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Integrated Framework for Trade Related Assistance

What is its role in tackling poverty?

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The supply-side constraints that are hampering the efforts of the poor countries to respond to new trading opportunities are getting increased attention in Poverty Reduction Strategy Papers (PRSPs) and the World Trade Organisation (WTO) Aid for Trade agenda. One of the facilities that is being utilised by the least developed countries (LDCs) to identify trade capacity building priorities is the donor funded multi agency Integrated Framework (IF) for Trade Related Technical Assistance (TRTA). This facility is being manoeuvred to play a crucial role in integrating trade into PRSPs and guiding the Aid for Trade process.

However, since its launch in 1997, IF has faced a range of entrenched problems, including limited ownership by LDCs and weak management. This policy brief examines the neglect and constraints in trade capacity building in the poor countries and analyses the IF process, including its weaknesses and ongoing reforms followed by specific recommendations.

Trade capacity constraints in the poor countries

The mixed experiences of many developing countries in response to trade liberalisation over the last two decades has spawned a lively and often fractious debate as to the wisdom of orthodox approaches to trade reform, which emphasises trade liberalisation as the predominant vehicle for stimulating trade expansion. It has been argued that a range of institutional, economic and structural supply-side constraints are creating obstacles to trade expansion in the poor countries and limiting the efforts of economic agents to take advantage of the opportunities provided by private trading and improved market access.

The supply-side constraints facing developing countries are numerous, but the most common and significant are often quoted as: transport infrastructure weaknesses (including roads, railways, ports and aviation facilities); power and telecommunications infrastructure weaknesses; human resource and skills shortages; technological deficiencies; weak financial sectors and a shortage of credit; weak property rights; ineffective and harmful regulation; inefficient customs facilities and procedures; and weak trade related institutions.

Table 1: Infrastructure Indicators for African Asian and Island LDCs

	Year	African LDCs	Asian LDCs	Island LDCs
Telephone mainlines per 1000 people	2003	9.0	13.4	61.2
Electrification rate (%)	2002	14.2	21.3	-
Paved roads as % of total	1999	15.5	26.7	48.5
Internet price as % of GN	2003	355	130	132
% of energy from traditional sources	2002	78.5	68.0	-

Source: UNCTAD LDC report 2006, chapter 5

Neglect of trade capacity building

One of the reasons why developing country policy-makers and development agencies have begun to press for greater attention to tackling supply-side constraints is the fact that this has been neglected by the developing country governments and the donor community.

Since early 1980s, many developing countries have been encouraged to reduce government spending to improve public finances, and to distance themselves from getting involved in private trading. These reforms have been accompanied by a trend of falling investment on economic infrastructure, as can be illustrated by the estimated fall in the proportion of gross domestic product (GDP) between 1980 and 1998, from six to four percent in Africa; from 12 to five in Asia; and from 11 percent to six percent in Latin America. In the poor countries, this trend has been even more marked, with five of the 13 LDCs having spent less than one percent of GDP on economic infrastructure in the second half of the 1990s, and seven having spent less than two percent.[1]

A similar trend has also been observed in official development assistance (ODA) spending over the last two decades, as donors have prioritised the provision of aid to fund social sector investment over infrastructure. Between 1992 and 2003, aid for social infrastructure and services in the LDCs increased by 14.6 percent per annum in nominal terms, whilst aid for economic infrastructure increased by a mere three percent over the whole period. In real terms, in 2003, aid for infrastructure was 51 percent lower than that in 1992.[2]

In response to the importance of developing economic infrastructure in the poor countries, governments and donors are attempting to re-emphasise such investments. In order to mobilise and direct investment, developing country

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Table 2: Trade Content in First Generation PRSPs of Select African Countries							
Country	Burkino Faso	Ethiopia	Malawi	Mozambique	Rwanda	Tanzania	Uganda
Identifiable section in PRSP relating to trade?	No	Yes	Yes	Yes	No	No	No
Does the analysis on trade relate back to the poverty analysis?	No	No	No	Yes	No	Yes	No
Does the PRSP discuss trade policy options explicitly	Yes	Yes	Yes	Yes	Yes	Yes	No
Source: A review of the trade and poverty content in PRSPs and loan-related documents, ODI, 2003							

and the need for DTISs/action matrices to play a lead role in integrating trade into the PRSPs.

In response to demands by developing countries for the Doha Round to mobilise greater trade related assistance to governments and donors have been working together to diagnose supply-side constraints and to incorporate interventions to tackle them into national development plans. This has included an emphasis on the need to expand the focus of PRSPs. In addition, developing countries have also been using their engagement with international fora such as the UN and the WTO to mobilise increased donor support to invest in trade capacity. At the UN Millennium Summit and later at the Monterrey Conference developing countries made a plea for increased aid to tackle the full array of development constraints.

The IF for TRTA to LDCs

One of the most significant multilateral facilities currently being used by developing countries and donors to identify trade-related assistance priorities is the IF for TRTA to LDCs. This facility was established by the major multilateral agencies working on TRTA, such as International Monetary Fund (IMF), International Trade Centre (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Progamme (UNDP), World Bank and WTO in 1997 to assist LDCs in integrating into the global economy. The IF aims to deliver TRTA to participating LDCs through the following three phases:

- **Preparatory phase:** Includes an official request from the country to participate in the IF process; a technical review of the request; the establishment of the National IF steering committee; and the identification of a lead donor.
- **Diagnostic phase:** It results into the elaboration of Diagnostic Trade Integration Study (DTIS), which is supposed to be a comprehensive assessment of the trade policy and trading environment.
- **Follow-up phase:** Consists of the translation of diagnostic phase's findings into the elaboration and validation of an action plan, which serves as basis for TRTA delivery.

Expanded mandate of the IF

Although originally charged with the mandate of improving the coordination and effectiveness of TRTA delivery of the six funding agencies, the mandate of the IF has expanded both conceptually and practically since its establishment in 1997. Following the initial phase of its operation a 2000 evaluation[3] of the IF concluded that the technical assistance provided was ineffective, due to weak governance structure. The evaluation also concluded that needs assessments had attracted little attention from LDC governments and donors.

In response, IF was revamped in 2001, with the new priorities emphasised by the managing agencies being an expanded focus on the constraints faced in external markets

support trade development, WTO members endorsed the establishment of Task Forces on IF and Aid for Trade to explore how such assistance could be improved. The IF Task Force recommended that an Enhanced IF be established with improved procedures and increased volumes of finance. The Aid for Trade Task Force recommended that *"the recommendations on an enhanced IF…will be an essential foundation for strengthening the demand-side of Aid for Trade in LDCs"*. The Enhanced IF is, therefore, being manoeuvred to play a leading role in the PRSP process and in mobilising Aid for Trade to finance priority support areas for LDCs. Moreover, it will play an increasingly influential role in guiding the response of the international community to trade development in the poor countries.

Ongoing weaknesses of the IF

The most recent evaluation[4] of IF was undertaken in 2004 and highlighted a wide range of weaknesses including

- **Lack of ownership:** As IF has been perceived as donor driven, in-country stakeholders (including ministries, private sector and civil society) have faced political and capacity constraints and outcomes have only been mainstreamed into policy-making processes (e.g. PRSP, national development plans).
- **Poor management:** LDCs, donors and the establishing agencies have found it difficult to mobilise the human resources and expertise to effectively manage the facility and there has been poor coordination and unclear mandates for the agencies involved.
- **Lack of finance:** Diagnostic studies have now been done for over 20 countries each of which has only received US$4mn for implementation. Donors have been slow to commit resources to the IF.
- **Scope of facility:** Until now, IF has dealt with quite a narrow range of TRTA needs limiting its ability to contribute to wider trade related needs.

In addition, existing DTISs and Action Matrices exhibit a common approach which includes the following elements:

- ➢ A predominant focus on export sectors, with little (if any) focus on the domestic sector. This is most pronounced for agriculture, where cash crops receive significant attention but food crops receive almost none.
- ➢ Limited focus on industrial development, with a focus on developing primary production and basic processing prioritised (especially horticulture and floriculture) justified by theories of static comparative advantage. This is even the case in countries where (proto) industry provides many jobs and is increasingly gaining new (mainly regional markets), e.g. Tanzania and Uganda.

- ➢ Privatisation proposed in agriculture (and other sectors), with ongoing difficulties faced by agricultural sectors blamed on state involvement and such reforms proposed without any discussion of alternative options and limited focus on interventions to promote farmer empowerment.
- ➢ Technocratic approach to trade, with the main emphasis being on improving the business climate in the formal sector (through improving regulations, customs facilities, trade support institutions etc) and neglect of analysis on informal sector needs.
- ➢ Poorly integrated and narrow response to poverty, with a section on trade and poverty included separately from analysis on sectoral and cross cutting issues and economic growth, improved market access and getting prices right presented as the predominant channel for linking trade and poverty.[5]

Although some of these policy approaches are important for LDCs to consider, the concern is that they are presented in DTISs/Action Matrices with little qualifying analysis and no alternative approaches. This leads many to conclude that the IF is simply another way for donors to continue pushing and neo-liberal trade agenda under the guise of trade capacity building.[6] The conceptual and policy approach taken by the DTIS's and Action Matrices is to some degree a legacy of the IF's original mandate which was to support LDCs to achieve WTO compliance and integrate into the global economy through export development.

The character of the IF outputs to date is also to some degree a function of the World Bank's ongoing dominance of the process and the influence of its approach to trade reform. The World Bank is commonly perceived as having the most significant in-country capacity and expertise on trade. It has, therefore, taken a lead in managing the DTIS process and is heavily involved in all aspects, including: assessing applicants; developing terms of reference for studies; providing consultants for the studies; and reviewing and validating the final studies. Its in-country resource and expertise advantage has allowed it to dominate the IF process with the role of agencies such UNDP being reduced to "no more than a trifle".[7]

Ongoing review and reform of the IF

In response to these challenges further efforts have been made and of most relevance is the work of the WTO-mandated *IF Task Force* which led by Ambassador Don Stephenson (Canada) who reviewed the operation of the IF and made recommendations for improving its effectiveness. The *IF Task Force* and its successor the *IF Transition Team* have recommended that an Enhanced-IF be established that would include the following elements:

- National Implementation Unit (NIU): Each IF country would establish a NIU to bring together donors and recipients to support IF implementation (with human and physical resources) and receive money for implementation. The NIU would be managed by a High Level Ministerial committee.
- Independent Trust Fund: This will sit in the WTO (and receive administrative support) but be entirely independent. The Trust Fund will be managed by the IF Board consisting of three LDCs, three donors, with establishing agencies as observers.
- Finance: It has been recommended that IF should be provided with US$400mn over the next five years, i.e. 80 percent of this for capacity building, 17 percent for DTISs and three percent for the IF Secretariat.
- Role of IF agencies: Participating countries can choose their preferred agency to take a lead in engaging them in the process (previously the agencies were chosen for them), so that they can choose those which best respond to their needs.
- Scope of facility: In order to respond to the Aid for Trade Agenda, IF will expand its focus to include a wide range of trade related assistance needs, including infrastructure.

Elements such as the NIUs and the freedom of IF partners to choose the agencies with which to engage are designed to support LDCs in gaining ownership of the IF process and reducing the influence of individual donors/agencies. The Enhanced-IF package was approved by the IF Board in May 2006, and discussions are going on how to put this into operation. A major donor meeting is planned for September 25, 2007, which will be used to mobilise the support required to fund the Enhanced-IF. The UK Government, a long time backer of the IF process has already pledged to fund 20 percent of its total budget, equivalent to up to US$80mn if Enhanced-IF's budget is fully funded.

Box 1: DTIS Framework Used by World Bank

Overall trade issues
- Macroeconomic environment
- Structure and pattern of trade and investment
- Trade policy and institutions
- Trade agreements and market access
- WTO accession if applicable
- Trade and poverty

Cross-cutting issues
- Business environment and institutional framework for trade and investment
- Trade facilitation
- Standards

Sectoral studies
- Review of sectors and sub-sectors, including production levels, constraints faced, scope for increased production, prospects for poverty reduction, proposals to tackle constraints

Significant remaining challenges

Despite the bold and quite progressive vision of the *IF Task Force* and *Transition Teams*, a number of questions remain unanswered *vis-à-vis* the recommendations and issues that have not been addressed by the IF review process. These issues have major significance in facilitating the operation of IF they need to be urgently addressed.

1) ***How to ensure that LDC's take advantage of the new flexibilities and innovations of the Enhanced-IF?***
There certainly appear to be new spaces for LDCs to assert their ownership of the IF process. However, it should not be assumed that these spaces will be taken advantage of, due to limited knowledge amongst in-country stakeholders about the IF process, in-country capacity constraints and the continuing dominance of the World Bank to work.

Table 3: Task Force Funding Recommendations for Diagnostic Activities					
	Per LDC			No. of LDCs	Total cost
	$	No.	$		$
Pre-DTIS support	50,000	1	50,000	20	1,000,000
DTIS	400,000	1	400,000	20	8,000,000
Support to focal point	300,000	5	1,500,000	40	60,000,000
DTIS updates	100,000	2	200,000	40	8,000,000
Total					77,000,000
Source: Recommendations of IF Task Force					

2) ***How to create spaces within the IF process for non-state actors (including private sector and civil society) to play a significant role?***
To date there has been incredibly little engagement with non-state actors (NSAs) such as the private sector and civil society groups with the IF process. This is due to the often short period allotted to IF missions, poor transparency of the process and lack of political will amongst donors and recipient governments. This threatens to leave the IF process disengaged from economic and social realities faced by people and poses the question as to what needs to be done to create and maintain these spaces.

3) ***How to effectively integrate a trade-poverty perspective into the diagnostic studies and the follow-up phase?***
The assessment of IF outputs presented in this paper suggests that the analysis and action plans produced are not sufficiently linked to analysis of poverty and broader development assistance and poverty reduction programmes. This poses some significant questions about how such analysis and integrated trade-poverty action plans can be developed.

4) ***How donors will utilise their engagement with the Enhanced-IF to encourage the managing agencies to create a more open debate on trade policy and development in LDCs?***
The international agencies managing the IF are funded by donors and are supposed to respond to an agenda defined by them. The World Bank (and others) will only take alternative approaches to trade capacity building if donor agencies are prepared to invest political capital in ensuring that processes such as the IF are suitably transparent, open and participatory. This poses some significant questions about how bilateral donors should engage with the IF process and monitor its functioning.

Recommendations

With many administrative, operational and institutional matters of the Enhanced-IF settled, there is now an opportunity to address these fundamental questions and to encourage those leading the IF process to consider them fully. It is also important that stakeholders from across the development community take the opportunity to feed into this debate which is taking place at a crucial point in the IF's development. Below are a number of general recommendations in response to the questions posed above:

1 Taking advantage of new spaces: It is important for IF agencies and partners to take pro-active measures to ensure that the obstacles to improved ownership are dealt with through information dissemination, long term management at the country level and an improved emphasis on the role of a wider range of agencies.

2 Ensuring active participation: It is important that the IF process includes pro-active consultation with NSAs as standard (rather than the exception) and that engagement with these groups is prioritised at all stages of the process, including developing Terms of References (ToRs), choosing agencies, research and validation etc. Longer missions and consultation periods could also play an important role here.

3 Supporting NSAs to engage: It is important for the IF agencies, partners and recipient governments to play a pro-active role in disseminating accessible information to NSAs about the IF process and that they provide support to a wide range of stakeholder groups to play an active role in IF activities.

4 Linking trade and poverty is a challenge which is not distinctly unlike the challenge that faced (and still faces) policy-makers in the PRSPs process. The significant (and ongoing) investment by donors and recipient countries in improving poverty related analysis to feed into the PRS should be indicative of the long term investment. This effort needs to take place across the international community and involve multi-disciplinary approaches and an open debate. DTISs and Action Matrices should also remain open to being reviewed and revised, like PRSPs.

5 Opening donor debate whereby donors should play an active role in ensuring that Enhanced-IF is implemented in a transparent, open and participatory fashion so that LDCs can explore the full range of strategies.

Endnotes

1 UNCTAD LDC Report, 2006, chapter 5C
2 *Ibid*
3 "Review of the Integrated Framework for Technical Assistance for Trade Development of LDCs", OED, World Bank, 2000
4 "An independent evaluation of the Integrated Framework for Trade Related Technical Assistance", IEG, World Bank, 2004
5 These conclusions are echoed by reviews of other TRTA programmes (both bilateral and multilateral), for example see "Trade-Related Assistance What Do Recent Evaluations Tell Us?", OECD, 2007
6 "Cornering the market: The World Bank and trade capacity building", Bretton Woods Project, 2002
7 *Ibid*

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