

Sub-Committee on Least-Developed Countries

INTEGRATED FRAMEWORK FOR TRADE-RELATED ASSISTANCE TO LEAST-DEVELOPED COUNTRIES

Report of the 20th Meeting of the Inter Agency Working Group,
New York, 21-22 June 2000

Chair: Mr. Chiedu Osakwe (WTO)

1. The 20th Meeting of the Inter-Agency Working Group (IAWG) was held at the UNDP Offices in New York, 21-22 July 2000. The circulated provisional agenda (see Annex 1) was revised and adopted. In the revisions, it was agreed that items (b) and (c) were to be discussed at the next IAWG meeting. It was also agreed to include, as item (d), Progress report of the IF to be submitted to the Preparatory Committee for the Third UN Conference on the Least-Developed Countries (LDC-III).

I. MANDATED REVIEW OF THE INTEGRATED FRAMEWORK: INTRODUCTION AND CONSIDERATION OF DRAFT

A. DISCUSSION ON THE REPORT OF THE CONSULTANTS ON THE INTEGRATED FRAMEWORK

2. The Report of the Integrated Framework for Technical Assistance for Trade Development of Least Developed Countries was presented by the review team led by Mr. Sarath Rajapathirana. The presentation included the background to the IF review, the main issues and conclusions, and the report's recommendations for the improvement of the IF.

3. Following the presentation, representatives of the IAWG made observations, expressed Agency views and positions, sought clarification on specific issues and posed several questions.

- (a) The Report was welcomed as an important input into the review process. It was felt that the Report had broadly captured the shortcomings of the IF.
- (b) The recommendation on the need to integrate trade into existing development architecture was considered as one of the most important for the improvement of the IF. This recommendation responded to the criticism that the IF was all project and no policy and that IF activities had not been synchronized with existing development architecture and activities.
- (c) Clarification was requested on the recommendation for the establishment of an IF Trust Fund. Clarification was also sought on the methodology used by the review team in conducting the review, including the interpretation of replies to the questionnaires.
- (d) Some questioned the distinction, in the Report, between trade-related technical assistance addressing implementation issues, on the one hand, and infrastructure-type (brick and mortar) trade-related technical assistance, on the other. They considered

that infrastructure development, trade support-type technical assistance were integral elements of the original IF objectives.

- (e) The observation was made that the recommendation that the IF should be more "demand-driven" by LDCs did not take into account the fact that the lack of capacity by LDCs did not allow them to own the IF process and often required intervention by the agencies.
- (f) The view was expressed that the Report had failed to mention and address the lack of commitments by the core agencies as one of the major problems associated with the weak functioning of the IF.

4. Mr. Rajapathirana responded to the issues and questions that had been raised. First, mainstreaming trade into the formulation of a country's development strategy would assist LDCs in giving effect to the principles of "demand-driven" and "ownership" of the IF. The fact was that, currently, LDCs could neither drive the IF nor own it because they lacked the resources for doing so. Mainstreaming would assist in installing trade policy (and reform) elements to the IF, which currently did not accord equal emphasis to trade promotion as to import liberalisation. Mainstreaming would assist LDCs to realise that trade reform was indeed a vital instrument for integration into the world economy. Moreover, it would also allow trade-related infrastructure projects to be financed through the World Bank Consultative Group (CG) process. He stressed that the core Agencies had, up until now, minimal incentives or commitments to coordinate their activities. Absence of resources had also not made meaningful the application of the principles of "demand-driven" and "ownership" of the IF process by LDCs. He underscored the Report's recommendation that the IF should not be continued as an unfunded mandate, unless indispensable resource were made available through the establishment of a trust fund.

5. Responding to criticisms by some, Representatives of the IAWG concluded that the Report had been independently written. They agreed that factual corrections would be made to reflect the current status of the IF and that an addendum would be issued to the Report. They also agreed that the Group would draw no conclusions from the Report, however, the recommendations contained in the Report would be considered as inputs to the IF review exercise by the six core agencies. Finally, they expressed their gratitude to the review team for its work and also to the World Bank which had extended its resources for the independent review.

B. THE DISCUSSION OF THE MANDATED REVIEW BY THE SIX CORE AGENCY REPRESENTATIVES

6. The IAWG agreed to proceed with the IF review process, under three themes: i) mainstreaming of the IF; ii) funding; and iii) structure.

(a) Mainstreaming

7. Representatives unanimously agreed that it was indispensable to mainstream trade into LDC's overall development strategy, as expressed in their Poverty Reduction Strategy Papers (PSRPs). While it was recognised that the idea of mainstreaming was not new (for instance, IF Round Tables in Tanzania and Uganda had been held in conjunction with the World Bank CG meetings), there was an urgent need to make the mainstreaming process more rational, effective, and as part of an agreed process. Mainstreaming was also identified as an important mechanism to bring all development stakeholders together, agencies, donors and LDCs (including trade ministries together with finance, development and planning ministries with the private sector).

8. The representatives stated that the mainstreaming process could take place in two stages: first, *at the formulation of a country's integration strategy* within the framework of the PRSPs; and second,

at the operational stage, where the country's development strategy (and medium-term policy frameworks) as expressed in the PRSP and its financing requirements were presented at the CG or UNDP Round Table meetings.

Formulation of a country's integration strategy in PRSPs

9. The representative of the World Bank clarified that a PRSP was a country document, not a Bank document, and often required a long time for preparation. A chapter on trade, with a section on the IF, was being developed as part of the PRSP Sourcebook, which would serve as guidance for the preparation of a PRSP. The Trade chapter would identify the trade instruments used in the country integration strategy and also provided a methodology for assessing the impact of trade reform. In formulating an integration strategy, it was recognised that a customised analysis of the constraints faced by the LDC in integrating into the world economy was required. The trade policy analysis would therefore include not only traditional trade policy instruments like tariffs, but also supply-side constraints including ports, transportation, customs, telecommunications, red-tape in the bureaucracy. The Bank representative stated that the formulation of an integration strategy was likely to involve several reports and studies assessing various aspects of integration, which would then be transformed into a country-specific integration strategy paper.

10. The participants recognized the World Bank's central role in the PRSP exercise since its field presence was indispensable for the formulation of a customised integration strategy. It was suggested that the role of the IF at the strategy formulation stage was to animate, coordinate and finance the strategy. The IF could bring all stakeholders (various players in LDCs, donors and agencies) together and ensure a dynamic interplay among them. In doing so, the existing Needs Assessments could be refined and then be incorporated, as appropriate, in the country's integration strategy. In the discussions, the Group recognized that an up-front fund was required to finance the strategy formulation.

11. For LDCs not covered by PRSPs, it was suggested that other development frameworks such as the Comprehensive Development Framework (CDF) or the United Nations Development Assistance Framework (UNDAF) could be used as a basis for a country's integration strategy.

Operational stage at the CGs/Round Tables

12. IAWG representatives considered that one rationale for mainstreaming was to generate more resources for trade-related technical assistance at the CG/Round Table meetings, where an LDC's appeal for resource requirements on development priorities would be met by donors' financial commitments. By incorporating trade into the PRSP process, trade-related technical assistance and other trade-related projects, including infrastructure-related projects, could be presented in the CG/Round Table meetings. It was suggested that a trade panel (or a panel on trade and development) could be organised, in parallel with other sectoral panels, at the CG/Round Table meetings, so that trade-related projects would receive as much attention as other development priorities.

13. Some suggested that since the CG/Round Table process was sometime politically driven, there was a need for automaticity in the process to ensure that trade-related technical assistance was not a hostage to the political process. Other suggested that an alternative forum had to be made available in the absence of CGs/Round Tables, such as in cases of emergency or war in an LDC. In such cases, the agencies would have to make sure that trade-related technical assistance needs were met.

Advocacy

14. The participants emphasised that the IF could play an important advocacy role in all stages of the mainstreaming process. It was acknowledged that trade liberalisation and reform were often painful processes. Furthermore, trade policy did not naturally form an integral part of an LDC's development strategy. The fact that LDC governments and the donor community often had no political incentives to pursue trade reform would therefore justify intervention by the global community and its Agencies, such as through the IF. *In the preparation of a PRSP, the role of the IF was to make sure that an integration strategy was an indispensable part of LDC's poverty reduction strategy process.*

15. It was also recognized that the advocacy role by the IF was important at the operational stage. The establishment of a trade panel would ensure that trade-related technical assistance and projects had an opportunity to be presented at the CG/Round Table meetings, which were usually organised by the minister of finance/economic planning and excluded the participation of minister of trade.

Involvement of the agencies

16. The IAWG representatives stressed the importance of participation by all the core agencies in the mainstreaming process. While the PRSP exercise was led by the World Bank, they felt that there was a need to develop a mechanism to ensure the involvement of all agencies, in particular, through the IAWG where the World Bank would report progress in the mainstreaming process. It was recognised that each agency was equipped with particular skills and distinct competence to contribute to the PRSP process. Some suggested that the participation of all agencies would help avert the risk of conditionalities that could be imposed if mainstreaming was driven by one Agency.

17. At the operational stage, the CG/Round Table meetings currently only involved the participation of the World Bank, IMF and UNDP (on behalf of all UN agencies), but not that of the other agencies. It was suggested that a trade panel, organised back-to-back to the CG/Round Table meetings could ensure the involvement of all agencies.

(b) Funding

18. The IAWG unanimously agreed that if no resource was made available, the IF should not be maintained by the core agencies. The proposal for the establishment of an IF trust fund (IFTF) was unanimously supported. They considered that donor commitment and resources were indispensable for the improved functioning of the IF.

19. Representatives suggested activities that could be financed through the IFTF. These would include: (i) the formulation of country-specific integration strategies, (ii) programme development (which would include IF advocacy, monitoring the IF implementation from the CG process), (iii) programmes/projects activities and the organisation of roundtables in LDCs which were not covered by the PRSPs, or CGs/UNDP Round Tables, (iv) regional programmes, which did not fall within the scope of the CG/Round Table process, (v) administrative process costs associated with the IF; (vi) trade-related technical assistance, including those related to WTO compliance, trade support services, and support for negotiations.

20. It was emphasised that the access to the IFTF was particularly important for those countries which did not have PRSPs or CGs/Round Tables due to political or other reasons. Moreover, financing of trade-related technical assistance and capacity building, such as WTO compliance, trade support services and support for trade negotiations, should not be subject to the PRSP or CG/Round Table process.

21. Some representatives wondered whether the IFTF could finance the participation of Agency staff in the coordinating body or the IF secretariat, such as through staff secondment from the core agencies. However, the majority of participants agreed that each agency should self-finance its participation in the IF, in particular, the coordinating body. It was echoed that each agency was responsible for allocating or re-allocating its resources for participation in the IF.

22. On the allocation of resources from the proposed IFTF, it was agreed that the IAWG would work out the criteria for the operation of the Fund and disbursements from it, at a later date.

23. Two possible options for the proposed IFTF were set-out, one for US\$20 million and the other for US\$50 million over three years (2001-2003). The proposal is attached as Annex II.

(c) Governance and Management of the IF

24. Governance and Management issues surrounding the operation of the IF were considered. Participants recognised that one of the problems which had impaired the functioning of the IF was absence of a clear delineation of responsibilities and the absence of a buy-in by all stakeholders. Governance and management of the IF needed to be enhanced and improved. It was proposed that such improvements could be effected at two levels, namely, policy oversight and administrative/coordinating levels. However, there was understanding among the participants that a new governance structure had to be lean, not add to existing bureaucracy, and should make best use of the existing structure.

25. Some representatives expressed doubt as to the capacity for leadership of the IF by the WTO, as suggested by the Report of the review team. While the WTO had the advantage of having strong political leadership which was committed to the IF, it lacked operational capacity for providing trade-related technical assistance and its role was usually limited to the areas of WTO compliance and implementation, and information dissemination on the multilateral trading system.

(i) Oversight

26. The UNDP proposed the establishment of an oversight body, which could be referred to either as a Management Board, Steering Committee, Consultative Group, or Advisory Board. This mechanism would represent a broad group of IF stakeholders. There was support for this suggestion on the grounds that such a body would enhance transparency and accountability of the IF and would provide a forum where problems arising from the IF could be quickly recognised and solutions be provided. It was also suggested that the existence of an effective oversight body would reduce the necessity of having a leadership or centralised coordinator among the core agencies.

27. Some representatives expressed concerns that the establishment of the oversight body could be perceived as over-bureaucratisation of the IF. However, it was understood that the proposed oversight body would simply expand the current existing body of the Heads of Agencies to include other stakeholders of the IF, namely, donors and LDCs. It would meet periodically. The representation of donors and LDCs could be made on a rotating basis. The proposal for the inclusion of the private sector and civil society in the oversight body received little support among the participants.

28. The IAWG agreed to work out details of the structure and the function of the oversight body at a later date.

(ii) Administration and coordination

29. The IAWG considered the two options for an administrative and coordinating body for the IF. First, the creation of an independent secretariat, comprising staff seconded from the core agencies. Second, using the WTO Secretariat. In this regard, the WTO would be responsible for administrative coordination, with the current AU being folded into the WTO Secretariat, and with secondment of staffs made available by the other agencies to the WTO Secretariat. In considering the two options, the best use of the existing structure, rather than the creation of a new body, was stressed. Therefore, the representatives supported that as the WTO would continue to serve as Chair of the IAWG,¹ the organisation would be responsible for the coordination function of the IF, by absorbing the functions of the Administrative Unit currently located in the ITC.

30. There was an exchange of views on the possible functions of the WTO Secretariat. Functions suggested included: (i) servicing the IAWG and preparation of documentation; (ii) ensuring information flow among the six agencies, donors and LDCs; (iii) promotion of the IF (iv) providing periodic reports to the proposed oversight body; (v) overseeing the allocation of resources in the IFTF, (vi) monitoring and implementation of activities resulting from the PRSP and CG/Round Table process; (v) support for programme design; (vi) resource mobilisation.² On (v) and (vi), it was suggested that project design would be better provided by agencies with field presence and that resource mobilisation would be better taken up by the proposed oversight body, where donors were represented. It was emphasised that the role of the WTO Secretariat had to be essentially a coordinating role.

31. The participants recognised that, in addition to the coordinating function, the IAWG had to be equipped with an administrative capacity to intervene in the PRSP process, making sure that trade was mainstreamed into LDC's development strategies. This function of the IAWG was defined as a "gateway" function by the IAWG to the PRSP process, to be led and coordinated by the World Bank. The role of IAWG was considered particularly significant in those LDCs not covered by the PRSPs process. In these cases, the IAWG would be expected to initiate the formulation of integration strategies. It was also suggested that until the Sourcebook for PRSPs was fully developed, the IAWG might have to play a more active role at the strategy formulation stage. In this regard, it was stressed that the IAWG needed to have access to the proposed IFTF to launch the PRSP or alternative strategy formulation process.

32. In order to maintain coherence in inter-agency coordination in the mainstreaming process, representatives supported the secondment from agencies to the WTO Secretariat, on a voluntary basis. They agreed that this arrangement would be flexible. Staff could either be seconded directly to the WTO Secretariat on a full or part time basis, or be designated specifically for IF matters, as a staff member, in the Geneva representative office of an agency. It was understood that there should be two or three persons in total seconded to the WTO Secretariat at any time. The World Bank and UNDP expressed their willingness to begin with the secondment of staff to the WTO Secretariat.

33. The IAWG agreed to draw the terms of reference for the IAWG, as well as for the WTO Secretariat as coordinator, at a later date.

(iii) Administration of the IFTF

¹ The representatives recognized that the IAWG required continuity in its representation, and agreed that, to the extent possible, the same people should attend meetings of the IAWG.

² The Administrative Unit, currently located in the ITC, reported that its function included (i) promotion of the IF, (ii) information dissemination, including maintenance of the IF website, (iii) support for the preparation of Round Tables, including documentation, (iv) assistance in program designs. In addition, it stated that the Administrative Unit had recently played a more pro-active role, including the initiative to obtain resource for the French-speaking LDCs.

34. The representatives agreed that the criteria for the disbursement of funds under the proposed IFTF would be decided by the IAWG at a later date. However, they considered that the fund should be *administered* by an agency or agencies with substantial capacity and experience with fund management. They considered the following three options: (i) the administration by the World Bank, (ii) by the UNDP, and (iii) jointly by the two institutions. Since it was thought to be more effective for one agency to take the responsibility, it was agreed that UNDP would administer the IFTF on behalf of the agencies, on terms to be agreed.

(d) Other issues

35. The representative of the ITC gave a brief description of the JITAP which was jointly managed by the ITC, UNCTAD and WTO and was providing trade-related technical assistance to 8 African countries (4 of which were LDCs and 4 non-LDCs). The IAWG agreed to make use of the existing JITAP activities that could be incorporated into the IF as far as its operations in the LDCs were concerned.

36. Regarding the question of enlargement of the IF to other developing countries, the IAWG agreed that the IF should be limited to the LDCs' constituency, at this time, and the matter of enlargement should be re-considered when the new IF structure was found to be working. Some suggested that the categorisation of LDCs was artificial and somewhat political, and enlargement could be considered on a case-by-case.

37. Regarding the question of enlargement of the core agencies, the IAWG agreed to maintain the status quo. However, there was the understanding that flexibility was necessary for collaborating with other regional and multilateral agencies in the mainstreaming process through the PRSP.

C. OTHER BUSINESS

38. The UNCTAD representative requested the IAWG to provide inputs for the Preparatory Committee for the Third United Nations Conference on the Least-Developed Countries (LDC-III) where a progress report on the IF was to be submitted. The IAWG agreed to submit any agreed documentation that would issue from the meeting of Heads of Agencies Meeting on 6 July 2000.

39. The Group agreed to meet informally on 5 July 2000, in New York, ahead of the Heads of Agencies meeting scheduled for 6 July 2000.

ANNEX 1

Provisional Agenda for the 20th Meeting of the IAWG **UNDP Offices, New York, 21-22 June 2000**

40. The items proposed for the provisional agenda are as follows:
- (a) Mandated Review of the Integrated Framework: introduction and consideration of draft;
 - (b) The IF Round Table Process:
 - evaluation of the RTs held since 19th Meeting;
 - Launch workshops, informal pre-RTs held since 19th Meeting;
 - Inventory of National focal points;
 - lag between RTs and budgetary cycle of donor partners;
 - status report on RT preparations, including the proposal for a Regional Round Table for the Pacific (Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu);
 - (c) Implementation of Integrated Responses (WT/COMTD/IF/1-40); and,
 - (d) Any other business.

ANNEX 2

Proposal for an Integrated Framework Trust Fund (IFTF)

Option 1

The IFTF would involve an amount of US\$20 million, to be disbursed over 3 years, to support the mainstreaming of trade in 25 country poverty reduction strategies and to assist all LDCs to integrate into the global economy and the multilateral trading system.

Proposed allocation:

1. Preparatory analysis and development of a country-specific integration strategy to feed into the PRSP:

25 countries at US\$275,000 = US\$6.875 million

Assumptions:

A team of 5 staff for 12 weeks (3 international experts, 2 local experts) - US\$200,000

Two workshops to consult with stakeholders (launch, and to discuss draft analysis/strategy) - US\$45,000

Four weeks travel/subsistence for international consultants - US\$30,000

2. Funding for project preparation--drafting of 3 to 5 concept papers responding to the priority areas for action identified by the strategy, if the PRSP identifies trade integration as an area for priority action:

25 countries at \$70,000 (4 concept proposals) = US\$7 million

Assumptions:

One international expert per project, with national teams representing stakeholders/beneficiaries - US\$40,000

Three week missions, travel/subsistence per proposal development (Assisted/led by agencies with competence in specific areas if these are identified as priorities) - US\$10,000

Funding for activities of likely "project implementation units" if project gets accepted by CG--overhead, office equipment, etc. - US\$20,000

Note: If trade does not emerge as a priority from the PRSP process, the project preparation phase will not occur.

3. Other capacity-building initiatives, including where LDCs are not covered by PRSPs or where CGs/UNDP roundtables are not taking place (including in an appropriate time-frame), and where certain capacity-building activities (such as those that are regionally-based) do not fall naturally into the CG/UNDP roundtable process.

Examples include capacity-building for trade policy design and implementation; supporting regional development of trade policy and infrastructure development for countries that are members of regional integration agreements; training for trade negotiations and design of possible common positions; staff exchanges and study tours for stakeholders and responsible agencies in LDCs - trade, finance, telecom, transport, industry, agriculture, health, chambers of commerce, etc.; identification of regional approaches to WTO implementation (i.e., options for implementation of agreements that respond to and take into account situations found in neighbouring or groups/types of LDCs).

48 countries; UDS\$2 million per year = US\$6 million.

Option 2

The IFTF would involve an amount of US\$50 million, to be disbursed over 3 years. US\$20 million would be used as indicated in Option 1 above.

The additional funding of US\$30 million would be used to extend the strategy formulation and project preparation work to include "near" LDCs, recognizing that the cutoff point at the margin between LDCs and non-LDCs makes limited sense. If the programme were extended to another 25 countries, this would require another **US\$13 million**.

Substantially more funds could productively be used for capacity-building programmes and training, including study tours, scholarships and detachments (**US\$8 million**).

More funding could also usefully be devoted to research and analysis of market access barriers confronting LDC exports, including possible assessments of their WTO consistency; documentation of success stories (cases) and lessons; etc. (**US\$2 million**).

Funding could also be devoted to the organization by the IF agencies in cooperation with LDC partner entities of an annual Trade and Development Forum (TDF) that brings together the trade-related policy communities and the private sector, civil society and think tanks to foster interaction, learning, get feedback on the IF program and strengthen networks. An annual TDF would cost at least US\$750,000; doing 3 will require **US\$2.25 million**.

Funding could also be allocated to an international "transparency" effort/mechanism that offers analytical services to LDCs in areas where they do not have expertise and there is a market access issue or a (potential) dispute--GMOs, labeling, product standard design issues, conformity assessment procedures, etc. (**US\$5 million**).
