allocations.

A second, related dimension is that definition of **the scope of AFT programmes should be broad**, taking into account the vast range of needs to be met (for several stakeholders) to effectively transform trade opportunities into development realities. The EC TRA experience shows that **the broader the scope of intervention, the more important proper articulation, definition and reporting of TRA initiatives will be. To be effective, all AFT activities within a single country should be designed in a holistic manner and under a coherent framework.** This also reveals the key role of coordination among different implementing agencies and actors, including harmonisation of practices, procedures and requirements of various donors (see Section 5 for details). Moreover **classification and reporting methodologies for AFT interventions should be clarified in detail in the early stages of programming assistance, to avoid confusion on the exact scope and amounts of the AFT** actually available and any risk of a re-labelling of existing support.

In terms of geographical scope, **another specific lesson from the ACP experience with EC trade-related aid is that AFT initiatives should encompass also region-wide programmes**, which can be especially successful in accompanying regional integration. At the same time, this should **not mean losing focus on the national level.**²² Involvement of institutions coordinating regional integration in preparation of the AFT national-level strategies would facilitate the identification of the TRA support needed by each member country to implement the regional integration reforms and commitments. The EC case provides an example of an assistance framework with specific regional mechanisms for delivery of support (i.e. the RIPs) in which an attempt is made to coordinate the work of national and regional institutions (see Box 1). Improvements are needed though to **strengthen the linkages and complementarity between the regional and country levels of interventions and distinguish national and regional needs.**

²¹ It should not be overlooked, however, that there may be a trade-off between recognising the importance of AFT and increasing resources for it and reducing levels of support to other development objectives (like health, education, etc.). This risk that funds may be diverted from other development programmes to AFT has been expressed by ACP governments (ACP, 2006) as well as civil society (FTAO, 2007).

²² This risk is recognized by the EC: "TRA in the aggregated data for the ACP are dominated by regional and all-ACP programmes in part designed to prepare for the EPAs. There are only relatively few ACP countries that have a trade programme, even though this number is increasing reflecting increased attention for trade and development over the past few years. In contrast to the ACP countries, the share of TRA within country programmes is higher in Asia and in Latin America." (EC, 2005).

Box 3. Links to the recommendations of the WTO AFT Task Force

To further clarify the relevance of the Cotonou TRA experience for the AFT debate, it is useful to **link the messages presented in this section directly to the recommendations of the WTO Task Force on AFT** (WTO, 2006b). In terms of the importance of “strengthening donor response” to match developing countries’ needs with adequate AFT resource levels, and possibly additionality of resources, the Task Force:

- noted “the need for matching and brokering unfunded TRA-needs and available donor funding for such projects and programmes”;
- recommended that “donors and agencies should integrate trade and growth issues more effectively in their aid programming”.

In addition, an adequately large scope of AFT initiatives has two dimensions, in terms of sector and type of interventions as well as geographical level. The first is reflected in one of the Task Force recommendations:

- “donors should make targeted funds available for building infrastructure and removing supply-side constraints – over and above capacity building and technical assistance”.

Regional approaches to aid for trade are also identified as crucial by the Task Force, which urged:

- “donors and agencies, together with regional banks and organizations, to step up their efforts to identify regional, sub-regional and cross-border needs, including those related to regional integration”;
- “to improve the matching between recipients’ demands and donors’ responses also on regional, sub-regional and cross-border issues”.

Finally, the indication that a holistic approach to as well as proper definition and reporting of TRA initiatives are prerequisites for successful assistance is echoed in several Task Force recommendations:

- “Evaluation of country-needs identification, trade mainstreaming in national strategies and PRSPs, donor response and impact on the ground in relation to stated objectives, should be promoted and funded.”
- “Donors should report on funds dedicated for Aid for Trade, how they intend to meet their announced Aid-for-Trade targets, the Aid-for-Trade categories covered, and their progress in mainstreaming trade into their aid programming.”
- “The scope of the Joint WTO/OECD Database should be reviewed in light of the Task Force’s definition of Aid for Trade. It should also be updated based on more accurate identification of needs (and the responses) by both providers and recipients of Aid for Trade.”

4. Ownership, capacity and monitoring: strengths and weaknesses of EC TRA

The governance structure and the performance focus (or lack of it) are two important elements of a development assistance framework. They significantly affect the quality of aid provided by the donor (supply side), the ownership and capacity of the recipient (demand side), as well as the ability to coordinate and monitor aid policies and interventions (adequately bridging supply and demand). All of these dimensions are crucial for the successful improvement of the quantity and quality of AFT initiatives, as recognised in international debates on aid effectiveness²³ and explicitly in the WTO AFT TF recommendations. In this section *ownership*, *capacity* and *monitoring* aspects of EC TRA are addressed to identify useful messages that could inform international AFT debates. Given the focus on these three elements (crosscutting most areas of assistance), the discussion here refers in general to features of the EDF as a whole (i.e. both trade and non-trade elements).

²³ An overview of recent evidence suggests that two main features are emerging as central to an effective aid architecture: country ownership of the development strategy and allocation of aid on the basis of performance (Bourguignon and Sundberg, 2007).

Ownership

Lack of full *ownership*, that is the extent to which the beneficiaries of assistance control a programme and its inputs and conduct the process, has often been identified as one of the most significant shortcomings of development cooperation.²⁴

In terms of ownership, the joint programming dimension of the EDF (see Box 1) is particularly relevant, as **the formal CPA procedures explicitly aim at full ownership and local accountability**. The EDF programming process is initiated in the respective countries (regions) where the national (regional) authorising officers - NAO (RAO) - , along with the EC Delegation, prepare and develop a first draft of the Country (Regional) Strategy Paper, "based on the country's own medium-term development objectives and strategies" (Art 1 Annex IV of CPA). Moreover, according to the CPA, "the country support strategy shall be an instrument to prioritise activities and to build local ownership of cooperation programmes" (Art 2).

However, despite some recent improvements, the actual degree of ownership of EDF management is questionable.²⁵ According to ACP stakeholders, it cannot be taken for granted that EDF assistance is implemented as a real partnership. Evidence shows that "the goal of increasing ownership by partner countries of these processes remains elusive" and that "programming and review processes have not been as 'joint' or 'mutual' as many would like" (Mackie, 2006). The EU donors heavily influence the final allocation of funds and this may bias programming towards the most visible activities, which yield the most tangible results from a donor's point of view, but which could bypass the wishes of ACP communities. Effective and broad participation in defining demands on the ACP side and the depth of needs assessment are questionable, as often only a few officials in the NAO/RAO offices know and participate fully in the programming process (see Eurostep, 2006). In the case of TRA activities, consultations are mainly conducted with government agencies and regional organisations and very few with private sector and civil society stakeholders (ADE, 2004). The problem is aggravated by the fact that the NAO is generally located at the treasury or at planning ministries, and there is little or no involvement of the trade ministry in the EDF process.

Capacity

Ownership is directly related to the process and governance structure for aid decision-making as well as the *capacity* of recipients to identify priorities for assistance and participate proactively in decision-making processes. Needs identification is a key aspect to ensure ownership. The programming approach adopted by the EC envisages needs assessment. In the case of **EC TRA**, the analysis of trade performance, production-sector constraints and international commitments, as well as of the role of trade policy within overall development strategies **provides an opportunity for more insightful preparation of TRA relative to other donors. However**, a key deficiency emphasised by external evaluations is the **lack of rationale underlying many TRA programmes** (ADE, 2004). The EC analysis of the trade situation in the beneficiary country is not in-depth; neither do the strategic programmes covering the regions comprehensively analyse the regional trade situation. Identification of ACP partners' needs is done through extensive consultation at the programming stage but apart from a series of meetings, often no real analysis or diagnosis takes place. The EC recently adopted a set of guidelines for EC TRA, which is expected to significantly improve the programming of these activities.

²⁴ "For instance, in the case of multi-donor initiatives, such as the IF, partner countries often failed to demonstrate strong leadership and political will for the reforms needed to underpin an effective trade development strategy, and the trade agenda seemed to have been driven mainly by the donors" (OECD, 2006).

²⁵ For a thorough discussion see Mackie (2006).

Building trade capacity relates in general to improving a country's ability to define and pursue its own interests through trade development and trade policy. This implies that sustainable trade capacity is built endogenously with emphasis on human resources and institutional development. A general systemic problem with TRA that is broad in scope, as in the case of the EC, is that by addressing several dimensions and covering so many different types of schemes²⁶ the extent to which endogenous capacity development actually occurs it is not the focus of the intervention (Rourke, 2006). **Short-term assistance needs, including development of 'hard' capabilities** (technical skills, trade knowledge, etc.) **are addressed. But the long-term problem of weak human resources and institutions as well as the lack of 'soft' capabilities** (oriented more towards processes, networking and methods) **remains**. This may be explained by the fact that as multiple levels of trade negotiations are pressing both donor and recipient policymakers to act (and hard capabilities are easier to identify, develop and evaluate), short-term objectives often dominate the agenda to the detriment of sustainable capacity building (Bilal and Szepesi, 2004). Changing working methods, relations among key actors and approaches towards trade policy and development are less tangible targets, achievable only with a longer term perspective (Solignac Lecomte, 2001).

A particular and significant aspect of the problem of capacity, which also emerges from the experience of EDF programming, is recipients' weak absorptive capacity. This means in the case of certain ACP countries that for reasons related to scarce human resources, weak public financial management systems, procedural bottlenecks on the EC side and perceived lack of ownership amongst some actors, substantial portions of EDF funds are not accessed and remain unspent (see further Section 5). For example, at present there are still significant uncommitted amounts under the 9th EDF.²⁷

Monitoring

Monitoring of performance and results is another crucial dimension of development assistance frameworks (Bourguignon and Sundberg, 2007). This, in principle should also include reviewing whether the ownership and capacity of recipients improve over time. Monitoring features prominently in AFT debates and was, for instance, the first aspect to be addressed in the context of the WTO in following up the Task Force recommendations. WTO Director General Pascal Lamy suggested that the operationalisation of AFT should predominantly be evident from monitoring activities, which should take place at several levels.²⁸

In the case of the EDF, and therefore of substantial parts of EC TRA, **aid is subject to regular evaluation and improvement through formal monitoring processes integrated in the rolling programming** of the NIPs/RIPs: the annual operational reviews, mid-term reviews and the end-of-term reviews. This is generally considered an advanced system of monitoring and evaluation of aid programmes, especially when compared with other donors' practices, in particular, TRA activities. Not only is the programming process itself monitored but also the volumes of funds disbursed (Art 1 Annex IV of CPA). Higher rates of disbursements are perceived as a challenging goal by

²⁶ Amongst these are fiscal revenue loss, implementation of international commitments, preparation for negotiations and trade-policy formulation, private sector development support, trade infrastructure and preference loss.

²⁷ In April 2006 ACP finance ministers "expressed concern that there is still [a] substantial uncommitted amount under the 9th EDF", and urged "the ACP States and Regional Organisations to urgently consider the reallocation of these resources to existing and new instruments addressing the challenges of market liberalization, preference erosion and the process of integration into the world economy so that these funds are not lost under the sunset clause in December 2007" (ACP, 2006).

²⁸ "Monitoring to assess global aid for trade flows (using the OECD-DAC Creditor Reporting System database to increase transparency on pledges and disbursements); monitoring the evaluation reports by development agencies; and monitoring and evaluation of in-country aid for trade." (Director General's Report on Aid for Trade to the General Council, 14-15 December, 2006JOB(06)262, WT//1, <http://docsonline.wto.org>).

the EC, though this risks making fast delivery an objective in itself (Mackie and Zinke, 2006).

The focus on regular monitoring and evaluation is the result of the shift from the 'aid entitlements' of the Lomé Conventions to the performance-based partnerships of the CPA. This move was welcomed by many actors (in particular from ACP civil society and private sector) as it provides incentives to ensure credibility (e.g. avoiding hidden agendas and double standards), improve effectiveness (e.g. providing flexible and comprehensive support to good performers) and guarantee simple and transparent decision-making. In practice the mid-term reviews also provide an opportunity to adjust intervention strategies and the corresponding financial resource allocations based on an assessment of both needs and performance.²⁹

Lessons

A number of lessons can be drawn from this outline of the ownership, capacity and monitoring issues surrounding management of the EDF. First of all, the CPA experience shows that achieving actual ownership of aid programmes by recipient countries is very difficult, even when the parties have explicitly set ownership as an overarching goal of the partnership framework and ownership is pursued through appropriate governance structures and formal procedures. The principle of **ownership may remain an ideal if the weak capacity of local stakeholders is not properly addressed**.

To ensure real ownership, capacity should be built endogenously with emphasis on long-term human resources and institutional development. In particular, the actual capacity of all relevant stakeholders to participate effectively in aid management processes is very important, and should be part of the focus of the AFT programmes as well. Provision of technical skills (hard capabilities) for short-term needs (e.g. a consultant to assist the NAO in preparing the Country Strategy Paper) may fill some gaps, but contributes very little to the country's actual ability to define and pursue its own development (and trade) interests. The CPA record confirms that to improve ownership all involved actors should be directly assisted in learning the exact process and in participating in the cycles of policy and aid programming decisions.

In particular, building trade capacity involves establishing networks that extend beyond government actors. Linkages between the public and the private sector, think-tanks and universities, regional and national institutions are all conducive to improvements in policymaking (OECD, 2001). To make AFT initiatives an owned process, **the trade-related capacity of various ministries (including the NAO offices), private-sector organisations and other non-state actors should be strengthened and tailored towards full participation in the programming of TRA, which also involves building soft capabilities, such as organisational and networking skills**. The capacity-building dimension of any new AFT initiative should therefore include the following:

- participatory approaches to trade policymaking (effective mechanisms for consultation among government, the enterprise sector and civil society);
- support to design a coherent trade strategy that is closely integrated with a country's overall development plan;
- effective mechanisms for intra-governmental policy coordination; a strategy for the enhanced collection, dissemination and analysis of trade-related information;
- trade policy networks supported by indigenous research institutions.

²⁹ Needs parameters include per capita income; population size; social indicators; indebtedness; export earning losses; and dependence on export earnings, in particular from the sectors of agriculture and mining. Performance parameters include progress in implementing institutional reforms; country performance in the use of resources; effective implementation of current operations; poverty alleviation or reduction; sustainable development measures; and macroeconomic and sectoral policy performance (Frederiksen, 2003).

As opposed to one-shot initiatives by means of foreign expertise or thematic training sessions (with special focus on short-term needs linked to ongoing trade negotiations), **capacity building in the context of AFT should stress a much longer term commitment by donor and recipient countries with a focus on endogenous change.** This would also considerably improve the recipient countries' absorptive capacity.

One aspect of capacity that is especially important to achieve real ownership relates to the ability of both local stakeholders and donor officials to undertake appropriate needs assessment as the starting point for the design of aid programmes. **Without a thorough and locally owned³⁰ diagnostic exercise, even proper governance structures and management skills cannot be translated into effective interventions.** As the EC case shows, also in terms of TRA, **more effort is needed from both sides:** in the **recipient country**, for better prioritisation and mainstreaming of its trade and development interests; **on the donor side**, to move from a reactive approach to partners' demands to a more strategic identification and implementation of TRA. To avoid the shortcomings seen in the ACP-EU case of scant depth of diagnostic analyses preceding TRA interventions, AFT country and regional strategies should be designed based on a complete trade analysis, in terms of comparative advantages and constraints in the business environment, as well as the endogenously identified trade policies. This would improve TRA programming and increase the contribution of TRA to comprehensive trade supportive reforms.

A further lesson from the Cotonou cooperation instruments in general is that **regular monitoring of programmed assistance strengthens effectiveness and, hence, a mechanism for systematic monitoring should be built into the assistance framework** and its formal decision-making processes. In the ACP-EU case, improving monitoring systems through the introduction of performance-based mid-term reviews of national and regional EDF programmes has supported improvement of assistance.³¹

Analysing such recent experience (mid-term reviews were first undertaken in 2004) might be useful when designing monitoring mechanisms for AFT implementation. Specific lessons may be drawn regarding which actors are best suited to undertake the monitoring, how to ensure follow-up, what exactly should be monitored, what advantages and constraints exist at the national and regional levels for a monitoring mechanism, how monitoring should be designed and funded, and so forth. For instance, the ACP-EU experience with performance-based partnerships shows that **any reprogramming should be based on the country's own policy agenda and that needs and performance parameters should be jointly identified by recipients and donors.**³² If the ACP governments do not set targets in a manner coherent with recent trends and policy orientations, the performance assessment will turn into an instrument to enforce conditionality (EC, 2002). An additional lesson is that **a pool of funds set aside to reward recipients for performance should be additional to the programmed assistance, to ensure that the mid-term review does not become a zero-sum game** in which rewards to 'good performers' are *directly* linked to cuts in allocations to 'non-performers'.

³⁰ Most of the recent evaluations of AFT programmes highlight that "bilateral donors have not always assessed trade-related needs in consultation with all relevant stakeholders, e.g. the private sector, while non-governmental stakeholders were not systematically consulted during the design and implementation of bilateral or multilateral programmes" (OECD, 2006).

³¹ For a thorough discussion see Frederiksen (2003).

³² In the context of AFT of course 'performance-based' should not mean that aid is disbursed on the basis of performance in terms of trade liberalisation by the recipient country. This 'stick and carrot' approach would undermine the credibility and effectiveness of AFT initiatives.

Finally, the EDF mid-term review seems to point to a **direct correlation between the choice of sectors and aid instruments, the donor's capacities in a given area and the performance of beneficiary countries**. The performance and available expertise at both EC headquarters and within the EC Delegations directly affect an ACP country's performance and should therefore be taken into consideration. Similarly, while designing new AFT packages or evaluating their progress, **donors' capacity and specific expertise should be reviewed**, with internal reforms put in place when required as part of the AFT initiatives themselves.

Box 4. Links to the recommendations of the WTO AFT Task Force

To further illustrate the relevance of the Cotonou experience to AFT debates, it is useful to **link the messages in this section directly to the recommendations of the WTO Task Force on AFT** (WTO, 2006b). In terms of the importance for full ownership of long term human resources and institutional development, and especially the improved capacity of all relevant stakeholders to participate effectively in policy processes, the Task Force noted:

- "In some countries, the processes for mainstreaming trade into national development strategies, for formulating trade strategies, and for proposing priority trade projects for donor financing, need to be strengthened through technical assistance and capacity building to help developing countries put in place effective and sustainable trade policy frameworks and processes."

Further, a participatory process including a wide range of stakeholders is recommended:

- "The task of matching demand for Aid-for-Trade projects with response could be addressed by strengthening national coordination through a 'National Aid-for-Trade Committee', which would include recipient countries, donors, and other relevant stakeholders, such as the private sector, under the leadership of relevant ministries."

Drawing lessons from the capacity gaps affecting EDF management processes in a certain country could prevent replication of the same shortcomings in establishment of such national AFT committees. Also, the importance of thorough diagnostic exercises is reflected in the Task Force recommendation to strengthen both the 'demand' and 'supply' sides of AFT, as well as the bridge between 'demand' and 'response':

- "Establish effective national coordination, involving all relevant stakeholders, including the private sector, with a view to identifying the strengths and weaknesses of economies as a whole, and the particular challenges facing the trade sector" and "establish a system of data collection and analysis at country level."
- "Donors and agencies should use needs assessment processes (where available), and their results, as a basis for their programming."
- "Strengthen the following functions in relation to regional, sub-regional and cross-border issues: diagnosis of needs; costing of projects; preparation of project proposals." Here experiences gained in EDF RIP processes could be particularly insightful.

The final set of Task Force recommendations is driven by the consideration that "monitoring and evaluating progress is essential to build confidence that increased AFT will be delivered and effectively used" and "it will also provide strong incentives to both donors and recipients to advance the Aid-for-Trade agenda". The debate on performance-based partnership in the ACP-EU context could be useful for assessing the merits of the Task Force recommendation that for AFT, the "resulting plan should incorporate a results-based management framework resting on – and reinforcing – mutual accountability".

5. Effectiveness of EC assistance: EDF management and procedural bottlenecks

The previous sections discussed the importance, in the context of aid for trade relations, of adequate scope and available resources as well as ownership by recipients and their actual capacity to participate in aid management. However, there is a third element that is less obvious but probably as important for development cooperation to achieve its objectives: the *effective, timely and efficient delivery of aid*. Even if the recognition that trade can make a key contribution to development was matched by substantial levels of AFT funding, and if the assistance programmes were fully owned by recipients, inappropriate management rules and procedures could stand in the way of successful aid disbursement. As recent evaluations highlight,³³ simplified disbursement procedures, harmonisation among donors on best practices and result-based programme design have been absent from the majority of existing AFT programmes. The key value-added that the WTO can bring to AFT is a marked change in its effectiveness (OECD, 2007).

This element has not featured prominently in the ongoing debates on AFT, partly because these are in their preliminary phases. But it will have to be seriously addressed to ensure the quality of any new AFT initiative. Discussions in Europe concerning EDF management, particularly regarding its trade aspects, could provide useful insights on the issue of timely and efficient delivery of aid.

In terms of *overall effectiveness*, the **general assessment of EC TRA** is that the Commission's support **has improved beneficiary countries' negotiation capacity and contributed to reforms, especially regarding regional integration** processes and institutional strengthening. Moreover, though export diversification has not been systematically integrated in the implemented trade-related activities, beneficiaries of EC TRA have indicated that in terms of impact on trade performance, these activities did contribute to changes in their practices and had a **positive impact on export development** (ADE, 2004).

However, there is also widespread consensus that the **effectiveness of EC aid is seriously hampered by inadequate aid delivery modalities and procedural bottlenecks leading in many instances to untimely and inefficient implementation of assistance programmes**. *In most instances* this depends on the *general features of EDF management*. But *in particular instances* the problem is aggravated by the fact that the assistance is urgently required, being *related to trade negotiations, trade reforms and economic adjustment* in recipient countries. It is interesting to briefly discuss both cases, in order to draw lessons for future AFT initiatives from the experiences of the ACP-EU cooperation and the ongoing internal overall reforms in Europe aimed at increasing aid effectiveness.

General bottlenecks

For many years now, observers both within and outside of European institutions have pointed out the bottlenecks that substantially reduce the effectiveness of EC development cooperation. The Commission itself acknowledged these bottlenecks with its decision to launch in 1999 an ambitious reform programme that also aimed at "substantially reducing the time taken to implement programmes" and "making significant improvements in the quality and responsiveness of programme management", including simplifying excessively complex administrative procedures (EC, 1999).

A major bottleneck in EC assistance is the *risk aversion that characterises its operational management*. **EDF procedures**, in particular, seem **too focused on accountability to**

³³ For a synthesis, see OECD (2006).

the donor's administration and too little concerned with facilitating achievement of the policy objectives. Many actors involved in EC assistance, both on the EU side and in the ACP, sense that reward in EDF decision-making processes often comes from strict adherence to rules and procedures and not from actual implementation of effective development programmes (see e.g. ACP Secretariat, 2004). Among the Commission's operational staff, this has resulted in a sense that colleagues in the various financial administration divisions end up strongly influencing the content of the work.³⁴ The heavy reporting and cumbersome auditing requirements attached to EDF procedures also constitute a serious constraint for the generally weak ACP bureaucracies and represent a bottleneck to the efficient and timely implementation of support programmes.

Another weakness of the aid management systems which sometimes results in delayed implementation of activities is the *procedural uncertainty* surrounding disbursement of funds and the subsequent **different interpretation of rules by the various actors involved**. An example of this in the context of TRA is the EC Europe Tunisia Enterprise Programme. In this case, an unclear division of tasks between the project management unit and the Tunisian ministries led to a two-year delay in implementation (ADE, 2004). The performance of EC Delegations has also been negatively affected by the **inadequately defined responsibilities and decision-making authority**, coupled with *limited administrative and human resources* (Frederiksen and Baser, 2004). In the specific case of TRA, **field mission staff often lacks a good understanding of trade's potential role in poverty reduction or of how to support the trade policy process in the partner country** (ADE, 2004).

In addition, the *strong ex ante control by headquarters* through the processes at the Brussels level means that EC Delegations often have little influence over the decisions taken, and the **concentration of authority in Brussels creates a dearth of decision-making power among the staff closest to the field**, in turn undermining ownership, efficiency and effectiveness (Frederiksen and Baser, 2004).

Besides, the **procurement and tendering rules** for the selection of service providers as part of the assistance activities **slow the EC's response to recipient countries' needs and tend to discourage participation of local providers**. The use of the framework contract system for consultants, for instance, often militates against getting the most effective consultants to do a specific job and handicaps ACP consultants and new or smaller consultancy firms (Frederiksen, 2003). In the specific case of EC TRA, the experience of the 'BLNS countries' (Botswana, Lesotho, Namibia and Swaziland) shows that the extensive use of European consultancy firms in the mobilisation of technical assistance led to lack of commitment and appropriate expertise and often local knowledge, with staff at times recruited on the basis of lowest cost and earliest availability rather than quality (ERO, 2006). Another example related to procurement procedures is the use of turnover levels as one of the main criteria for hiring firms for service contracts, as this tends to exclude local firms (which are small in most ACP countries). The result is the EDF subsidising EU firms winning the contracts.

In addition to causing serious delays in aid disbursement,³⁵ these bottlenecks in EDF management have *other far-reaching implications*. The **Commission's rules** drive up transaction costs for both donor and recipient, and by generating administrative pressure, they **tend to frustrate political dialogue and discourage involvement of other important development cooperation partners**, therefore reducing the impact of the money spent (Engel and Frederiksen, 2005). The impression of several stakeholders

³⁴ For a discussion on these aspects of EC aid delivery, especially in the context of the devolution reform, see Frederiksen and Baser (2004).

³⁵ ERO (2007) reports that in the 9th EDF (cycle 2000-05) after three years of implementation only 15.4% of the funds were disbursed, and only 44.1% were disbursed after five years. This is not an improvement over the 8th EDF (cycle 1995-2000) in which the respective disbursement levels in the same time-spans were 20% and 42.4%.

involved on both the ACP side and that of the EU is that the EC is often characterised by an incapacity to act quickly and a reluctance to innovate, both of which further reduce its flexibility and impact. It is important to bear in mind, however, that EU member states are decision-makers in terms of the EDF and its procedures, so the blame for inertia and inefficiency should not fall exclusively on the EC. It is up to all EU actors to collectively reduce these constraints in order to raise the EC's own performance (Engel and Frederiksen, 2005).

Indeed, effectiveness might be seen as the unfinished business of the reforms initiated by the Prodi European Commission in 1999 that were put in place to improve the quality and timely delivery of aid (Engel and Frederiksen, 2005). **Careful review of the rules and reorganisation of the services in charge of EC external aid are urgently needed.** The following recent assessment by a European government aid agency confirms this, as well as the point that without effectiveness adequate levels of aid cannot achieve their objectives:

“Despite the large volumes of assistance provided and the longstanding partnership between the EU and the Caribbean, the slow disbursement of European funds – due to complex procedures and weak capacity both in Delegations and national governments – has led to a poor reputation for the EU in the region. Changes in the way the Commission operates have begun to address the disbursement issue, for example by moving to multi-annual programming and the increased use of budget support (DFID Caribbean, 2007).”

Trade-related specific bottlenecks

Additional problems relate to the specific nature of recipients' needs in the AFT context (i.e. strengthening trade-related institutions, using trade policy more effectively for poverty reduction, adjusting to trade reforms, etc.) and the characteristics the associated TRA should subsequently have. Firstly, considering the procedural bottlenecks outlined above, many ACP stakeholders argue that **EDF procedures are unsuitable especially for support to process-related activities such as trade policy formulation, trade negotiations and capacity development.** A relevant case is the increased use of externally sourced project management units (PMU) for delivery of support, including TRA. The building of trade-related capacity would require a flexible and process-oriented approach and a focus on local human resources, but the modalities of the **PMU do not favour sustainable national- or regional-level preparation, contributions and implementation** (Bilal and Szepesi, 2004). For example, the need to build trade policy networks among diverse actors (such as ministries, the private sector and civil society) in recipient countries is difficult to match with the centralized approach of a PMU, often based in Brussels, acting as a clearing house for projects where every beneficiary has to be known from the start and must have a previous record of administrative capacity. Similarly, the use by most PMUs of rigid procurement and tendering rules for the selection of service providers is incompatible with the need for flexible modalities, including continuous review and adaptation of assistance activities in complex processes like trade negotiations, where needs evolve on a continuous basis.

The case of EC TRA to the BLNS countries offers evidence in support of these arguments. Research shows that PMUs tend to be poorly integrated with local aid management structures (and therefore are largely ineffective) (ICCO, 2007). On the contrary **when aid modalities, as for certain components of EC support in Botswana, are aligned with the local management frameworks and allow for recruitment of local staff** (experienced in the areas addressed), **TRA proves to be very effective** and the recipient government can control aid, as well as adapt it to evolving trade-related processes.

Given the nature of the needs to be addressed by AFT (in particular adjusting to trade reforms and building capacity of different stakeholders for trade-policy formulation) the delivery of TRA should be timely and carefully sequenced with the trade processes to which it is linked. Implementation of AFT activities in many cases should precede the start of trade negotiations and reforms (e.g. where particularly serious revenue shortfalls are expected due to tariff reduction, strengthening tax collection and administration systems should come before liberalisation). In such cases it is particularly important for aid administration and delivery procedures to allow for rapid implementation of time-sensitive TRA.³⁶

However, in many instances the generous levels of EC aid have not translated into timely TRA, with **support programmes coming into place when the targeted trade process is already well under way, resulting in impossibility of achieving the TRA objectives initially set.**³⁷ An example in the case of trade negotiations is represented by the *TradeCom* programme, approved by the EC in July 2003 to support all ACP countries' capacity to undertake EPA negotiations. Delays (partly due to some of the bottlenecks discussed above) resulted in establishment of the *TradeCom* PMU only in 2006, with capacity-building programmes getting to their implementation phases only in 2007, the year in which EPA negotiations are set for completion.

Other examples concern delays that are particularly serious given the consequences of the economic reforms that make trade-related adjustment and therefore assistance necessary. For instance, the EC recently allocated resources to support sugar sector adjustments in Swaziland (including retrenchment of thousands of workers), but the relevant programming procedures and delivery modalities will not allow the related AFT activities to be operational in-country before mid-2009, undermining the credibility of the generous aid allocation (ERO, 2006).

EC reforms, both at headquarters (creation of EuropeAid as the single agency managing all EU aid and some changes in financial procedures) and at the Delegation level (devolution of decision-making at the country level) have begun to yield **signs of improvement in EDF management, for instance, an increased use of budget support** as the delivery modality (which is widely recognised as facilitating harmonisation among donors and alignment to partner country strategies).³⁸ **However, several challenges remain, and according to ACP actors, especially procedures for EDF disbursement are user-unfriendly and still represent a real hurdle for the timely and effective delivery of EC assistance.** Recent evidence, for instance, shows that procedural bottlenecks significantly affect even EC budget support.³⁹ Most bottlenecks could be addressed at the time when implementation regulations are regularly reviewed. But such **revisions are undertaken without sufficient involvement of the technical staff of the beneficiaries governments**, including the offices of the NAO and RAO (Bossuyt and de Jong, 1997).

³⁶ To ensure this in the context of EPA negotiations, many observers have proposed use of new delivery instruments, different from the EDF. "For time-sensitive programmes, such as those involving EPA-related adjustment measures, new instruments and mechanisms of aid delivery will be required which are free of the administrative-capacity constraints that are currently faced" (Agritrade June 2006, <http://agritrade.cta.int/en/content/view/full/2365>).

³⁷ For example, one of the main objectives of the fiscal restructuring programme in Swaziland approved by the EC in 2002 (€ 5.6 million) was to reduce the Swazi economy's heavy reliance on customs receipts. However, due to delays and inefficiencies, when the project was completed in 2006, the level of dependence on customs had risen from 54% of government revenue in 2004-05 to 62% in 2006 (ERO 2006, ICCO 2007).

³⁸ For instance, results for EC external assistance in 2006 show that "EC committed a record € 7.6 billion and disbursed € 6.5 billion; this is 55% and 58% more than in 2001 respectively" (EC, 2007).

³⁹ A recent report examining the budget support disbursed by five donors – the EC, the UK, Sweden, Norway and the Netherlands (the only donors to publish figures on budget support disbursement) – concludes that between 2002 and 2004, the Brussels-based executive was consistently the worst performer, disbursing only 17% of its commitments in 2002, rising to 28% in 2003 and 76% the following year (Save the Children, 2006). According to the report the EC states that 40% of those delays are due to inefficient and ineffective EC administrative processes.

Coordination and complementarity

A final point on EC assistance which confirms the relevance of the European experience for AFT relates to the *issue of coordination and complementarity*, another important dimension of aid effectiveness. Lack of coordination and complementarity between different donors and aid agencies is a major weakness of existing AFT in the international context, as attempts so far have been unable to create positive synergies between various interventions.⁴⁰ The nature of EU institutions and the fact that European donors all have their own bilateral development policy and programmes (in addition to contributing funds for EC aid) make coordination and complementarity between the EC and EU member states particularly relevant. **The debates and decisions on institutional and policy provisions to improve coordination and complementarity, as well as initial (procedural) moves to operationalise coordination and complementarity, are naturally more advanced in Europe than in other contexts.**⁴¹

Since the creation of the EU with the Maastricht Treaty, the Union's principles for development cooperation have been summed up in the so-called '3Cs' of 'complementarity', 'coherence' and 'coordination'. The EC and EU member states have initiated a series of joint evaluation studies to assess how far the 3Cs have been applied in practice, and with what impact.⁴² International AFT, strongly anchored in the Paris Declaration on Aid Effectiveness with its focus on coordination and complementarity, could benefit from lessons learned from the interactions among the EC and the EU member states.

There have been already criticisms, for instance, of the widespread view that the Paris Declaration, a process that sets a group of donors against individual recipient countries in order to reduce transaction costs of aid delivery, would be sufficient to secure AFT effectiveness (ILEAP, 2007). In this respect, the European experience demonstrates that effectiveness is much more than simply coordination. There is also a **risk that aid coordination may increase transaction costs** instead of reducing them. **The EU member states and EC's low level of performance in coordination indicates the difficulty of moving from principles to practice** (ECDPM, 2007). The EU has started to recognise these problems and is making the necessary adjustments at the policy⁴³ and implementation levels.⁴⁴ Other donors could look at these when moving towards strengthened coordination and complementarity in the context of the expected increase of AFT in the near future.

General lessons

A number of lessons can be drawn from this analysis of EDF management issues and the effectiveness debate in Europe. First, **providing adequate volumes of aid and adopting local ownership as a key principle** of a development cooperation partnership is **not enough to ensure effectiveness if aid practices and management**

⁴⁰ "In practice, donors on the ground have had little success in designing and implementing complementary trade-related interventions through an integrated approach. Many donors often programmed their activities in isolation rather than in the framework of a broader comprehensive TRA/CB programme" (OECD 2007).

⁴¹ In April 2006 for instance the EU Council agreed on principles and formats for joint programming among member states and the EC and mandated further work in terms of complementarity and co-financing of aid programmes (Mackie and Zinke, 2006).

⁴² Details on this initiative, including the study 'Coordination of Trade Capacity Building in Third Countries', are available at <http://www.three-cs.net/>

⁴³ The recently adopted EU Pacific Strategy states, for instance, "The three main problems in EU's relations with Pacific ACP countries to date are limited political dialogue, insufficient focus of the cooperation and high transaction costs related to aid delivery." For this reason, two of the strategy's main components relate to better coordination and complementarity with other donors in the region as well as more efficient aid delivery (including greater use of budget support).

⁴⁴ "EU development policy is equally focused on the quality and effectiveness of aid. [] The Council agreed a code of conduct, to be applied by the member states and the Commission, on 'complementarity and division of labour'. This will gradually alter the pattern of aid delivery so as to improve its impact in reducing poverty and reducing transaction costs that have no positive impact on development efforts" (European Council, 2007).

procedures impede timely delivery of aid.⁴⁵ As some EU-ACP experiences show, commitment of large amounts of financial assistance (let alone pledges) does not automatically translate to timely payments into the recipient countries and subsequent implementation of the aid programmes. Bottlenecks between aid commitment and delivery are particularly serious in AFT as economic adjustments like trade reforms are time sensitive.⁴⁶ In addition, actual ownership is hampered when aid rules and administration are too complex and cumbersome for weak developing countries' bureaucracies.

A second lesson reflects the discussion in Section 2 on the importance of a partnership approach in aid relations whereby **donor and recipient** share a vision on aid and trade as instruments to achieve common objectives and **both commit to improve their use of such instruments**. In the ACP-EU case, both parties realize the centrality of enhancing effectiveness and ownership for the achievement of common goals, and both are making concrete moves towards improvements. **Identification of operational problems and solutions**, as exemplified below, **is the first step** to respond to the concern, highlighted in most AFT evaluations thus far, that the Paris Declaration on Aid Effectiveness is far from being systematically applied in AFT programmes (particularly with regard to country ownership and results-based management).

"The Council recalls the EU commitment to more predictable and less volatile aid mechanisms which are crucial for effective planning to progress on the Millennium Development Goals and acknowledges that speedier progress is required for its implementation. Where circumstances permit, the use of general or sectoral budget support as one instrument among others should increase as a means to strengthen the ownership, support partners' national accountability and procedures to finance national poverty reduction strategies and to promote sound and transparent management of public finances (from the EU Council Conclusions on Scaling up of EU ODA and improving the effectiveness of EU aid) (European Council, 2007)."

"The ACP Finance Ministers welcome and support the Paris Declaration on Aid Effectiveness of March 2005 in particular the commitment by donor countries to harmonise aid delivery processes and procedures, and to the increasing use of partner countries' procurement systems as a basis for improving the delivery of the scaled-up ODA; welcome the commitments of donor countries to reduce substantially the stock of parallel project implementation units (PMUs) in favour of general budget and sector support; [] call on the EC to scale-down the level of conditionalities rules and procedures governing the Community ODA with the view of facilitating higher disbursement performance, closer harmonization with national development strategies, greater predictability and stability, and facilitate genuine national ownership and improvement in aid delivery that is commensurate with the proposed scaling-up of ODA (ACP, 2006)."

Similar concrete steps could be considered by other donor and recipient countries to make future (and existing) AFT initiatives more effective, by *borrowing ideas from the ACP-EU experience on aid decision-making devolution and procedural simplification, use of recipient countries' institutions and management rules, aid modalities facilitating more predictable but flexible programming, as well as better coordination and complementarity among donors*. Below some specific lessons on these elements are outlined.

⁴⁵ "The Council confirmed the importance of progressing on both the quantity and quality of financing for development, given the close link between the scaling-up of aid volumes and the improvement of aid effectiveness" (European Council, 2007).

⁴⁶ Some examples from EC TRA show how effectiveness drops without timely delivery.

Simplifying the procedures

The case of EC aid reforms shows that **management procedures should not be too focused on accountability to the donor's administration, but primarily facilitate the achievement of the policy objectives. Devolution from headquarters to the in-country level is crucial for this.** Moreover, devolution needs to be supported by simplifying operational procedures and reducing ex ante controls and numbers of authorisations required, together with an increase of ex post controls and audits. Other initiatives that should accompany devolution of decision-making at the country level to strengthen its beneficial effects include:

- **increasing regular communication between donor headquarters, donor field missions and operational colleagues**, so that field staff is systematically consulted during programme planning and design;
- **enhancing communication with partner country stakeholders, as well as defining responsibilities more clearly**, assigning decision-making authority and dividing tasks among the different actors involved, including on the recipient side;
- in the specific case of TRA, **capacity building is needed for donor staff**, to overcome the lack of adequate 'mainstreaming' of TRA/CB with other development assistance activities, to increase understanding of trade's potential role in poverty reduction and of how to support the trade policy process in the partner country.

Increasing the use of local institutions and modalities

An additional lesson from the analysis of EDF management issues is that, while taking into account the weaknesses of recipients' capacity in managing aid, **donors should try to use local institutions and partner countries' procurement systems** for their AFT programmes. This has been a serious shortcoming of EC, and more in general all existing AFT⁴⁷, for which mostly international experts and consultants and firms based in donor countries have been contracted (OECD, 2006). Procurement and tendering rules should be brought in line with the economic reality of developing countries so that local firms can more easily participate in provision of services related to various TRA activities. Cases like the EC TRA for Botswana discussed above show that aligning delivery modalities with recipients' government systems and utilising national or regional expertise contribute significantly to effectiveness. In this context, **reporting and auditing requirements and procedures should be simplified** to facilitate the work of weak bureaucracies. Also, more resources should be devoted to capacity-building activities to strengthen national-level institutional processes and wide participation in design of programmes.

Another element for improving the delivery of assistance is the **introduction of aid modalities facilitating ownership and predictable but flexible programming**. In this respect, **budget support is particularly important**. The EC recently identified budget support as the preferred modality to deliver aid (EC, 2007).⁴⁸ Where conditions allow,⁴⁹ the Commission uses this instrument to fight poverty by giving partner countries the means to administer funds entirely through their own authorities (using 'contribution agreements'). This is **especially suitable for support to process-related activities** like trade policy formulation, trade negotiations and trade-related capacity development where networking activities are particularly relevant and flexibility is required to adapt to the changing needs arising from such dynamic processes. Since the delivery of TRA should be timely and carefully sequenced with the trade processes to which it is linked,

⁴⁷ "While most donors refrained from creating parallel structures for managing their programmes, they did not always use sufficiently local talents and institutions which would have helped strengthen local capacities." (OECD 2007).

⁴⁸ In the period 2002-06, budget support represented 22% of all aid commitments in ACP countries, and 18% overall.

⁴⁹ Where the partner country has a well defined national or sector policy and strategy, a stability-oriented macroeconomic framework, and a credible and relevant programme to improve public financial management. For an independent analysis see DIE (2006).

donors should consider implementing AFT activities through direct budget support, **avoiding as much as possible the use of externally sourced and centralised project management units.**

Additional lessons on innovations of aid modalities that could be useful for international AFT come from the efforts to improve the delivery of EC assistance to production restructuring activities. In particular, moves to **adapt loan procedures to the nature of local demand for financing in a poor country** have led to the local establishment of revolving funds (derived from repayments of earlier loans), providing **low-interest loans in support of production adjustment processes** related to Common Agricultural Policy (CAP) reform (ERO, 2006). Such provision of grants at the country level, rather than via external instruments (such as the European Investment Bank), has allowed the design of locally appropriate financing packages to provide low-cost loans for targeted adjustment programmes at the firm and industry level.⁵⁰ These have been largely successful in circumventing the constraints on timely delivery of assistance arising from EDF procedures.

A final indication emerging from the ACP-EU experience is that, in the spirit of joint management and partnership, the **beneficiary country's staff should be involved as much as possible in the regular reviews of implementing regulations.** This would be the right moment to highlight main operational weaknesses and address procedural bottlenecks.

Fostering coordination and complementarity

In terms of improving coordination and complementarity among donors, the European debates, particularly those regarding the intrinsic need for coordination and complementarity between the EC and EU member states, could lead to interesting insights for other donors. This is especially relevant for AFT as on the ground there has been little success in designing and implementing coordinated and complementary trade-related interventions. Firstly, an integrated and consistent donor approach requires going beyond statements on the importance of coordination and complementarity. Analysis conducted in the context of ACP-EU TRA shows that **coordination is not effective if it consists merely of improved information sharing** (ADE, 2006). As the EU recently attempted,⁵¹ **development partners should start from clearer definitions of what is strengthened coordination and complementarity and how it can be concretely achieved.**

In this respect, an emerging lesson for international AFT is that since different donors have comparative advantages in different assistance areas, **division of labour between donors is crucial and should be based on careful assessment of such advantages. A donor should be able to delegate responsibility for carrying out its aid programme in a particular area to another donor that is better placed to do the job.** For instance, the EC is better equipped to manage programmes which contain large investment components than programmes that depend on processes (i.e. governance, capacity building, etc.),⁵² so the latter could be left to other EU donors with better

⁵⁰ Such revolving fund facilities should be provided from grants to the country and should no longer take grant financing from EU member states and provide it to countries in the form of loans via the European Investment Bank (i.e. as is the practice under the Cotonou Investment Facility). This leaves the country carrying the burden of the exchange rate risk and can greatly increase the cost of funds for on-lending in country. (ERO, 2006).

⁵¹ In May 2007, the GAERC decided that the code of conduct for the effectiveness of development aid (see footnote 47) entails three dimensions to division of labour and recommends that: "donor countries limit their activities to three sectors in each partner country (in-country complementarity); donors work to correct imbalances between countries that are relatively neglected by aid programmes – such as fragile states – and countries that are relatively well-served by aid programmes (cross-country complementarity); donors analyse their strengths and comparative advantages in order to guide future policy (cross-sectoral complementarity)" (European Council, 2007).

⁵² This conclusion emerges from the 2005 EC Annual Report on its External Assistance, based on data originating from the result-oriented monitoring system (ROM) (see Frederiksen 2003).

performance (ERO, 2006). **New AFT initiatives may envisage as a prerequisite a diagnostic exercise to determine which donor should focus on which part of the AFT package.**

Moreover, learning from experience, the EU has suggested concrete steps for coordination to bring about strategic responses to TRA needs of partners. Effective allocation of activities should be based on the respective experiences of EU donors in particular sectors, and “envisages that a donor establishes a delegated cooperation/partnership arrangement with other donors, with authority to act in the administration of funds or to conduct sector policy dialogue with the partner government” (European Council, 2007).

Another important dimension would be **moving towards joint programming by different donors, which entails**, as in the ongoing discussions between EU member states and the EC, **a joint financial agreement favouring the harmonisation of procedures** around a ‘country system’. When moving towards strengthened coordination and complementarity in the context of the expected increase of AFT, other donors could look at those procedural aspects, including those related to private-sector involvement and co-financing.

Box 5. Links to the recommendations of the WTO AFT Task Force

As seen in previous sections, in terms of levels, scope, ownership and monitoring of EC assistance, and also of effectiveness, the **messages from the ACP-EU experience can be linked directly to the recommendations of the WTO Task Force on AFT** (WTO, 2006b). First of all, many of the lessons presented here are echoed in the guiding principles established by the AFT TF. More specifically:

- The EU recently decided that “adjusting and strengthening EU-wide and member states’ human resources is necessary to implement the Joint EU AFT Strategy” (European Council, 2007), which resembles the Task Force recommendation that donors should “strengthen their trade expertise both in the field and in capitals”.
- The importance of aid modalities facilitating more predictable but flexible programming, such as those being introduced as part of the EC reforms for improving effectiveness, is reflected in the recommendation that “donors and agencies should move towards a programme/sector/budget approach, if country owned, if mainstreamed in national development strategies and if a robust system of financial accountability is in place”.
- In terms of better coordination and complementarity among donors, which is a major focus of European development policy debates, the Task Force recognised that “greater donor and agency coordination and harmonization of procedures – at both the local and global level – is critical”. The specific EU decisions on how to achieve this (including a partnership arrangement among donors, possibly delegating the “authority to act in the administration of funds or to conduct sector policy dialogue with partner government”) are in line with the Task Force recommendation that “the division of responsibility for funding and implementing Aid-for-Trade projects and programmes should be addressed through country-based processes, if necessary complemented with a partner conference focusing specifically on trade-related support”.

PART II. MULTILATERAL AID SCHEMES

The first part of this study drew useful lessons from ACP-EU cooperation, especially that in the form of EC TRA under the EDF. This was cited as an important example of a North-South relationship covering both bilateral and regional AFT schemes. Devoting substantial resources to regional programmes, the EDF constitutes an exception to the general trend of a country focus of aid mechanisms. Therefore, the case of the ACP-EU partnership, and in particular trade-related assistance activities under the framework of the EDF, deliver a wide range of lessons which could not be drawn from other trade-related schemes, including those at the multilateral level. However, the EDF is a delivery mechanism that does not address trade only, it has to be seen in the context of the broader ACP-EU partnership. This study therefore now turns to multilateral and trade-specific instruments.

The Integrated Framework (IF) and the Trade Integration Mechanism (TIM) are substantially different instruments from those employed to deliver EC TRA, and they thus offer different insights on the operationalisation of AFT. While the EDF is a single donor mechanism, the IF is a multi-agency, multi-donor programme that assists least developed countries in expanding their participation in the global economy. As an instrument addressing trade only and encompassing many donors and recipients, the IF provides unique lessons in terms of management, governance and coordination structure. Furthermore while the EDF is a source of substantial funding in itself, one of the biggest challenges concerning the IF is the lack of availability of funds. The following analysis also shows that the IF structure is relatively well suited for improving the quality of aid and provides good examples of ways to link the demand and supply sides of aid as recommended by the WTO AFT Task Force.

The TIM represents a much narrower aid instrument managed by one multilateral agency (the IMF). It addresses only a subset of the trade-related adjustment costs covered by the AFT initiative. Unlike the IF, which aims at supporting and coordinating all recipient countries' efforts to *benefit from the opportunities* created by trade liberalisation, the TIM endeavours to assist developing countries in *managing possible negative effects* of measures implemented by other countries for the liberalisation of trade.

A prerequisite for a successful AFT initiative is an assessment of the coverage as well as the strengths and weaknesses of existing schemes at the national, regional and multilateral levels, to identify and address current gaps. Analysis of the IF and TIM, two important multilateral schemes, is particularly relevant not only because their objectives strongly resemble, in different ways, those defined by the AFT TF for the WTO but also because many observers see them as channels through which future AFT is likely to be delivered.

PART II.A. The Integrated Framework

1. Introduction to the IF

One of the main advantages of revisiting the theoretical and empirical experience gathered in delivering trade-related aid through the Integrated Framework (IF) stems from the fact that the IF has existed for almost ten years now and has been seen as a (potentially) central multilateral channel through which to coordinate trade-related technical assistance to LDCs. Despite its conspicuousness, such a statement should not

be taken for granted, since the operationalisation of an AFT initiative within the WTO would benefit enormously from having a concrete benchmark against which to gauge the adequateness of its design and success of its performance. The WTO AFT initiative is not built on a clean table. It could benefit, for instance, from the current discussions on the 'Enhanced IF' (EIF), which would help it to avoid many of the deficiencies known to have affected the IF. It might even be better than the current IF and should be at least equal to the EIF.

No other TRA mechanism comes as close as the IF to trying to achieve the goals that surround the new AFT initiative. No other multilateral TRA scheme is as wide in scope; no other multilateral mechanism brings together as many stakeholders from so many different interest groups and countries. Assuming that the WTO AFT initiative never becomes a proper TRA mechanism, but rather a TRA umbrella, as is most likely, the interfaces between the IF and AFT initiatives will be numerous. While it has now been decided that AFT and the IF will be complementary mechanisms, some aspects of their relationship remain confusing. For instance, will all the AFT delivered to LDCs be delivered under the EIF?

Another advantage of drawing lessons from the IF experience is that there is a wealth of lessons to be learnt, since the IF has been experimented with and tested more than 30 times over the past years. In fact, as of February 2007, 24 LDCs had gone through the main stages of the IF implementation and another 18 LDCs were at the initial stages of their IF process.⁵³

Hence, it comes as no surprise that the implementation of the IF in such a number and variety of countries has generated a vast number of lessons, resources and best practices. IF practitioners, consultants and stakeholders could in fact take advantage of that knowledge, albeit sporadically, in the various countries where the IF has been implemented.⁵⁴

Moreover, the IF structure and processes have been evaluated and improved and are soon to be further improved and restructured. First, a major restructuring exercise was completed in 2000, leading to the 'Revamped IF'. Second, strengths and weaknesses have been pointed out in the context of a number of evaluations, such as one undertaken in 2003.⁵⁵ Thirdly, another review process is currently under way and will lead to the EIF.⁵⁶ These improvements are useful not only for the lessons they have

The Integrated Framework

The Integrated Framework for Trade-Related Technical Assistance to least-developed countries (IF) is a programme that aims at assisting the LDCs in expanding their participation in the global economy by promoting:

- "mainstreaming" (integrating) trade into LDCs' national development plans;
- assisting in the coordinated delivery of trade-related technical assistance in response to needs identified by the LDC.

The IF is implemented by six agencies: the IMF, ITC, UNCTAD, UNDP, World Bank and WTO and is governed by bodies which represent the donor community, beneficiary LDCs and the implementing agencies. The IF Secretariat, housed at the WTO, supports the IF activities.

Under the IF, LDC governments benefit from a comprehensive review of their economic and trade needs and identify assistance needs to be presented for funding to official donors.

The structure and operation of the IF is currently being reviewed and strengthened into an 'Enhanced IF'.

⁵³ As of February 2007, the IF was at different stages of implementation in 43 LDCs (<http://www.integratedframework.org/about.htm>). Table 1 contains more detailed information on progress of IF implementation.

⁵⁴ For instance, Sierra Leone has been afforded the opportunity to learn from others' experiences with the IF by, among other preparatory activities, sending a two-person delegation on a study tour to Rwanda, where the IF was being implemented (USAid, 2005: 14).

⁵⁵ Summary of the final report of the evaluation of the Integrated Framework, WT/IFSC/6/Rev.2/Add.1. Available at http://www.integratedframework.org/files/docs/IFSC_6_Rev2Add1.pdf

⁵⁶ The *Enhanced Integrated Framework* was endorsed by the Development Committee of the World Bank and IMF at its September 2005 meeting and was further confirmed by WTO members in paragraph 49 of the WTO 2005 Hong Kong Ministerial Declaration. The recommendations of a special task force on the EIF have been endorsed by the two IF management bodies in July 2006. See http://www.integratedframework.org/enhanced_if.htm

highlighted but also because they have contributed to a more robust mechanism which can now be used as a baseline for the AFT discussions.

In fact, the IF has often been seen as one channel through which AFT will be delivered, and some of its principles have been cited as a possible guiding model for the AFT initiative. The IF, and especially the EIF, once its review is finalised, is meant to embody the most updated features of what is now commonly referred to as a *new aid framework*, which emphasises ownership, donor alignment and coherence in TRA delivery.

Finally, one advantage of using the IF as a reference point for the AFT discussions is that the WTO, as one of its six core leading agencies, is already involved in the IF structure and operations. In this sense, the current IF structure already reflects some of the TRA activities of the WTO Secretariat, which are likely to expand with the implementation of a WTO AFT initiative (for instance, to cover monitoring activities). Nonetheless, some have argued that this is not a positive evolution since the WTO is a trade, not a development or aid, organisation.

In sum, an analysis of the governance structure, functioning and performance of the IF could be useful to the AFT debate in several respects. Actually, virtually all aspects of the IF concept could be adapted and mirrored in the operationalisation of the AFT initiative. If anything, these aspects need only be strengthened. Because these elements are very numerous, only some of the most relevant lessons learnt are retained in this section.

2. IF objectives: difficult match of instruments and expectations

The most basic lesson drawn from IF implementation is that the objectives of TRA must match the instruments and means available for its implementation. A very broad and ambitious set of objectives generates expectations that cannot realistically be met, creating resentment, hampering ownership and ultimately jeopardising the effectiveness of aid delivered. Such a discrepancy between objectives and means – or at least the perception that there is a mismatch between the two – has often been strongly felt in the IF process and has required a constant readjustment of the IF mission, to concentrate it on objectives defined more narrowly.

Originally, the Uruguay Round Ministerial *Decision on Measures in favour of Least-Developed Countries* acknowledged the specific needs of LDCs, as particularly vulnerable members of the WTO. In the Decision, ministers recognised that efforts to enhance the trade capacity of the LDCs would be needed to help the LDCs benefit from the multilateral trading system:

“(v) Least developed countries shall be accorded substantially increased technical assistance in the development, strengthening and diversification of their production and export bases including those of services, as well as in trade promotion, to enable them to maximize the benefits from liberalized access to markets.”

However, it was more specifically at their first Conference in Singapore in December 1996 that WTO ministers adopted the *Comprehensive and Integrated WTO Plan of Action for the Least-Developed Countries*.⁵⁷ This plan combined efforts in favour of LDCs in relation to both improved market access and capacity building. The plan was envisioned as a concrete step towards translating into reality the objective of maximising the trade opportunities available to LDCs and favouring their integration into the

⁵⁷ WT/MIN(96)/14, of 7 January 1997

multilateral trading system. The main operational objectives stated in the decision were two:

1. Enhance and support the integration of LDCs into the world economy and thereby favour their development.
2. Bring together national efforts and those of the international community by combining supply-side measures, improved market access and appropriate macroeconomic policies.

After only a few years of IF implementation, it became clear that its structure was inadequate to successfully meet its purported objectives, and as early as 2000, the heads of the six IF agencies met to review and improve it. Based on the recommendations formulated by independent evaluators, the operational objectives of the *Revamped IF* were further refined as follows:

1. to mainstream trade into LDCs' national development plans and the Poverty Reduction Strategy Papers (PRSPs),
2. to assist in the coordinated delivery of trade-related technical assistance with respect to needs identified by the LDC governments.

The purpose of the revision was to strengthen the IF process to give beneficiary countries a greater leadership role during the processes, since it was thought that this would enhance country ownership of the IF final results, thereby increasing the effectiveness of the aid delivered. Moreover, the review emphasised that the IF should play a coordinating role, that is, act as a bridge between beneficiary governments and the donor community and coordinate the activities of aid-delivery agencies in order to avoid duplications and gaps in the utilisation of scarce resources.

The Revamped IF was applied in several LDCs and is still being applied. Table 1 shows progress in the IF implementation in beneficiary LDCs.

Table 1: STATUS OF IF COUNTRIES AS OF FEBRUARY 2007

Diagnostic Trade Integration Study (DTIS) national validation workshop completed (24)	Benin, Burundi, Cambodia, Chad, Djibouti, Ethiopia, Guinea, Lao PDR, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Nepal, Rwanda, São Tome & Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, Yemen, Zambia
Countries that have started the DTIS process (9)	Angola, Burkina Faso, Central African Republic, Comoros, The Gambia, Niger, Samoa, Sudan, Vanuatu
Technical reviews under consideration (7)	Afghanistan, D.R. of Congo, Equatorial Guinea, Guinea Bissau, Haiti, Liberia, Togo
New requests (2)	Cape Verde, East Timor
Source: Integrated Framework website: http://www.integratedframework.org/about.htm	

However, experience gathered during implementation of the Revamped IF has indicated that the process could be further improved, particularly because it was still felt that the IF did not promote enough country ownership and was perceived as being agency-led rather than country-led. Moreover, most beneficiary countries, while recognising the usefulness of IF technical assistance, were sceptical about its capacity to lead to concrete financing opportunities to carry forward projects. As a matter of fact, there

continued to be a gap between beneficiaries' and donors' understanding of the IF. It was thus agreed that the IF would be further improved according to the recommendations of a *Task Force on an Enhanced IF*.⁵⁸

The recommendations, adopted in June 2006 by the IF management bodies, emphasise three main improvements to the operational objectives of the EIF:

1. *Additional funding*. Increased, additional and predictable financial resources should be made available, including funds to address the supply-side constraints that inhibit the export growth of LDCs.
2. *Country ownership*. Efforts should be made to further strengthen in-country capacities to manage, implement and monitor the IF process so that there is greater country leadership to mainstream trade into national development plans.
3. *Governance structure*. Governance and management should be enhanced to ensure the effective and timely delivery of the increased financial resources and technical assistance.

Despite the fact that the IF operational or working objectives have evolved to become more targeted, the underlying overall objective or *mission* of the IF has remained unchanged, as confirmed in the recommendations of the EIF Task Force:

*"The goal of the IF is to enhance the capacity of LDCs to integrate into the multilateral trading system in order to reduce poverty and benefit from increased market access."*⁵⁹

The overall mission and objectives of the WTO AFT initiative have already been defined and strongly resemble those of the IF. The WTO initiative raises similar expectations, some of which it is not likely to be able to match. According to the Hong Kong WTO Ministerial Declaration:

*"Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the Doha Development Agenda, particularly on market access."*⁶⁰

Given the resemblance between both intended visions, one important lesson to draw from IF implementation is that the successful pursuance of such an ambitious objective requires commensurate means and instruments, adequate political will and sufficient financial resources. **A mismatch between the objectives stated and means available denotes a lack of coherence that will inevitably hamper the credibility of any aid system.**

A major deficiency pointed out concerning the IF is the discrepancy between the expectations of LDC beneficiaries on the one hand and donors on the other. While LDCs have construed the IF mission to mean that it would provide them with the financial resources to build their trade capacity (particularly to enhance their trade-related infrastructure and productive capacities, as explicitly stated in the IF objectives), donors and the six leading multilateral agencies implementing the IF have tended to view the IF in a more circumscribed manner, describing it as 'bridging finance' towards securing longer term funds, rather than as the source of funds itself.

The truth is that the funds available under the IF were largely insufficient if they were to

⁵⁸ This task force was chaired by Ambassador Stephenson of Canada and composed of representatives of the following WTO members: Benin, European Commission, Finland, France, Italy, Japan, Lesotho, Nepal, Norway, Rwanda, Senegal, Sweden, Switzerland, UK, USA and Zambia.

⁵⁹ Recommendations of the Task Force on an EIF (Appendix III), at page 12 (WT/IFSC/W/15).

⁶⁰ At paragraph 57.

be used in the way beneficiaries intended the IF and its stated original objectives. However, donors argued that these funds could have been used to carry forward a process of capacity building, awareness raising and needs assessment in the hope that progress would facilitate access to greater funding.

A middle ground seems to have been found under the EIF, in which the volume of specific available funds is increased, accompanied by a concomitant narrowing of the IF objectives to more working level aims. These new objectives are three:

1. building the institutional capacity of LDC governments in order for governments to recognise the role that trade could play in accelerating growth and poverty reduction and hence assist countries in identifying a sequence of projects that may boost their trading and productive capacity and competitiveness;
2. serving as a guarantee for or bridge between IF beneficiary governments and the donor community;
3. coordinating donor activities to avoid duplication in their efforts.

A better defined, realistic objective would have strengthened IF credibility from its inception. That would have avoided the delusion of the many LDC governments that hoped to find in the IF the concessionary loans they sought. Under the EIF, both donors and the LDC beneficiaries have had to find a middle ground. **The former have had to understand that the IF can achieve its objectives only if sufficient resources are made available and the latter have had to comprehend that a prioritisation of projects and judicious implementation is inevitable since the available resources are bound to be limited.** These seemingly conspicuous truths took time to be absorbed. Yet the recommendations of the EIF Task Force seem now to have gone some way in reflecting this new understanding.

The AFT initiative should, insofar as possible, avoid a discrepancy between goals and means. Not only does this entail ensuring that resources are commensurate with objectives and are made effectively available, but it also requires the initiative set quantifiable and realistic goals. AFT must avoid raising unrealistic expectations. This may be achieved through a clear differentiation between the initiative's broader vision and its operational objectives. The extent to which AFT is *perceived* to deliver on its promises will be the key to its success or failure and what the initiative will in reality be able to deliver will play a crucial role in strengthening or else weakening the credibility of the multilateral trading system.

3. The IF scope: a holistic approach to TRA

One of the main strengths of the IF is that it reflects a TRA approach that is, as its name indicates, integrated, or holistic. Its conceptual framing is one of placing trade at the heart of national development and growth strategies and hence, one in which trade is seen as a major complement to other tools in a poverty-reduction strategy. Its theoretical groundings are sound in the sense that the IF translates the belief that trade may be used as a policy instrument but acknowledges that trade alone is unlikely to lead automatically to poverty reduction, particularly in poor developing countries. **It is a clear view that positive, proactive policies must be in place for trade to succeed and thus a clear rejection of AFT as compensation for possible losses that trade liberalisation may cause.**

The adoption of such a view requires the IF processes and design take into account the broader macroeconomic, productive and social environment in which TRA is to be delivered. In fact, the efficiency of the IF is boosted when trade priorities are rooted within much broader national development plans, such as a country's Poverty Reduction

Strategy Paper (PRSP).

The AFT initiative would greatly benefit from adopting a similar vision of the linkages between trade, growth, poverty reduction and development. The recommendations of the WTO AFT Task Force mention, in fact, the following AFT rationale:

“[to] enhance growth prospects and reduce poverty in developing countries, as well as complement multilateral trade reforms and distribute the global benefits more equitably across and within developing countries”.

It further enumerates AFT operational objectives as follows:

- *“To enable developing countries, particularly LDCs, to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the Millennium Development Goals (MDGs).*
- *To help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more.*
- *To help facilitate, implement, and adjust to trade reform and liberalization.*
- *To assist regional integration.*
- *To assist smooth integration into the world trading system*
- *To assist in implementation of trade agreements.”*

Building on the IF experience, **the AFT theoretical foundations could reflect the view that trade is not an end, but a means towards other policy objectives. The scope of AFT should, consequently, focus on the factors underlying countries’ ability to use trade effectively as a policy instrument in the attainment of their developmental objectives.** These factors go beyond implementation, compliance and utilisation of multilateral trading rules to encompass factors that determine the productivity and competitiveness of developing countries.

In the case of the IF, this conceptual approach is particularly reflected in the *Diagnostic Trade Integration Study* (DTIS), which constitutes the most tangible output of the IF process, and in the *Action Plan* derived therefrom. The DTIS consists of an overall mapping of an LDC economic and productive landscape, taking into consideration an extremely wide set of variables and leading to a set of recommendations and priorities set out in an ‘action matrix’. Integration studies typically have five components:

1. review and analysis of a country’s economic and export performance, growth, poverty and human development trends, integration performance from historical and international perspectives, trends in ratios of exports and imports to GDP, foreign direct investment trends, export diversification, composition of exports, dependence on agricultural production, etc.;
2. description and assessment of the macroeconomic environment and the country’s investment climate (macro and microeconomic policies, services regulatory framework, business environment, aspects of trade facilitation, etc.);
3. focus on the international policy environment and specific constraints that exports from each country face in international markets (tariff structure of export markets, membership of economic integration or non-reciprocal preferential agreements, etc.);
4. sectoral focus, usually in a few labour-intensive sectors, such as agriculture (e.g. horticulture), to determine the constraints that local entrepreneurs face in expanding production and exports;
5. inclusion of a set of recommended policy reforms and priorities to capitalise on

the major opportunities identified in each study (studies also include a list of short-, medium- and long-term capacity-building priorities to support national trade strategies in the form of an action matrix).⁶¹

The breadth of concerns investigated in the DTIS confirms the IF's aim to insert trade at the heart of a much wider development strategy ('mainstreaming') and its view of trade as one among other development instruments. The utilisation of a diagnostic instrument for the ex ante identification of needs and priorities ensures this approach permeates into the specific TRA projects. However, it is unsure whether AFT would replicate IF operation in this regard, as the recommendations of the AFT Task Force did not explicitly recommend a diagnostic tool for the AFT mechanism.

This broader view of AFT is also in line with the long standing expectations and demands of poor countries that TRA should concentrate on more than the implementation of WTO agreements. LDCs, and in fact many developing countries, have repeatedly asked for TRA to mitigate the factors that hamper their ability to use trade as an effective instrument.

Indeed, it is well recognised that for many of the poorest and most vulnerable countries, whose baskets of export products typically contain a handful of low value-added primary commodities, the liberalisation of export markets is not as much a priority as the strengthening of their productive and trading capacities. These factors are commonly referred to as 'supply-side constraints' and "*refer to impediments to the development of capacity to produce goods and services competitively and to the ability to get them to markets at a reasonable cost. Such a broad definition covers a wide scope of issues impeding the LDCs' participation in international trade.*"⁶² A number of these supply-side constraints can be listed:

- lack of physical infrastructure, such as adequate transport linkages, road networks, railways, ports, airports and warehousing, a reliable telecommunications network and energy supply;
- lack of access to finance, such as export credit insurance and guarantees and other trade finance products and services;
- lack of efficient customs infrastructure, including adequate computerisation, transparent administrative procedures and trained officials;
- lack of trade support services, such as business information, trade finance and insurance, market promotion, product adaptation, international purchasing and supply management, export quality management and export packaging.

The scope of interventions of an AFT initiative would need to contribute to mitigating these constraints in order to be coherent with the objective to "*enhance growth prospects and reduce poverty in developing countries*". This seems to be the intention of the AFT initiative, since the objectives recommended by the AFT Task Force include building "*supply-side capacity and trade related infrastructure in order to facilitate their access to markets and to export more*".

In addition to supply-side capacity interventions, the recommended AFT objectives mention assistance to "*facilitate, implement and adjust to trade reform and liberalisation*". Notwithstanding its breadth, the IF offers little directly transposable experiences for the new AFT initiative with regard to this specific heading. Flanking measures to facilitate the implementation of trade agreements or to cope with the effects of trade reforms (often referred to as *trade adjustment costs*, e.g. loss of tariff revenue) were not an explicit item under the IF. Such considerations were covered only partly (e.g. fiscal policies to mitigate the effects of losses of tariff revenue). The new EIF, however, explicitly

⁶¹ IF Manual, pages 15 and 16.

⁶² This non-authoritative definition of supply-side constraints was formulated for the WTO Committee on LDCs. '*Assistance to address supply-side constraints*', Note by the Secretariat (WT/COMTD/LDC/W/33), 26 May 2004.

incorporates “needs emanating from on-going trade liberalisation processes and new trade rules” as a specific area of attention and intervention.

A final aspect related to the scope of aid that should be watched in the operationalisation of AFT is the need to retain focus and a sense of purpose in aid delivery. Focus is necessary not only to track progress and discharge AFT objectives; it lies at the very heart of aid effectiveness. Lack of focus can lead to a real or perceived lack of efficiency. This is all the more critical in the context of AFT, as countless actors contribute to various (sometimes contradictory) objectives. The criticism of some regarding the DTIS is that some of these studies were too general and, as such, not conducive to the enumeration of a clear set of priorities likely to serve as a road map for fund-raising and implementation.

Annex 1 presents a list with examples of headings under which IF assistance has been delivered, according to the 15 completed DTIS. It reveals how far-ranging topics considered under the IF are and how easy it may be to lose focus. **The stated scope of AFT becomes all the more tantalising when compared to the IF headings if one considers that headings could be included that were not included in the IF, such as a compensation mechanism for the loss of non-reciprocal preferences.**

The danger of excessively broadening the headings covered by AFT is that interventions could become scattered, management and monitoring more complex and progress slow, prompting perceptions that the initiative is inefficient. However, limiting the scope of AFT to an overly narrow range of headings would not only compromise its effectiveness as a TRA mechanism, but would also generate resentment among those WTO members who have nurtured high hopes for the initiative. The difficulty will be to find an optimal balance between a wide-enough scope and the necessary accountability and focus of the system.

4. IF management: struggling between inclusiveness and accountability

In achieving the broad AFT mission and carrying out activities covering such a wide scope, a solid institutional architecture is a fundamentally important determinant of successful performance. An efficient structure that is simple to access and monitor will be similarly important in the AFT context. Ironically, despite its implications for all other aspects of the initiative, this is probably the dimension of AFT that most lacks discussion and concrete suggestions and which remains least specified. In this respect, the best practices learnt from the IF are of a mixed nature.

One of the main strengths of the IF governing structure stems from the fact that it brings together a large number of agencies and actors, adding up their expertise and creating a system of checks and balances between the supply and demand sides. Nonetheless, the same structure has often been criticised as being too diffuse and complex, meaning that it may have been slow to produce decisions. Moreover, and perhaps more importantly, the IF management structure does not control the largest portion of the funds that will eventually be allocated to the IF projects (except for the IF Trust Fund), meaning that it does not have total influence over IF outcomes.

At the global level, the *IF Steering Committee (IFSC)* provides a platform for discussion and collaboration among representatives of the six multilateral implementing agencies, the donor community and beneficiary LDC governments. The IFSC, as the highest IF entity, is responsible for overseeing the entire IF progress and its guidelines are followed and implemented by the *IF Working Group* and supported by the *IF Secretariat*.

A significant feature of this tripartite structure is that it provides a platform for dialogue between donors and beneficiaries and also fosters coordination at the highest level among donors and implementing agencies. This enhances transparency, mutual accountability and coordination by creating checks and balances among the different stakeholders. Moreover, it reflects the desire to grant beneficiaries a more prominent role, making the IF structure, and hopefully its process, more country-driven.

The everyday management of the IF is entrusted to the ad hoc IF Secretariat. Experience has demonstrated the usefulness of a strong supporting secretariat. The EIF Task Force recommended creation of a new IF Executive Secretariat, which would be a small, independent unit located in Geneva and administratively housed within the WTO Secretariat, headed by an independent chief executive officer (CEO). It is hoped that this structure would create clear lines of responsibility and authority, as well as facilitate quicker decision-making and improved implementation.

The EIF Task Force also recognised the need for new governance and management arrangements to improve the decision-making process so as to ensure effective and timely delivery of technical TRA and the need for stronger country ownership of the IF.

Since September 2006, the various IF stakeholders (the LDC group, donor group and agencies) have been elaborating arrangements for the EIF in three clusters dealing with finance, administrative and institutional arrangements and in-country issues. This is being done under the direction of a 'transition team' made up of three representatives each from the LDCs and donors, the UNDP, the World Bank and the WTO. Its recommendations are expected to start being implemented towards the end of 2007.

While it is recognised that a participatory structure ensures greater coordination and dialogue, it is also apparent that involvement of several actors at several levels can also create confusion regarding lines of responsibility, make monitoring more complex and compromising accountability. **If the experience of such an open and inclusive structure is to apply to the AFT initiative, in which a similarly large number of actors is to be involved in implementation and decision-making, the initiative will need to make trade-offs between a diffuse or else more concentrated structure to balance inclusiveness and efficiency.**

The second lesson drawn from the IF in as far as its managing structure is concerned is that the role of country-level management is of equal importance to that of the global-level governing bodies. In each LDC where the IF is implemented, a *national steering committee* (NSC), a *national focal point* (NFP) and an *IF facilitator* must be designated as responsible for managing, coordinating or facilitating the IF process and implementation. Current EIF discussions are considering guidelines for terms of references for the various EIF-related entities to ensure that they play effective roles and to further country ownership of the IF process.

The IF NSCs ensure inclusion of a wide range of perspectives through the participation of representatives of government, with ideally a variety of ministries and other governmental agencies represented, alongside civil society and the private sector. The strength of this structure and composition of country-level bodies is its reflecting the desire to foster country leadership and ownership. It also strengthens accountability, creating local checks and balances and ensures a wide representation of views through the involvement of different types of stakeholders. IF experience shows that a more active involvement of local leaders enhances ownership and increases the chance of having the reforms and projects identified in the DTIS and action matrix carried forward.

Nonetheless, despite these efforts, the IF is still too often perceived as an agency-driven and not as a wholly country-driven process. One suggested way of mitigating this perception would be to recourse, as often as feasible, to local consultants and experts instead of bringing them in from abroad. Another improvement would be to **invest more systematically in enhancing in-country capacity (including improving institutional**

infrastructure and equipment) to empower local governmental leadership and a broader range of stakeholders. This requires, however, funders' commitment to less visible activities, which only bear results over the medium to long term.

Another shortcoming of the IF local management architecture that would need to be improved if emulated under the AFT initiative is that the IF structure still fails to effectively integrate the private sector into the process. This has been recognised for some time now, as reflected in the recommendations of the EIF Task Force. But few concrete steps have been taken to improve this aspect in practice.

An additional shortcoming of the IF structure that would need to be corrected in the AFT context is that the IF is ill-designed to integrate regional priorities in its IF processes. Indeed, the IF is essentially a process between multilateral agencies, bilateral donors and *individual* LDC governments. Regional development banks, regional economic cooperation communities and other cross-border secretariats do not usually take part in the process. This would need to be revisited in the AFT context since one of the working objectives of the AFT initiative is to 'assist regional integration'. The local or global AFT governance structure will need to find ways to consider, design and implement cross-border infrastructure projects, to promote regional trade and to foster regional productive complementarities.

One deficiency that cuts across the national and global IF structure at a more operational level is that the IF's complex and multi-layered structure is not always conducive to information sharing and flows. At best, national stakeholders consult one another and share some experiences, but little information flows across borders (USAID, 2005). In addition, there tends to be a disconnect between stakeholders at headquarters in Geneva and those in the field. This is particularly worrying given the spectrum of stakeholders who must cooperate to identify and implement projects under the IF. Under the AFT initiative, there would be a need to enhance inter-ministerial mechanisms, public-private sector consultative channels and national and international communication.

A final aspect of the IF governance structure that could be improved to better suit the AFT objectives relates to the ability of the managing bodies to monitor activities and gauge performance. While the IF has undergone regular reviews and improvements and while the IFSC oversees IF functioning, its structure has no strong built-in monitoring mechanism, although this is to be addressed in the EIF discussions. Moreover any monitoring and evaluation mechanism under the EIF would need to be designed with a view to alignment with whatever is envisaged under AFT. In that respect, given the larger number of beneficiary countries, projects and amounts disbursed, a strong monitoring function built into the governance structure would be essential to track progress, ensure availability and timely channelling of predictable funds and guarantee efficient use of resources. The need for a strong monitoring mechanism is a prominent priority in ongoing work to operationalise the AFT initiative.⁶³

⁶³ In December 2006 the WTO Director-General circulated a concept paper which laid out multiple forms of monitoring, at the global and country level; assessing global flows; progress reports from agencies and organisations and in-country assessments. For those last, national AFT Committees (where needed) were envisaged. The Director-General emphasised that monitoring needs to focus on what the money would achieve. Furthermore, a general assessment of AFT was to be included in future *Trade Policy Reviews* and the first periodic review, and a debate in the General Council was to take place in autumn 2007. An ad hoc consultative group, comprising a network of donors, recipients and private-sector representatives would serve as a resource and sounding board in preparing periodic reviews.

5. Country ownership under the IF process

As stated, a major advantage of the IF is that it has gone some way in incorporating many of the principles that characterise the *new aid framework*, such as the need to improve harmonisation among donors, aid delivery agencies and beneficiaries (*alignment* and *coherence*); the need to integrate trade within the context of beneficiary countries' broader development policies (*mainstreaming*); and the need to have beneficiaries conduct the process to gain greater buy-in over it (*ownership*). These concepts, and others, are enumerated in the Paris Declaration which was explicitly upheld by both the EIF and the AFT Task Forces.⁶⁴ They are reflected to different extents in the IF objectives, the IF structure and, naturally, in the IF process.

In that sense, the IF constitutes a microcosm of the type of challenges that the trade, development and aid community will face when trying to implement and assess the WTO AFT initiative. The main stages of the IF process can be summarised as follows:

1. country request to benefit from the IF followed by the endorsement of the IF governing structure ('entry process' stage);
2. preparatory work, including capacity building to empower local stakeholders, raising awareness about the IF process and objectives, setting up the IF national structure and preparation of the DTIS terms of reference ('pre-DTIS' stage);
3. preparation of the country's DTIS and review and endorsement of the study by all stakeholders in a *national validation workshop* (the 'DTIS' stage);
4. identification of priorities in the DTIS, adoption of a road map (the 'action matrix'), fund-raising meetings for selected projects and implementation of projects ('implementation' stage).

The IF focus on country ownership is evident in several features of this process. From the outset, for instance, the IF is implemented only upon request (demand-driven). Moreover, the preparatory activities include technical assistance and capacity building aimed at empowering local stakeholders into an NSC and an NFP with a view to fostering a local leadership capable of steering the process and liaising effectively with the IF implementing agencies. Finally, all stakeholders involved are encouraged to actively comment upon the DTIS during the national validation workshop, from which the actual list of priority projects should derive.

In fact, one important IF lesson is that aid effectiveness can be boosted when there is a large consensus around the projects to be implemented, and particularly when senior officials, or 'national champions' are actively involved (see e.g. USAID, 2005). Implementation of the IF in Cambodia, where the Trade Minister personally took leadership of the IF national process, is often cited as a successful example of country ownership and leadership.

Apart from coordinating the aid delivery process, local decision-makers must be convinced of the usefulness of the projects being funded, as well as of the role that trade could play in national development strategies.⁶⁵ Nevertheless, insufficient awareness of

⁶⁴ "The enhanced IF should be guided by the aid effectiveness principles set out in the Paris Declaration, such as donor harmonization, using country systems, promoting ownership and involving stakeholders such as the local private sector. The strength and potential that the IF concept offers could be considered as a methodology for further delivery of trade related assistance" (Recommendations of the Task Force on an EIF: 12).

⁶⁵ Window II funding proposals must be approved by a Local Project Appraisal Committee (LPAC) in-country which is chaired by the Ministry of Trade/Commerce with a minimum membership of the Ministry of Finance/Planning, the UNDP resident representative as trust fund manager, the lead facilitator donor agency, the World Bank resident representative and the private sector. Other institutions and groups such as civil society organisations, other ministries and other donors are also able to join.

the importance and role of trade, insufficient technical capacity and insufficient political leadership may hamper in-country involvement and ownership. **This highlights the importance of upstream and long-term capacity-building activities for effective ownership, buy-in and efficient implementation of aid.**

With respect to country ownership and beneficiary leadership in the IF and AFT processes, one question that remains open for debate is the extent to which donors are able to impose their own priorities or conditions on aid delivery. In other words, to what extent are the funds earmarked for specific reforms? For instance, the headings of 'trade-related technical assistance' activities under the IF presented in Annex 1 include trade liberalisation as a category of assistance, raising the question of whether countries must liberalise their economies to receive such aid. Although it could be argued that all priorities and activities under the IF are validated by local stakeholders through the national IF structure, this does not in itself constitute a guarantee of independence. Suspicions about aid conditionality become even more acute in the context of AFT since the initiative was part of the WTO Doha Development Agenda, in which several other issues were negotiated. It is worthwhile noting, however, that the AFT initiative was delinked from the Single Undertaking and is meant to be negotiated and implemented as a stand-alone item of the Doha negotiating agenda.

Finally, a significant difference between the AFT initiative and the IF is that the IF process is designed to gradually phase out⁶⁶ as the national action matrix begins to be implemented, whereas the AFT initiative would seem to kick-start only after the identification of priorities. Of course, this depends on the final structure and architecture of AFT, that is, whether it will constitute a channel towards greater funding, as the IF, or whether it will in itself be a source of funding.

Either way, the IF experience highlights the fact that effective project design may constitute a significant hurdle in the operationalisation of aid. Even assuming that there is a strong national consensus around the priority projects to be implemented, and even assuming that funding has been secured for such projects, the IF has shown that local stakeholders often lack the technical capacity and resources to translate priorities into ready-to-be-implemented projects. Moreover, in such cases, there is little clarity among the implementing agencies about who should assist countries in project design, and donors seem to have insufficient technical knowledge on trade to provide this assistance themselves (USAID, 2005: 17).

Under the EIF, this malfunction is likely to be mitigated by increased funding for the post-DTIS period (prioritisation of needs and translation of priorities into projects). Under the AFT initiative, there will be a need to allocate specific funds to needs assessment and project design, in addition to whatever funds are allocated to the implementation of the projects.

⁶⁶ Under the EIF there is a budget allocation for updating of the DTIS twice within five years so that priorities can be adjusted and updated.

6. Availability of funds under the IF

The availability of funds can be viewed as a question of matching stated objectives, expectations and instruments. A solid conceptual framework with a well-functioning process and well-coordinated institutions can do little without funding. While appropriate funds constitute an obvious requirement of efficient AFT, most commentators agree that the main bottleneck of the IF is the unavailability of funds to finance the projects identified.

The IF is often described as a catalyser for securing finance and not as a credit mechanism or a source of funding in itself. The IF is in fact a process to anchor trade priorities into national development plans. It works as a guarantee for bilateral donors that a beneficiary LDC is committed to using trade as a development tool and is, hence, committed to undertaking certain reforms. It works as if beneficiary countries were being asked to complete the IF process to obtain a quality label that would open channels of finance to them for priority projects which ultimately aim at successfully completing the trade mainstreaming process. It is true that, from a donor perspective, a main advantage of the DTIS and action plans (as well as the PRSPs) is to constitute readily available reference documents. Priorities listed therein are easy to contextualise, which facilitates decision-making. Under the AFT initiative, such a process could possibly facilitate choices regarding funding priorities, assessment of the relative or comparative importance of projects and their sequencing.

However, uncertainty of obtaining funds, or difficulty in obtaining them, has sometimes discouraged participating governments or weakened buy-in. Despite the IF process, and despite emphasis on donor alignment, donors have their own preferences and tend to be attracted by certain priorities. Moreover, however open a funder might be, TRA funds are bound to be limited, stressing the need for recipients to prioritise projects and utilise funds judiciously. The amount of aid channelled to trade-related technical assistance activities currently corresponds to 4.4% of all aid commitments of the major aid contributors.⁶⁷

There is fairly wide recognition of this problem in IF quarters even if some argue that the availability of funds is less a problem than the way funds are utilised. Others have argued that the availability of funds is a matter of matching beneficiaries' expectations with what can be reasonably expected from the IF process. In any case, the period between the completion and validation of the DTIS and the beginning of aid flows remains a difficult one, which explains the emphasis of the EIF Task Force on IF-specific, readily available funds to bridge that period.⁶⁸ Currently, funds for the EIF have yet to be provided.

In fact, a positive aspect of the IF managing structure is that the process is supported by specific, albeit very limited, funding, through the IF Trust Fund.⁶⁹ The fund is mostly used to finance the DTIS (*Window I*) and a few selected projects to bridge the period between the completion of the DTIS and the implementation of projects supported by bilateral funders (*Window II* with a ceiling of US\$1 million per country). The main advantage of this mechanism is that it ensures a distinct amount of funding for IF-only activities and enhances the credibility of the process, ensuring greater support and involvement in beneficiary countries. Moreover, the proposals for financing under Window II funding must be part of the approved DTIS and action matrix and identified as a priority by the country.

⁶⁷ http://www.wto.org/english/news_e/pres05_e/pr427_e.htm

⁶⁸ "Tier 2: This would provide funding from the Trust Fund for activities as identified in the Action Matrix, taking into account the availability of alternative funding and quality of projects. The Trust Fund would provide bridging funding to jump start activities identified in the DTIS such as project preparation, feasibility studies as well as funding of smaller projects including seed projects" (Recommendations of the Task Force on an EIF: 13).

⁶⁹ The fund is managed by the UNDP.

However, the amounts of funding available can obviously cover only an extremely limited number of activities (e.g. in-country capacity and procurement of basic office equipment and a few other priority projects). **The EIF Task Force confirmed that availability of predictable funding is an integral part of a solid and credible aid delivery mechanism** and recommended that the amount of funding available under the EIF increase from US\$35 million (IF) to \$400 million (approximately \$8 million per country over five years).⁷⁰

As experienced with the IF, the availability of funds in a predictable and easily accessible manner will undoubtedly and unsurprisingly constitute one of the most difficult aspects of the new AFT initiative. A fundamental question that needs to be answered before implementation of any assistance under the AFT umbrella is whether the AFT initiative will constitute a source of funding strictly speaking or whether it will function as a mechanism granting access to funding, but not having any funds of its own. The choice will make an enormous difference and be a major determinant of its architecture and functioning.

Another discussion associated with funding that has drawn attention over the past months is 'additionality' of funds, meaning that there should not be a mere shift of existing ODA towards TRA, but rather new aid flows should be made available.⁷¹ Additionality in the IF context could be easily defined because the IF-specific funding (the IF 'Windows') is well known and there were even country-specific ceilings. These figures can be used as a reference point. The additionality of funds is all the more complex in the AFT context as the scope of aid and number of countries involved would be much larger than in the IF context.

In addition, one of the major challenges regarding additionality in the context of AFT is how to calculate it. The amount of aid available could vary significantly depending on how TRA projects are defined and classified. Here, the consolidation of the WTO/OECD Trade Capacity-Building Database definitions of aid categories is important. Once that database is consolidated, many have argued for the determination of a baseline, which would then serve as reference point to assess additionality of future levels of TRA disbursements.⁷² This seems to have been the view of the WTO AFT Task Force, which recommended establishment of 'agreed benchmarks'.⁷³ This would, however, not totally prevent the re-labelling of existing aid as new trade-related assistance.

Moreover, even assuming that there are additional resources available, these will of course not be endless and definitely not available all at the same time. There will, hence, have to be a kind of prioritisation of interventions or prioritisation of countries. In that respect, the IF provides a more manageable number of beneficiary countries than the AFT initiative, which will be open to all WTO developing country members. This is a highly sensitive debate as countries naturally deem their own needs as priorities. **Real or perceived deficiencies in the IF country selection process highlighted that a prioritisation that is inconsistent, unclear or the criteria of which is not well understood by all can generate resentment among aid beneficiaries.**

⁷⁰ According to the annex of the recommendations (p. 19), "the indicative costing would be comprised of three elements: *Tier 1: Core function support costs (\$77 million)*, to provide funding for core institutional capacity building support, especially trade ministries and other trade related development organisations, *Tier 2: Action Plan implementation support costs (\$320 million)*, to provide funding for substantive trade development projects. However unlike the current Window II, Tier 2 funding under the EIF would not be subject to a ceiling and would operate on a first come first serve basis.

Executive Secretariat costs (\$14 million). However unlike in the case of the current Window II, Tier 2 funding under the EIF no longer has a threshold in that it operates on a first come first serve basis.

⁷¹ Aid for trade: Support for an expanding agenda, OCED March 2006 (COM/DCD/TD(2006)2).

⁷² See for instance, Trade Progress Report: The Doha Development Agenda and Aid for Trade: Hong Kong and beyond. IMF and WB Development Committee. 07 April 2006. See also *Note* prepared by the UNCTAD for the COMSEC/UNCTAD meeting on Aid for Trade of 20-21 March 2006.

⁷³ Recommendations of the Aid for Trade Task Force, at page 2. Available at: <http://docsonline.wto.org/DDFDocuments/t/WT/AFT/1.doc>

Finally, the monitoring and evaluation component of the AFT institutional architecture will need to incorporate the elements related to funding, such as the amounts actually disbursed vis-à-vis the amounts pledged. In this respect, however, the IF evaluation structure provides no examples of best practice, since IF amounts are predetermined (the Windows of the IF Trust Fund and country ceilings), and others in the donor community are not necessarily committed specifically to the IF.

PART II.B. The Trade Integration Mechanism

In April 2004, the Executive Board of the IMF agreed to a new lending policy known as the Trade Integration Mechanism (TIM). The TIM is intended to assist countries to meet balance-of-payments (BoP) shortfalls that might result from multilateral trade liberalisation. This mechanism has attracted attention because it has often been cited in the context of the WTO Doha negotiations as one existing instrument through which aid for trade could be channelled to developing countries. The TIM was particularly intended as one contribution towards a more conducive and supporting environment for the greater liberalisation of multilateral trade. Its design was thought to be specifically useful for small developing countries facing the possible erosion of their trade preferences as a result of the WTO Doha Round.⁷⁴

An analysis of the contents (coverage), procedures and performance of the TIM, therefore, could provide useful insights for the AFT debate, because it is suggested that for

areas where the TIM may already provide assistance, no new TRA mechanism needs to be created. In fact, since the TIM was crafted as a trade-related only aid mechanism, it is very likely (if not certain) to fall under an international AFT umbrella. This would be in line with the predominant view, shared by the IMF,⁷⁵ that duplication of aid efforts should be avoided in favour of simply enhancing coordination among existing aid delivery schemes.

The Trade Integration Mechanism (TIM)

The Trade Integration Mechanism was introduced in April 2004 to assist countries to meet BoP shortfalls that result from non-discriminatory trade liberalisation measures taken by other countries. The TIM is not a special lending facility, but rather a policy designed to make existing IMF resources and facilities more predictably available.

For instance, the end of the WTO Agreement on Textiles and Clothing (ATC) meant that developing countries relying on ATC quotas for their exports of textiles and clothing now faced increased competition from other producers in their export markets. Increased competition may reduce export earnings or lead to increased imports, jeopardising BoP positions. This is the type of situation that TIM endeavours to assist.

1. TIM conceptual design: an umbrella capping IMF lending, but conditions apply

As part of its core mandate, the IMF provides loans to its member countries experiencing BoP problems with a view to extending temporary financing and thus opening some 'breathing space' to support governmental action aimed at correcting underlying macroeconomic problems. IMF loans are usually provided under a number of 'facilities' for which 'arrangements' are agreed. Such arrangements stipulate the specific policies and measures that a country has to agree to implement as part of the loan package. Such policies and measures under loan arrangements are what are commonly known as 'IMF conditionality'.

⁷⁴ Transcript of a Teleconference with Journalists on: "Trade Integration Mechanism", Hans Peter Lankes, Trade Policy Division Chief, Policy Development and Review Department; and William Murray, Media Relations Division, Deputy Chief, External Relations Department International Monetary Fund. 13 April 2004. Available at: <http://www.imf.org/external/np/tr/2004/tr040413.htm>.

⁷⁵ "However, the staffs of the Bank and Fund do not believe that a dedicated adjustment fund would be a desirable use of additional aid for trade resources. There are a number of drawbacks to such a fund, beyond the risk of politicization, and few benefits:

- [] Multiple channels already exist to provide adjustment assistance, including in the context of an overall economic assessment – e.g., IMF TIM and World Bank structural adjustment lending (Annex IV)"

The TIM is a new policy intended to increase the predictability of access to IMF resources under existing lending facilities. Nevertheless, the TIM is not a credit line, nor is it a new lending facility in itself. It neither changes the existing IMF lending facilities nor alters their basic access policies. The TIM is better described as a specific and somewhat simplified window through which increased IMF funding can be accessed. It is said to introduce some flexibility into already existing lending facilities. In this sense, it is akin to the AFT concept of an umbrella mechanism that would simply coordinate the action of underlying schemes, the main difference being that activation of the TIM gives certainty of increased access to funds.

According to the IMF, a country's request for activation of the TIM triggers the following:

- a readiness of the IMF to discuss new arrangements under existing lending facilities with countries facing BoP shortfalls;
- flexibility in determination of the amount of funds that may be obtained under new or existing agreements (this is called the 'baseline feature');
- assurance by the IMF that additional resources may be requested and obtained under simplified procedures if the actual BoP difficulties turn out to be larger than originally anticipated (this is known as the 'deviation feature' and allows withdrawal of an additional amount equal to 10% of a country's IMF quota).⁷⁶

Evoking BoP difficulties compatible with TIM eligibility criteria simply alters a country's profile, leading the IMF governing bodies to consider additional arrangements (conditions) and additional resources in favour of the requesting country. The TIM can be activated as part of a new arrangement or within an existing arrangement between a country and the IMF. As a matter of fact, activation of the TIM can increment one of the following existing IMF lending facilities:

1. *The upper credit tranche Stand-by Arrangement (SBA)*. The SBA is designed to help countries address short-term BoP problems, often of a cyclical nature. The length of an SBA is typically 12-24 months, and repayment is normally expected within 2¼ to 4 years.⁷⁷ Surcharges⁷⁸ apply to high access levels.
2. *The Extended Fund Facility (EFF)*. The EFF was established in 1974 to help countries address longer term BoP problems requiring fundamental economic reforms. Arrangements under the EFF are thus longer – usually three years. Repayment is normally expected within 4½ to 7 years and surcharges apply to high levels of access.
3. *The Poverty Reduction and Growth Facility (PRGF)*. PRGF is a concessional lending arrangement for low-income countries only. The interest rate levied on PRGF loans is 0.5%, and loans are to be repaid over a period of 5½ to 10 years.
4. *The Exogenous Shocks Facility (ESF)*. The ESF constitutes emergency loans to cushion particularly poor, commodity-dependent countries against external shocks. Its conditions include incentives for good economic policies and

⁷⁶ A country's quota represents its maximum financial commitment to the IMF. Upon joining the IMF, a country is assigned a quota that is broadly based on its relative position in the world economy. Quotas also determine a country's voting power in the IMF and generally provide the basis for access to IMF financing and shares in special drawing rights (SDR) allocation.

The SDR is an international reserve asset, intended to supplement the existing official reserves of member countries. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

⁷⁷ IMF loans have two main schedules of repayment. The first is the 'expectation' period, during which a country is assumed to be able to reimburse its loans to the Fund. After that first period, a second additional period, called the 'obligation' period, can be approved, extending the total repurchase timeframe.

⁷⁸ IMF loans are subject to the Fund's market-related interest rate, known as the 'rate of charge' and some loans may be subject to a surcharge.

measures to reduce vulnerability to future shocks. Payment is expected over a period of 5½ to 10 years.

The table below summarises the terms applicable for each of these facilities.

Table II.B.1: General terms of IMF financial assistance for selected facilities

Facility or Policy	Charges	Repurchase Terms		
		Obligation Schedule (Years)	Expectation Schedule (Years)	Instalments
Stand-by Arrangement	Basic rate ¹ plus surcharge	3¼–5	2¼–4	Quarterly
Extended Fund Facility	Basic rate plus surcharge	4½–10	4½–7	Semi-annually
Poverty Reduction and Growth Facility; and	0.5% per annum	5½–10	N/A	Semi-annually
Exogenous Shocks Facility	0.5% per annum	5½–10	N/A	Semi-annually
¹ The surcharge on high levels of credit outstanding under the SBA and the EFF is 100 basis points for credit over 200% of quota, and 200 basis points for credit over 300% of quota. This surcharge is designed to discourage large use of IMF resources.				

Source: Extracted from IMF fact sheet, September 2006.

Activation of the TIM under a particular lending facility means an increase in the size of countries' access under that particular facility (i.e. the baseline feature). In addition, activation of the deviation feature means that a further augmentation can be obtained. However, as evident from table II.B.1 the TIM does not alter the policy of the facility under which it is activated. As a result, access to IMF funds under the TIM label does not alter the fact that any accessed funds constitute loans which must be reimbursed according to the conditions and schedule agreed by a government and the IMF. In other words, each of the lending facilities retains its main characteristics, such that policy reforms would be required under the lending as well as regarding the timeframe for repurchase (repayment) of the loan.

From the outset, a disadvantage of this structure is that trade-related assistance under the TIM consists of loans (debt) and is always pegged to one of the IMF facilities which in turn entails compliance with the conditions negotiated under each arrangement. At the bare minimum, arrangements usually require governments to provide the IMF with specific macroeconomic data and information regarding the performance of the economy and specific sectors (e.g. energy) and the pace of specific reforms (e.g. fiscal, monetary). This raises the issue of the nature of AFT funds, and its debt or grant proportions. It also raises the issue of conditionalities imposed by the IMF (or by other funders) being introduced to the AFT umbrella through mechanisms such as the TIM.

Perhaps the combination of debt and conditionalities explains why, despite the severe BoP shortfalls that many developing countries' anticipate from trade-related adjustment costs as a result of the Doha Round and the EPA negotiations, only three have requested or obtained support in accordance with the TIM. There is little incentive for

developing countries to borrow from the IMF to cope with costs that they incur due to measures taken by other countries.

Since the TIM's inception in 2004, the IMF Executive Board has approved requests for activation of the TIM formulated by only two countries: Bangladesh (July 2004) and the Dominican Republic (January 2005). This support was SDR (special drawing rights) 53.33 million (about US\$78 million) for Bangladesh and SDR 437.8 million (about US\$665.2 million) for the Dominican Republic. Both countries requested activation of the TIM in anticipation of BoP shortfalls owing to expected losses of export revenues due to the termination of the WTO Agreement on Textiles and Clothing.⁷⁹ In addition, the IMF Board noted Madagascar's intention to activate the TIM baseline feature (July 2006) in anticipation of the possible impact of the end of textile quotas in 2005 as well as the scheduled termination of the US African Growth and Opportunities Act in 2007.⁸⁰

The Dominican Republic has expressed its intention for the activation of the TIM under the Stand-by arrangement whereas Madagascar intends to activate it under its PRGF. Should the impact of these measures be greater than anticipated, the TIM's deviation feature would allow augmentation of the PRGF by up to 10% of quota, or SDR 12.2 million (about US\$17.9 million) for Madagascar and SDR 21.89 million (about US\$33.3 million) for the Dominican Republic.

There is no doubt that aid conditionality is at the heart of the AFT debate and that the debate, as framed in the Paris Declaration, turns around the concept of mutual accountability between donors and beneficiaries. The balance between donors' comfort and assurance and beneficiaries' discretion and ownership is probably one of the most difficult aspects of the operationalisation of the WTO AFT initiative, but, at least, there is general agreement that conditions should not overburden beneficiary countries.

On the positive side, it could be argued that the TIM structure is transparent and easily accessible (access is discussed in greater detail below). IMF facilities which fall under the TIM umbrella are easily identified, and the conditions to access them, the amounts available and their objectives are well publicised. As the TIM is not a facility itself, it does not have its own specific structural or architectural features. Of course, the conditions attached to each underlying facility (or arrangement) are much less clear, but that is the case irrespective of the TIM. The IMF reiterates, in fact, that activation of the TIM should not, in principle, add to or change the conditions of the underlying lending facilities. However, this may not be always the case:

*"Directors emphasized that, to be effective, the TIM will need to be used in support of an appropriate macroeconomic and structural policy framework. []Directors agreed that the conditionality associated with access incorporating a TIM baseline feature will normally be determined by the underlying arrangement. In some cases, however, conditionality specifically related to the adjustments that the TIM is designed to support may be called for. Access augmentation under the deviation feature is not expected to be associated with a need for additional conditionality."*⁸¹

⁷⁹ The WTO Agreement on Textiles and Clothing replaced the former WTO Multifibre Arrangement (MFA) as a temporary legal instrument for the liberalisation of trade of textiles and clothing products. Since its termination on 1 January 2005, exports of these products are no longer subject to the attribution of quotas. The transition from the quota system to free trade enhanced competition in the sector, considerably challenging the position of several small developing countries who largely relied on quotas to entry rich countries' textiles markets.

⁸⁰ "IMF Executive Board Approves US\$80.8 Million PRGF Arrangement for the Republic of Madagascar and Activation of the Trade Integration Mechanism". Press release available at <http://www.imf.org/external/np/sec/pr/2006/pr06163.htm>.

⁸¹ Anne Krueger, Acting Managing Director and Chair in 'IMF Executive Board Approves Trade Integration Mechanism', Press Release No. 04/73 of April 13, 2004. Available at: <http://www.imf.org/external/np/sec/pr/2004/pr0473.htm>

In sum, IMF conditionalities, and their reputation in developing countries, undoubtedly constitutes a major dissuasive factor militating against recourse to the TIM for AFT in the context of trade-related adjustment costs.

2. Eligibility and access: simple but not entirely

Activation of the TIM can be done either at the time of approval of a country's underlying arrangement or when completing a programme review under an existing arrangement. The procedure to request of activation is fairly simple, consisting only of a 'letter of intent', which is then noted, discussed and approved by the IMF Executive Board.⁸² Before approval, an IMF mission evaluates with the requesting government the anticipated causes, size and timing of the BoP problems so that the baseline amount of the TIM loan can be determined. A simplified procedure guarantees the availability of additional resources in the future in case the amounts originally estimated proved insufficient.

A country is eligible for BoP assistance under the TIM when the following two conditions are met:

1. It must face BoP shortfalls, which is to say, sector-specific shortfalls or current account deteriorations.
2. The BoP deterioration must be a result of measures implemented by *other* countries for liberalisation of trade. Such measures would typically be introduced either under a WTO agreement or in some other way that would result in a non-discriminatory treatment of all countries. The typical example of a measure is a modification of the conditions affecting the exports of developing countries under a trade preference scheme. Such a modification could result from an unilateral measure (e.g. the withdrawal or termination of preferences) or from multilaterally decided rules (e.g. multilateral liberalisation eroding the preferential margin of access that had previously benefited exports of some developing country).

These simple procedures add certainty and enhance the credibility of the mechanism. While empirical experience with the TIM is as yet shallow, given the few requests for activation, the three requesting governments did have their requests approved (or 'noted' in the Malagasy case) without delay. There is no doubt that, if the AFT initiative is to work as a window through which governments can access specific aid schemes, well known and simple procedures constitute major incentives for developing countries to do so.

Similarly, there are advantages in creating incentives for transiting through the overarching aid scheme to access underlying mechanisms. In the case of TIM and the underlying facilities, activation of TIM increases a country's access to funds. So, what would be the advantages, if any, for a developing country to use the AFT initiative (or rhetoric) to access underlying AFT schemes? Creating such incentives could contribute particularly to the monitoring capacity of the AFT initiative.

Yet it is still unclear whether the AFT initiative would operate as a window; that is, if countries would access TRA schemes *through* the AFT initiative. Rather than being instrumental for accessing aid schemes, the AFT initiative is more likely to be instrumental only in the coordination and monitoring of these schemes. Be that as it may, **one possible lesson from the TIM is that there is benefit in having a clearly publicised list of schemes which are coordinated under the AFT umbrella. A well-known enumeration of underlying AFT schemes, their coverage and conditions of**

⁸² The Executive Board is responsible for conducting the day-to-day business of the IMF. It is composed of 24 directors, who are appointed or elected by member countries or by groups of countries, and a managing director, who serves as its chairperson. The Board usually meets several times each week. It carries out its work largely on the basis of papers prepared by IMF management and staff.

access, could assist developing countries in enhancing their chances of accessing the most appropriate scheme. This could be a significant contribution for the developing countries with weakest administrative capacity.

On the negative side, it could be argued that procedures to access the TIM place a burden of proof on the requesting country (demonstrating BoP needs covered by the TIM) that might not need to be replicated in the AFT context (i.e. no requirement to demonstrate the need for specific funds). However, some might argue that this requirement enhances country ownership. Nevertheless, at least in the context of the TIM, given the lack of technical capacity that characterises most poor countries, IMF studies and data are likely to constitute the basis for governmental requests for TIM activation.

It is important to note, finally, that access and eligibility criteria are further subject to the criteria of the lending policies applicable to the policies of the specific facilities under which the TIM is activated. In other words, the architecture that governs the TIM (i.e. country eligibility, access conditions, interest rate, repurchase terms and so forth) is basically that of the facility under which TIM support is obtained. The PRGF lending policies are applicable for TIM access obtained under the PRGF. Similarly, SBA policies apply to TIM access obtained under the SBA facility. Therefore, enhancing the TIM alone (without considering its underlying arrangements), would not be entirely effective in improving it. Regrettably, **this pattern is also likely to characterise the AFT initiative, where the various TRA schemes falling under the AFT umbrella would retain their own eligibility conditions and access procedures. A new WTO initiative on AFT, if construed as an umbrella or window into other TRA schemes, could therefore only marginally improve AFT delivery. This seems to have been realised, as the initiative's contribution is likely to consist of better coordination or monitoring of existing schemes, but not an improvement of individual schemes.**

From the dichotomy that characterises the complexity of the procedures of the TIM and other IMF facilities, one could extrapolate that some convergence for a top-down procedural simplification would be useful in the AFT context, but such efforts would, unsurprisingly, face resistance from most donors.

3. Coverage: more circumscribed than it might have seemed

The AFT initiative has a broad scope, covering trade-related infrastructure, supply-side constraints and trade-related adjustment costs. While trade-related adjustment costs were not explicitly mentioned under the AFT paragraph of the Hong Kong Ministerial Declaration (Paragraph 57), the recommendations of the WTO ATF Task Force have explicitly added these costs to the initiative's scope:

“The scope of Aid for Trade should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between Aid for Trade and other development assistance of which it is a part. [] The following categories, building upon the definitions used in the Joint WTO/OECD Database, have been identified:

[] (e) Trade-related adjustment, including:

Supporting developing countries to put in place accompanying measures that assist them to benefit from liberalized trade”.

Trade-related adjustment costs are the linkage point between the AFT initiative and the TIM. In fact, this study has already noted that AFT should not ‘reinvent the wheel’.

Rather, it should exploit insofar as possible existing aid schemes in TRA delivery. The TIM covers trade-related adjustment costs to the extent that it covers BoP costs deriving from non-discriminatory trade liberalisation. In other words, it only covers BoP shortfalls caused by a measure that affects all countries in the same manner, that is, liberalisation by a third country, but not of the country requesting activation of the TIM. It therefore excludes, for instance, enhanced import competition following liberalisation in the context of a regional trade agreement (RTA). It covers, for instance, a reduction of export revenues or an increased import bill resulting from the termination of quotas benefiting textiles (a multilateral decision that legally affects all countries alike).

Nevertheless, the design of the TIM and the way and extent to which it covers the spectrum of trade-related adjustment costs hampers its ability to constitute a comprehensive channel for these costs. In fact, **there are significant differences in the way trade-related adjustment costs are envisaged under the AFT initiative and the TIM, which implies that the TIM leaves the bulk of trade-related adjustment costs uncovered.**

First, unlike under the TIM, the trade-related adjustment costs envisioned under the AFT initiative include costs associated with the consequences of a country's own liberalisation measures flowing from compliance with multilateral commitments. This means that costs such as of falls in tariff revenue, of necessary fiscal reforms and of implementation and compliance with new WTO rules and agreements would not be covered under the TIM. Yet, these could fall perfectly within the scope of the AFT initiative. These costs are indeed distinct and incremental to the BoP costs related to preference erosion, higher food prices and costs related to the end of textile quotas, which are covered by the TIM.

Second, notwithstanding the need to further refine the scope of the AFT initiative, adjustment costs under the initiative may cover sector-specific adjustments (e.g. to enhance the competitiveness of a sector or to foster labour mobility away from an uncompetitive productive sector). In contrast, only an overall BoP position rather than sector-specific adjustment costs are considered for access under the TIM.

Third, the TIM concentrates only on BoP difficulties, either existing or expected, which are a result of a variety of underlying causes. While safeguarding BoP positions is fundamental to provide breathing space for governments to allow them to take measures to redress the wider problems, the TIM leaves the technical and financial solution of such underlying causes or problems to the developing country governments. It is not intended to tackle anything other than a temporary BoP shortfall:

*"Assistance under the Trade Integration Mechanism should help to smooth the economic adjustment process related to the phase-out of MFA [Multifibre Arrangement] quotas, but strong efforts on the part of the authorities will also be needed urgently in further defining and implementing the post-MFA action program. E.g. infrastructural bottlenecks, particularly in the Energy sector."*⁸³

Even in cases of adjustment costs for which the TIM was thought to provide a positive contribution, such as preference erosion, financing under the TIM baseline and deviation features only postpone the immediate burden of the costs, as ultimately countries have to repurchase (i.e. reimburse) the whole amount of the funds borrowed along with the applicable interest rates or surcharges. **This highlights, again, the need for TRA and the AFT initiative to concentrate not only on short-term measures, but also to provide an avenue for a credible long-term partnership.**

In general, the TIM and the AFT are at best thinly related. As mentioned above, the point of intersection is trade-related adjustment costs. However, the scope of trade-related

⁸³ 'IMF Completes Second Review Under Bangladesh's PRGF Arrangement and Approves Activation of the Trade Integration Mechanism' IMF Press Release 04/161, July 2004, available at <http://www.imf.org/external/np/sec/pr/2004/pr04161.htm>.

adjustment costs under the TIM is only a subset of that under the AFT initiative. The IMF itself is mindful that the TIM increase IMF finance only modestly. The basic source of contradiction between the AFT and TIM initiatives is that the AFT is expected to be predominantly financed by aid and supported by concessionary loans while the TIM is a debt-creating initiative. While other facilities and work of the IMF assist members in managing the effects of domestic reforms associated with Doha Round commitments, as well as those undertaken unilaterally, the existing IMF facilities are not crafted with a view to facilitating access, simplifying conditions or to increasing amounts available.

The narrow focus of the TIM on circumscribed cases of BoP shortfalls and the inherent contradiction with the variety of complex situations in which developing countries may have found themselves after signing trade commitments further highlight the importance of coordination among TRA schemes and an assessment of the coverage of existing schemes. Short of a clear definition and coverage of AFT, developing countries may find it very difficult to draw donors' attention (and funds) towards the specific needs they may face.

4. TIM spending: debt, but with guaranteed timeliness

Once approved, a loan under the TIM (baseline feature) is additional to its underlying IMF lending facility and is disbursed along with it. Adherence to the agreed arrangements, including those specific to the TIM, is also reviewed together with the underlying facility. Furthermore, through the deviation feature, countries have the assurance that, if actual financial needs to cover BoP shortfalls are greater than originally foreseen, a rapid, simplified procedure can be put in motion, even outside of review cycles, for the disbursement of additional funds.

A particularly positive aspect of the TIM is the fact that funds are predictable, available and channelled in a timely manner. Notwithstanding the nature of the funds (debt-creating) and the conditions attached to them, there is no doubt that **once funds are approved, they will be delivered at agreed instalments.** Moreover, the IMF institutional structure and its experience in delivering aid means that those funds are more likely to reach recipients in a timely and efficient manner. **This is a significant departure from many other TRA delivery schemes, in which the process to access funds is bureaucratic and often long, and even when completed, funds either fail to be quickly transferred or turn out not to be available at all.**

The deviation feature, as the donor's readiness to consider additional aid, makes a particularly powerful contribution towards enhancing the credibility of the mechanism and guaranteeing the commitment of the donor to a cause. However, such readiness unsurprisingly requires a greater commitment from the recipient country:

"Most Directors concurred with the inclusion in the TIM of a deviation feature to assure a member from the outset of the Fund's readiness to consider a future augmentation in access should the balance of payments effect of the trade event turn out to be even larger than initially foreseen. Directors acknowledged the difficulties in disentangling the different contemporaneous causes of a shortfall and making a precise estimate of the deviation from the baseline. Most Directors therefore saw merit in a simple and streamlined procedure for granting augmented access under the deviation feature upon the determination that the member's adjustment program remains broadly on track and the additional financing is justified by unanticipated balance of payments difficulties of the type that the TIM is designed to address."⁸⁴

⁸⁴ Press Release No. 04/73 of April 2004, available at <http://www.imf.org/external/np/sec/pr/2004/pr0473.htm>.

Moreover, the amount of funds available under the TIM, while limited to a country's own maximum borrowing ceilings in the IMF,⁸⁵ is linked to the size of the expected adjustment cost that a country is likely to experience, as determined by a quantitative assessment of needs arrived at collaboratively by an IMF mission and the beneficiary government. It is true that the imbalance in bargaining power and technical capacity between the IMF and poor developing countries may detrimentally affect the latter in such collaborations. Nonetheless, the approach of jointly assessing needs and matching such needs with funds, however self-evident, remains a challenge in the AFT context.

The debt-generating pattern of IMF support is clearly the downside of the TIM. The access policies for the AFT initiative should not lead to greater indebtedness in the recipient countries. It is therefore important that much of the support under the initiative be in the form of grants rather than loans. Loans under the AFT initiative, albeit concessionary, should also have a sufficient repayment period, designed in such a manner that the repayments, when undertaken, do not result in economic strain in the borrowing countries.

Moreover, TIM funds cannot be allocated to any type of expenditure. Like all other IMF funding, they are meant to strengthen the international reserves of countries with a view to protecting countries' balance of payments. Disbursements are made directly to ministries of finance or central banks, with a very specific intent. Such specific allocation could somewhat reduce ownership or an active utilisation of funds. However, the specific allocation of funds is one where the interests of the demand-side and the supply-side do not meet.

⁸⁵ A country's maximum borrowing from the IMF, its 'access limit', depends on the type of loan being sought but is generally tied to a country's IMF quota, that is, its maximum financial contribution to the IMF and its voting power.

CONCLUSIONS

This study identifies lessons on how to operationalise the delivery of AFT and points to some best practices towards increased aid effectiveness. The experience of the three different approaches and TRA facilities analysed, namely the EDF, the IF and the TIM can be summarised in the following twenty general lessons. Several of the lessons cut across the three schemes described, suggesting that some of the lessons lie at the heart of the effectiveness of trade-related aid delivery.

These lessons coincide in part with the recommendations prepared by the WTO AFT Task Force and the EIF Task Force. More than a simple coincidence, the commonalities enhance the legitimacy of the elements identified and highlight the importance of rendering these elements fully operational.

While many best practices and principles could be drawn from the TRA schemes described in this study, those below are the ones deemed particularly relevant.

Underlying principles

1. **AFT should be based on a partnership approach whereby the parties choose aid and trade as instruments to achieve common objectives, with aid not considered donor compensation (or conditionality) for trade liberalisation by the recipient country.** For trade and aid to work together in delivering on development goals there has to be a shared vision that trade growth and development cooperation should accompany one another to make a vital contribution to poverty reduction.
2. **AFT should be aligned to the trade priorities endogenously set by developing countries and rooted within their overall national development plans** (e.g. PRSPs). Mainstreaming trade into national development strategies is a prerequisite for a holistic and integrated approach to TRA and AFT efficiency, but it cannot be forced upon developing countries. Trade should be seen as a major complement to other endogenously designed tools in a poverty-reduction strategy. The broader macroeconomic, productive and social environment has to be taken into account during the programming of AFT interventions.
3. **Any AFT initiative should concretely reflect full ownership of the interventions by all relevant stakeholders in the beneficiary countries.** Together with alignment to national development strategies, the effective and broad participation of recipients in the programming and implementation process is essential to increase ownership and credibility of AFT programmes and avoid the perception that the initiative is agency-led rather than a country-led process.
4. **Capacity building in the context of AFT should include both long-term and short-term interventions with a focus on participation and endogenous change.** Full ownership can be achieved only through the long-term commitment by donor and recipient countries to progressively and consistently build the capacity of the various actors involved in AFT to design, manage and monitor the AFT process. AFT is likely to address systemic reforms of trade policy and institutions, and trade-related capacity should be strengthened and tailored towards full participation. This will also involve the endogenous development of 'soft' capabilities, such as organisational and networking skills, and not only the short-term horizon-building of 'hard' capabilities (e.g. technical skills and trade knowledge).

Improving demand and supply of AFT during design phases

5. **Multi-stakeholder involvement towards a large consensus around the projects to be implemented, with an adequate balance between inclusiveness and efficiency, can boost the credibility of the AFT initiative.** Involving various ministries (of trade, finance and others), private-sector organisations and other non-state actors in the AFT decision-making process will help ensure country ownership and will match intentions and reality, expectations and results. However, while a participatory governance structure ensures greater coordination and dialogue, involvement of several actors at several levels could create confusion regarding lines of responsibility, make monitoring more complex and compromise accountability. Consequently, AFT initiatives will need to make trade-offs between a multi-layered and a more concentrated structure to balance inclusiveness and efficiency.
6. **AFT objectives must match existing delivery instruments and actually available resources, and donors should avoid re-labelling existing aid and raising unrealistic expectations.** The extent to which the AFT initiative is perceived as delivering on its promises is key to its success. Too ambitious objectives will generate expectations that cannot be met and create the perception that AFT is ineffective. Thus, a distinction between the initiatives' broader vision and operational objectives, and clarity on actual timeframes for delivery, might be necessary to set up realistic, quantifiable objectives and strengthen the credibility of AFT. Classification and reporting methodologies for AFT should be clarified in detail in the early stages of programming assistance, to avoid confusion on the exact scope and amounts and re-labelling of existing aid.
7. **The recognition that trade can make a vital contribution to development should be matched by the broad scope of AFT programmes and donors' policy decision to support trade reforms in developing countries with substantial levels of predictable funding.** The scope of AFT should cover all the factors underlying countries' ability to use trade efficiently as a tool for development (support for trade policy and regulations, trade development, trade-related infrastructure, building productive capacity, trade-related adjustment). AFT volumes should increase together with overall ODA to avoid shifting in-country priorities and creating competition between different development cooperation areas.
8. **The broader the scope of interventions the more important the proper articulation, definition, timing and reporting of AFT initiatives will be.** To be effective, all AFT activities for a single country should be designed in a holistic manner and under a coherent framework. Programmes should be broad enough in terms of scope but should retain focus and set clear priorities for each area of intervention. Focus and prioritisation of AFT activities per country and sector might be necessary due to low absorption capacity of recipients and limited financial resources. Decisions on actual targets and timing for delivery might cause resentments if they are not transparent and do not follow clear criteria.
9. **AFT interventions should integrate regional priorities without losing focus on national-level interventions.** Regional stakeholders (regional development banks, regional economic cooperation communities and other cross-border secretariats) should be involved in decision making and designing of regional programmes. Integration of regional programmes will be crucial, since one of the working objectives of the AFT initiative is to 'assist regional integration'. The existence of regional and national AFT programmes will require complementarity and sound coordination between programmes at the two levels.
10. **AFT country and regional interventions should be designed through thorough diagnostic analyses.** The need for a rationale underlying each AFT intervention requires a comprehensive analysis of national and regional circumstances and needs. It will thus be necessary during the AFT programming exercise to allocate

specific funds to needs assessment and project design. Properly detailed analysis will also distinguish national and regional needs and strengthen the linkages and complementarity between the regional and country levels of interventions.

Improving the management and delivery of AFT

- 11. Given the possibly large amounts to be disbursed and numbers of donors, beneficiaries and projects, AFT should be subject to regular evaluation and improvement through formal monitoring and review processes.** A strong monitoring function built into governance structures for AFT would be essential to track progress, ensure the availability and timely channelling of predictable funds and to guarantee efficient use of resources. The needs and performance parameters informing the monitoring and review of AFT programmes should be jointly identified by recipients and donors
- 12. A solid institutional architecture is fundamentally important, especially with regard to the wide scope of activities carried out under the AFT initiative.** However, the institutional setting for the design and implementation of AFT programmes should not be too complex. An efficient structure that is simple to access and monitor is important in the AFT context.
- 13. Several different types of stakeholders need to be closely involved in the programming, delivery and evaluation of AFT.** This includes stakeholders active at the global, regional, national and local levels and both governmental and nongovernmental representatives.
- 14. Country-level and sub-regional-level management plays as important a role as global-level governing bodies.** In the context of possible multilateral and regional AFT management structures (such as regional development banks or a possible coordinating body under the WTO or international financial institutions), country-level and sub-regional-level bodies will foster country leadership and ownership, strengthen accountability and create local checks and balances.
- 15. With regard to the multi-actor and multi-level dimension of the AFT initiative, effective coordination has to be ensured.** This coordination will be crucial at and between the global, regional and national levels, involving all relevant stakeholders, including the private sector. Emphasis should also be put on effective coordination within the donor community, beyond solely the exchange of information.
- 16. Complementarity and coherence of AFT interventions should be guaranteed through joint programming, and each donor's role needs to be defined on the basis of expertise and comparative advantages.** Given the correlation between the choice of sectors and aid instruments, the donor's expertise in a given area and the performance of beneficiary countries, donors' capacity and specific competencies should be reviewed while designing new AFT packages or evaluating their progress. A donor should be able to delegate responsibility for carrying out its aid programme in a particular area to another donor that is better placed to do so. Joint programming and joint financial agreements favouring the harmonisation of procedures are relevant steps in this direction.
- 17. AFT resources must be commensurate with objectives and made predictable as well as available in a timely and effective fashion.** Funds availability in a predictable and easily accessible manner will constitute one of the most difficult aspects of the new AFT initiative. A particularly positive aspect making some of the existing AFT schemes successful is the fact that funds are predictable, available and channelled in a timely way. The final three lessons are suggestions for aid modalities and procedures that could allow for relatively timely and efficient access to AFT resources.

- 18. Support under the AFT initiative should not lead to indebtedness of the recipient countries.** A lesson drawn from existing AFT schemes is that support should take the form of grants rather than loans. Any loans under the AFT initiative, albeit concessional, should have a sufficient repayment period designed in such a manner that repayments, when undertaken, do not cause economic strain for the borrowing countries.
- 19. Modalities for AFT disbursement must be flexible and user-friendly to ensure the timely and effective delivery of aid.** Inefficient and ineffective administrative processes stand in the way of timely delivery of support even where the level and scope of aid are appropriate. Capacity to act quickly and flexibly will increase the impact of money spent under the AFT initiative. The **use of budget support and locally owned management procedures** (such as partner countries' procurement systems) as aid modalities for AFT would allow for quicker access to resources and facilitate ownership, as well as more predictable but flexible programming.
- 20. Adequate procedures for the timely and efficient delivery of AFT may require improvements on both the donor and recipient side.** AFT management procedures should not be too focused on accountability to the donor's administration, but primarily facilitate the achievement of the policy objectives. On the donor side, devolution of aid programming and implementation from headquarters to the in-country level is crucial. This includes increasing regular communication between donor headquarters, donor field missions and operational colleagues and systematic involvement of field staff in decision-making. In addition, reporting and auditing requirements should be simplified and procedures should allow for recruitment of local staff. On the recipient side, governments should strengthen local institutions and aid-management frameworks for transparency and financial accountability, and take the lead in enhancing communication with donors, implementing agencies and stakeholders. Moreover, beneficiaries should clearly define responsibilities, decision-making authority, and task divisions among the actors involved in managing AFT.

A number of fundamental questions will need to be answered before implementation of any assistance under the AFT umbrella. Firstly, it remains to be determined whether the AFT initiative will constitute a source of funding or whether it will function as a mechanism coordinating access to funding, without having any funds of its own. Furthermore, there could be very significant variations in the amount of aid available depending on how AFT programmes are defined and classified. Discussions are still ongoing regarding the extent to which AFT commitments will be additional to current spending and which categories of existing aid can be classified as AFT. Even assuming that additional resources are available, these will of course not be endless and they will definitely not be available at the same time. There will, hence, have to be some prioritisation of interventions or prioritisation of countries and sectors. These kinds of choices will make an enormous difference in the actual operationalisation of AFT, determining even its architecture and functioning, and will hence influence the validity of the lessons elaborated in this study.

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Annex

Example of activities represented under the Action Plans of some LDCs that have gone through the IF process ⁸⁶

Composite Action Matrix		Primary Responsible Agencies
1	Macroeconomic environment: Increase macroeconomic stability	
a	Enhance government revenues and decrease dependency on import duties by implementing a value-added tax (VAT)	Ministry of Finance
b	Improve government efficiency through a public finance reform programme	Ministry of Finance
c	Mitigate currency volatility through a foreign exchange reform programme	Ministry of Finance / Central Bank
2	Trade policy: Develop trade policy and trade administration capacity	
a	Improve policy coordination by institutionalising an inter-ministerial coordination committee and public-private consultative procedures	Ministry of Trade / Finance / Sectoral Ministries / Private Sector
b	Build capacity toward greater WTO compliance and a more efficient trading system through institutional capacity-building and legal and regulatory reform	Ministry of Finance / Trade / Customs Agency
c	Increase trade liberalisation through tariff reform and administration of uniform low duties	Ministry of Finance / Trade / Customs Agency
3	Trade facilitation: Enhance the efficient management of import/export procedures and operations	
a	Reorganise customs agency to improve administrative efficiency, improve import/export procedures and address other key issues such as corruption	Ministry of Finance / Customs Agency
b	Institute comprehensive border-agency reform at targeted border crossings to improve administrative efficiency for all border crossing procedures (e.g., customs, law enforcement, health, agriculture)	Ministry of Finance / Customs Agency
c	Improve physical infrastructure of border crossings to create greater efficiency in movement of goods and people	Ministry of Finance / Customs Agency
4	Investment facilitation: Improve investment climate	
a	Create or improve the primary investment strategy institution	Investment Promotion Agency / Ministry of Finance / Trade
b	Strengthen commercial legal environment through revision of key laws and regulations and improvement of regulatory institutions	Ministry of Justice / Court System
c	Create 'one-stop shop' for company registration and other procedures to promote foreign and domestic investment	Ministry of Justice / Ministry of Trade
5	Business facilitation: Improve business climate	
a	Strengthen private-sector associations, including capacity for member services and public policy advocacy	Private Sector

⁸⁶ Appendix 3 of USAid, 2005.

b	Develop land reform/land use rights programme to increase access to credit and facilitate business environment generally	Ministry of Justice / Finance
c	Implement competition policy reform, including creation of competition institution	Ministry of Justice / Trade / Finance
d	Create or improve commercial adjudicative infrastructure (e.g., courts, arbitration centres)	Ministry of Justice / Private Sector
6	Export facilitation: Develop export promotion capacity	
a	Create or improve export promotion institution	Export Promotion Agency / Ministry of Trade / Finance
b	Develop or improve targeted export promotion services, such as export trade information system for exporting community	Export Promotion Agency / Ministry of Trade
7	Standards compliance: Help industry meet international standards	
a	Promote understanding and implementation of SPS standards to improve export market development opportunities	National Standards Organisation / Sectoral Ministries
b	Improve understanding and implementation of issues related to Technical Barriers to Trade (TBT) along with quality standards (e.g. ISO)	National Standards Organisation / Sectoral Ministries / Private Sector
8	Sector improvements: Develop targeted economic sectors	
a	Services: Tourism, financial services, health care, telecommunications	Sectoral Ministries
b	Agriculture: Cotton, livestock, fisheries, horticultural, coffee/tea, tobacco, grains	Sectoral Ministries
c	Manufacturing: Textiles/apparel, handicrafts, light manufacturing, woodworking	Sectoral Ministries
9	Infrastructure: Develop key infrastructure service sectors and/or infrastructure points to reduce input costs	
a	Develop transportation and logistics services through regulatory reform or private-sector development support (e.g. express courier, port operations, shipping lines, air transport, trucking)	Ministry of Transportation / Trade
b	Improve access to competitively-priced telecommunications services through regulatory or private-sector development support	Ministry of Post and Telecommunications / Telecom Regulatory Authority
c	Increase access to competitively priced energy through an energy reform programme	Ministry of Energy / Trade
d	Improve, build and maintain key infrastructure components (e.g., ports, airports, rail system, road system)	Ministry of Transportation / Public Works
10	Social programmes: Improve social safety net	
a	Provide trade adjustment assistance for affected sectors (e.g., food security, agriculture labour adjustment)	Ministry of Labour / Finance / Sectoral Ministries
b	Implement or reform labour code and regulations	Ministry of Labour

Note: This action matrix is a composite based on the fifteen completed IF action matrices to date. It was created for the purpose of the simulation. Accordingly, this action matrix represents ten overall categories that are generally found in IF action matrices. Accompanying these categories are sample projects that support these overall categories and represent the priorities that LDC set in implementing the action matrices. The matrix may be useful to donors, agencies and LDCs (government and private sector) in forecasting some of the areas that will need work so that they can cooperate in the process as early as possible.

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