

Note by the WTO Secretariat

AID FOR TRADE REGIONAL REVIEWS

**THE INTEGRATED FRAMEWORK FOR LEAST DEVELOPED COUNTRIES (LDCs):
HOW DOES IT FIT INTO AID FOR TRADE ?**

I. INTRODUCTION

1. This paper describes the nexus between the Integrated Framework and Aid for Trade. It shows why for LDCs the IF is the concrete process available to recipients and donors alike to operationalize Aid for Trade. While the IF is applicable to LDCs only and Aid for Trade to all developing countries, non-LDCs may wish to consider establishing a process inspired by the IF to operationalize Aid for Trade. The paper shows that the IF and Aid for Trade, while distinct, are not two competing processes existing in parallel. Rather, given the IF's objectives and how it functions, the IF embodies for LDCs what the Aid for Trade Initiative seeks to achieve and provides the platform enabling LDCs and donors to match up the demand and supply-side, over and above the small amounts available in the IF Trust Fund. The IF has been called the key pillar in the much larger Aid for Trade edifice. However, for this to be successful, it is key that the donor community play its part and translate the commitment to Aid for Trade into sufficient funds being available on the supply-side to match the demand-side identified under the IF process.

2. The IF is a process that was first established in 1997 to support LDC governments in trade capacity building and integrating trade issues into overall national development strategies. Through the IF, the IMF, ITC, UNCTAD, UNDP, the World Bank and WTO combine their efforts with those of LDCs and their other development partners to respond to the trade development needs of LDCs so that they can become full and active players and beneficiaries of the multilateral trading system. Experience with the IF so far shows that those trade development needs cover a wide area, ranging from increasing macroeconomic stability, developing trade policy and trade administration capacity, enhancing efficient management of import/export procedures to supply-side constraints, meeting international standards, developing infrastructure, developing export promotion capacity and developing targeted economic sectors. The IF's objectives and concepts have been branded as sound in a number of evaluations. The IF process puts into practice the Paris Principles on Aid Effectiveness. It is in the process of being enhanced, with the enhanced IF consolidating stronger LDC ownership and increased coordination among and commitments from donors who will be key in the EIF partnership, both locally and in their capitals. At the Hong Kong Ministerial Conference, WTO Ministers reiterated their endorsement of the IF as a viable instrument for LDCs' trade development, building on its principles of country ownership and partnership.. Ministers in Hong Kong also welcomed the Task Force to enhance the IF. This Task Force is separate from the Aid for Trade Task Force.

II. THE INTEGRATED FRAMEWORK EXPLAINED

3. The Integrated Framework is an international initiative through which the IMF, ITC, UNCTAD, UNDP, the World Bank and WTO combine their efforts with those of LDCs and donors to respond to the trade-development needs of LDCs. The IF has two main objectives: to mainstream trade into national development plans, such as the PRSP, and to facilitate the coordinated delivery of trade-related assistance. This will assist LDCs in addressing their supply-side constraints and more in general in becoming full and active players and beneficiaries of the multilateral trading system. At this stage, 45 out of the 50 LDCs worldwide are in various stages of the IF process or have applied to join.

4. Following the recommendations by the Development Committee of the World Bank and the IMF at their meeting in September 2005, an IF Task Force was created at the WTO to provide recommendations to enhance the IF. The IF Task Force included representatives of LDCs and donors. It is distinct from the Task Force on Aid for Trade. Ministers at the WTO Hong Kong Ministerial Conference in December 2005 welcomed the establishment of this Task Force and also endorsed the three elements that would constitute an enhanced IF (EIF): (i) provide increased, predictable, and additional funding on a multi-year basis; (ii) strengthen the IF in-country, including through mainstreaming trade into national development plans and poverty reduction strategies; more effective follow-up to diagnostic trade integration studies (DTIS) and implementation of action matrices; and achieving greater and more effective coordination amongst donors and IF stakeholders, including beneficiaries; (iii) improve the IF decision-making and management structure to ensure an effective and timely delivery of the increased financial resources and programmes.

5. The work of the IF Task Force was concluded with the adoption of its recommendations in July 2006 by the IF management bodies: the Integrated Framework Working Group and Integrated Framework Steering Committee (document WT/IFSC/W/15 and Correction 1). Work is being finalized to operationalize these recommendations. Of the three legs constituting the EIF, namely increased in-country capacity, improved global governance and increased finance, the first two issues have been solved. Details can be found in the "Compendium", which is a compilation of working documents containing EIF procedures and TORs of the various EIF bodies. The Compendium was adopted by the IF governing bodies on 1 May 2007, which started the implementation phase of the EIF.¹ The last leg, financing, is the subject of the High Level Donor Pledging Conference for the EIF, to take place on 25 September 2007 in Stockholm. Work is also continuing in Geneva to recruit a Trust Fund Manager for the EIF (not at the WTO) as well the Executive Director for the EIF Secretariat. The EIF Secretariat, which will be administratively housed in the WTO and report to the IF Board on policy and program implementation issues and to the Director-General of the WTO on administrative issues, will ensure that the fundamental objectives of the IF are met. It shall, for example, respond to individual requests of LDCs for assistance in the IF process; assist LDCs in the post-DTIS phase, for example, in mainstreaming of trade and in identification of suitable expertise to formulate projects addressing DTIS and Action Matrix priorities; assist LDCs in the establishment of the national implementing arrangements and provide them with necessary training on the IF process; assist countries in following the required IF procedures to gain access to Tier 1 and Tier 2 funding and providing any advice necessary for these purposes. For the moment, and pending the establishment of the EIF Secretariat, WTO takes care of the secretariat of the IF. It has recently been reinforced through the addition of the Programme Implementation Unit (PIU) which includes three staff members which work exclusively on IF matters. Management of the IF Trust Fund will not be done by the EIF Secretariat but by an IF Trust Fund Manager. Once the Trust Fund Manager for the EIF will be selected and operational, the EIF will be fully up and running, and disbursements from the EIF Trust Fund will be made possible.

6. How does the IF work? The IF process goes through a number of steps ensuring country ownership, defining the demand side and subsequently bridging demand and response. It consists of four phases, namely: (1) awareness-building on the importance of trade for development; (2) preparation of a DTIS to identify constraints to traders, sectors of greatest export potential and a plan of action for better integration into the global trading system (the "Action Matrix"); (3) integration of the plan of action into the national development plan, such as the Poverty Reduction Strategy Paper (PRSP); and (4) implementation of the action plan in partnership with the development partners.

7. How is the IF funded? Funding of the trade priorities flowing from the diagnostic comes from two sources: the multilateral IF Trust Fund and resources mobilized by the country typically

¹ For more details, please see the IF website: www.integratedframework.org.

from bilateral/regional/multilateral donors. The IF Trust Fund has two windows². Under the EIF, these two windows are called Tier 1 and Tier 2.

8. Tier 1 will finance building the human resource capacity of the IF national implementation arrangements (NIAs); provide operational support to the NIAs, including some local running costs and equipment; prepare and/or update the LDCs' DTIS; and facilitate and support trade mainstreaming actions.

9. Tier 2 is aimed at providing bridging funding to jump-start project-related activities identified in the DTIS, its update, and its Action Matrix, such as small priority projects, project development activities, feasibility studies and seed projects.

10. However, the IF being designed as a partnership, funding comes primarily from the LDCs' development partners (bilateral/regional/multilateral) through their own aid programmes, as part of the overall response to national poverty reduction strategies, such as PRSPs. For example, for large programmes identified in the Action Matrix, such as infrastructure projects, financing would be sought from funding mechanisms such as the Consultative Group meetings and the Round Table meetings. Tier 2 projects should seek to leverage additional resources and contribute to ensure the overall coherence of TRTA interventions.

11. The IF process is not a stand-alone initiative that exists in parallel with other trade-related capacity-building initiatives. Rather, the IF is meant to provide the overarching platform for all the trade-related needs of the country. It has been designed as the umbrella under which the LDC analyses, groups and presents all of its trade-related assistance needs in the widest sense of the word. The IF process offers the platform for the LDCs and their development partners to come together to implement and fund activities to address those needs. The IF is also the vehicle for donor coordination activities including setting up and using a national Monitoring and Evaluation system, in accordance with the Paris Declaration on Aid Effectiveness. The LDC chooses the appropriate development partners, which are not limited to the six IF core Agencies. The IF is not a programme, but rather a process, leading to trade being mainstreamed into national development strategies and to funded and implemented projects.

III. AID FOR TRADE AND THE INTEGRATED FRAMEWORK FOR LDCS

12. Given the IF's objectives and how it functions, the IF embodies for LDCs what the Aid for Trade Initiative seeks to achieve and provides the concrete vehicle to it. Below is set out why.

13. The IF process is applicable to all parties involved (donors, agencies and beneficiaries), including key principles such as country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonization of donor procedures, use of programme-based aid modalities, managing for result, transparency and predictable and multi-year commitments. For these reasons, the IF has been referred to as a concrete translation of the **Paris Declaration on Aid Effectiveness**, which underpin the Aid for Trade Initiative as well as the IF.

14. The IF supports the LDCs in strengthening the **demand side**, through the diagnostic process, the DTIS.

15. Key to the effectiveness of Aid for Trade is a commitment to **country ownership** and country-driven approaches – as well as a commitment of governments to fully mainstream trade into their development strategies. The underlying concept on which the IF is constructed is country ownership. This is now being strengthened through the EIF, which seeks to increase the LDC's capacity to manage the IF process in-country and by extension to make trade an integral part of its national development strategy and to increase country ownership overall.

² Under the current IF, UNDP is the Trust Fund Manager

16. The Aid for Trade Task Force recommends establishing 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. The IF process foresees a system of effective **national coordination**, including participation from the private sector. Experience has taught that the IF is more successful in those countries that have managed to set up an effective national coordination mechanism, involving all relevant stakeholders from across the government ministries as well as the private sector. The EIF foresees coordination on the ground being carried out by the National Steering Committee (NSC), to supervise the National Implementation Unit, NIU (or by whatever other name this National Implementation Arrangement may go), which is to support the IF Focal Point. The IF Focal Point is usually, but not always, located in the Ministry of Trade. The NSC is a cross-cutting body and ensures effective coordination and buy-in among LDC Government institutions, the private sector, civil society and other IF stakeholders. The NIU works with the Ministries of Trade, Finance and Planning, and other Ministries and trade-related institutions such as the Chamber of Commerce and other elements of the private sector as well as civil society to ensure coordination at all stages of the IF process. The Focal Point oversees the functioning of the NIU and works closely with the relevant line Ministries, the Donor Facilitator³, the Executive Secretariat⁴, other donors and IF Agencies to ensure that trade-related assistance projects are mainstreamed into the PRSP or other national development strategies and respond to DTIS priorities. The NIU is grouped around the Focal Point to assist him/her.

17. The Aid for Trade Task Force's Report stipulates that additional, predictable, sustainable and effective **financing** is fundamental for fulfilling the Aid for Trade mandate. As described above, the IF process not only assists LDCs in mainstreaming trade into their national development strategies, but also provides LDCs the platform to access funding from their development partners to translate their trade-related diagnostics requiring technical assistance into funded projects and to implement the projects. Under the EIF, increased, predictable and additional funding on a multi-year basis will be forthcoming to build LDCs' trade capacity. To access this funding, the IF process envisages that LDCs involve their donor partners early on in the actions that they identify in their diagnostics, including the priority list of activities needing external support (the "Action Matrix"). As stated above, the EIF Trust Fund will not be sufficient to fund many of the activities that LDCs will identify as needed to boost their trade capacity. LDCs do well to use the IF process to submit their trade needs identified in the Action Matrix early on to their development partners, in order to transform them into funded trade-related projects. This, in fact, is "Aid for Trade": the IF process leads the LDCs to access "Aid for Trade".

18. For this to function well, **donor response** is as crucial as identifying the demand side. Experience in the IF confirms the findings of the Aid for Trade Task Force in this regard.

19. The Report of the Aid for Trade Task Force stipulates that "(d)onors should give more attention to trade issues in their aid programming and strengthen their trade expertise both in the field and at headquarters. There is a need for improved coordination of staff working across sectors and for greater trade mainstreaming in aid agencies' programmes". Experience in the IF process confirms this need. One of the reasons leading to the decision to enhance the IF was that a number of evaluations of the IF had pointed to an implementation gap; priorities identified in the DTIS process were not being picked up in mainstream investments. One of the three pillars of the EIF is to provide increased, predictable, and additional funding on a multi-year basis. As stated before, the multilateral IF Trust Fund contributes but a small part of all the funding needed to move from the diagnostics and priority setting to funded projects. Investments by donors and agencies under their permanent programmes to the actions identified in the DTIS are the major source of funding. And these investments have so far been relatively low. The donor community has generally not responded

³ A donor assigned by the Government as a lead donor in the IF process.

⁴ The Executive Secretariat is to be administratively housed in the WTO and will provide assistance to IF countries at all stages of the process.

adequately to the needs identified in the DTISs. The fact that the findings and recommendations of the DTISs have not been adequately fed into the PRSPs and similar processes, or into the programming frameworks of other donors, have contributed to this problem. The IF is still often seen by both the donor community and recipients as a stand-alone process. Trade is inadequately seen, by both donors and recipients, as an integral aspect of economic development and poverty reduction, so it does not feature high enough on their priorities.⁵

20. The EIF is a means for the donor community to respond to these identified shortcomings. In doing so, they will respond to the recommendations of both the Task Force on Aid for Trade and the one on an EIF. The necessary counterpart to this is that the LDC recipients must play their part and step up their efforts to mainstream trade into their national development plans and give trade - or in other terms, producing, selling abroad and importing - a higher priority in their national development plans. Trade is often still seen primarily as the prerogative of the Ministry of Trade and, although the active engagement of the Ministries of Finance, Planning and Economic Development as well as of the private sector is essential to the success of the IF process, it has not always been present. In fact one of the elements of the enhancement of the IF is precisely to bring in more effectively the private sector. In some cases, these barriers have been overcome, usually due to strong political leadership, but this is not the norm.⁶ Active commitments from the donors and recipients alike to integrate trade into overall national development/aid policies are mutually reinforcing, and one does not happen without the other.

21. The Aid for Trade Task Force recognized **bridging between demand and response** as an important element to ensure that assistance to trade-related needs functions. The IF process aims to do just that, and many of its procedures are geared to achieve this bridge. The IF process, through its diagnostic work, assists the LDCs in identifying priority projects and programmes and their relevance in relation to the objectives for Aid for Trade. The IF envisages that development partners base their funding decisions in the area of trade-related assistance on the DTIS and its Action Matrix. As such, the IF contributes to bridging the demand side and the donors' funding decision. Going through the recommendation of the Aid for Trade Task Force relating to the bridging of the demand side and donors' funding decisions is like reading the IF Manual. For example, the Aid for Trade recommendations stipulate that recipient countries should mainstream trade into national strategies, such as PRSPs, formulate trade strategies, and propose priority trade projects for donor financing. The division of responsibility for funding and implementing Aid for Trade projects and programmes should be addressed through country-based processes such as PRSPs or consultative groups, if necessary complemented with a partner conference focusing specifically on trade-related support, convened once countries have integrated trade into their national strategies. A National Aid for Trade Committee could be established, where necessary, to ensure trade mainstreaming in national development strategies, determine country needs, set priorities, assist in matching "demand" and "response", and help in evaluation. Tasks could include identifying co-financing or leveraging funds from other larger funds, as well as assessing adjustment needs and brokering financing for such programmes. Partners should commit to contributing to the implementation of trade strategies and identified priority projects and programmes; the resulting plan should incorporate a results-based management framework resting on – and reinforcing – mutual accountability; promote the involvement of local, regional and private-sector actors, as well as South-South cooperation through triangular schemes.

22. The objectives and steps in the IF process as explained above show that the IF is a blueprint to achieve what the Aid for Trade Task Force aimed to achieve through its recommendations.

⁵ Report of the Chairman of the Task Force on an Enhanced Integrated Framework, Including Recommendations, document WT/IFSC/W/15, 29 June 2006.

⁶ Report of the Chairman of the Task Force on an Enhanced Integrated Framework, Including Recommendations, document WT/IFSC/W/15, 29 June 2006.

IV. CONCLUSION

- There is thus a strong case to be made that at least for the LDCs, the IF structures and process should be used as a building block and means to operationalize the Aid for Trade Initiative into funded trade capacity-building activities and 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. There is therefore no need to set up parallel structures for Aid for Trade in LDCs. In fact, this should be strongly avoided. Furthermore, while the IF is applicable to LDCs only, developing countries other than LDCs, whose trade capacity needs bolstering may wish to study the IF/EIF to learn from this established process.

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