Aid for Trade: Supporting Trade Preference Reform

Susan Prowse

Abstract

Aid-for-trade programs can help strengthen low-income countries' supply capacity and knowledge of trade preferences, which will allow them to take fuller advantage of these preferences. Aid for trade to support preference reform can be divided into three categories: (i) creation of information-sharing mechanisms to ensure that governments, SMEs and other businesses are aware of the opportunities that preferential market access offers; (ii) capacity-building support to overcome supply-side and policy constraints; and (iii) support to ease the adjustments to preference erosion that will inevitably occur. As with other aid initiatives, coordination and cohesion among assistance programs is critical for success. Delivery mechanisms such as the Enhanced Integrated Framework (EIF), the Trade Facilitation Facility (TFF), and the Standards and Trade Development Facility (STDF), are aimed at facilitating such coordination, but more could be done. And, as preference programs are intended to be temporary, aid for trade can also facilitate graduation from these programs and compensate beneficiaries for preference erosion. Unfortunately, this area is still lacking the level of innovation and financial support needed.

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Center for Global Development
1800 Massachusetts Ave., NW
Washington, DC 20036

202.416.4000
(f) 202.416.4050

www.cgdev.org

Foreword

I am pleased to be able to sponsor this paper on aid for trade by Susan Prowse. At the time of writing, Susan was Senior Economic Advisor at the UK's Department for International Development working with the International Economic and Development Group at the Overseas Development Institute in London. She is currently with the International Monetary Fund in Washington, D.C. Prowse has written widely on trade and development issues, including the need for effective aid for trade to help developing countries take advantage of market access opportunities. Prowse was also a member of the Center's Working Group on Global Trade Preference Reform and she wrote the paper as background for that group's deliberations on making unilateral trade preferences for poor countries more effective as development tools.

Kimberly Ann Elliott
Senior Fellow
Center for Global Development

I. Introduction

Increased access to industrial country markets through reduced trade barriers has been and remains a major objective of developing countries. One means for achieving this goal is through unilateral programs to provide preferential market access to relatively less-developed countries. Yet, the literature and various commentators argue that trade preferences have not yielded the expected benefits to many of the recipient countries and have questioned the efficacy of using trade preferences in addressing problems of developing countries.

There are several reasons why preferences have not always been effective, including exclusions in key product areas and restrictive rules of origin, but, other obstacles arise on the supply side. In practice, many low-income countries simply do not have the capacity to exploit preferences, lacking either productive facilities or the ability to compete even with the price advantage conferred by the preference, owing to internal transactions and operating costs. For some exporters, the issues are even more basic in that they do not have knowledge about preference programs. Preferences were conceived as instruments to help countries that have the knowledge as well as the requisite supply capacity to diversify and expand their exports. Preferences have little value for countries without such capacity.

Thus, aid for trade is one potentially important tool for increasing the benefits of preference programs for developing countries, especially the poorest. There are three specific areas where aid for trade can be useful in expanding the value of preferences:

(i) pre-utilization, including building the knowledge base and determining the relevance of preferences for the development process and policy of the country;

(ii) utilization, through building the supply capacity and regulatory environment and

(iii) post-utilization, including the creation of effective mechanisms to deal with preference erosion and graduation, which may deter present utilization.

The literature shows that utilization rates are typically well below 100 percent and in many cases 50 percent or less. Some of the evidence suggests that utilization rates correlate with the breadth of goods covered by preferences.[1] However, coverage rates by no means explain all of the shortfalls in utilization. For example, the eight African countries that exported mainly petroleum-related products under the U.S. African Growth and Opportunity Act (AGOA) showed wide variation in utilization under the preference scheme, despite nearly complete AGOA coverage. This may have been because of low normal tariffs on these products, meaning that the preference benefit was not significant. But preference margins are clearly not the

[1] Given the narrow export base of low-income countries, even a small number of product exclusions can significantly affect the value of the preference scheme to a country. See, for example, Bouet et al. CGD working paper (2010).

whole story. The U.S. tariff on apparel is well above average and, yet, of the 26 AGOA apparel-eligible countries, 5 countries accounted for 90 percent of apparel exports under the program and 9 exported no apparel. Although further analysis is needed, the variability in utilization by countries with similar export and economic structures suggests that other factors beside coverage hinder utilization (Dean and Waino, 2009).

Recent work by the Asian Development Bank (Kawai and Wignaraja, 2009) suggests that utilization is significantly related to knowledge of the potential benefits of preference schemes to developing country exports. One role for aid for trade, therefore, is to broaden the knowledge base and thereby translate the benefits offered by preferences into policy at the country level. For many countries this may well represent a key impediment to preference utilization.

This paper assumes that the rationale for aid for trade is a given. Section II provides a brief reflection on the current and emerging aid environment and the importance of aid for trade to preference utilization. Section III focuses on effective policies and mechanisms for delivery, by drawing on the extensive literature. (Annex 1 provides background details on recent trade-related initiatives, including the Enhanced Integrated Framework, the Standards and Trade Development Facility, and the recently created Trade Facilitation Facility, as well as recommendations for improvements in those programs.) Section IV examines whether new instruments are needed to ensure the effective delivery of aid for trade as part of a package of reform measures to enhance preference use but also to promote eventual graduation. Section V draws conclusions.

II Aid for Trade, the Emerging Aid Environment, and Preferences

For the 2009 Aid for Trade Global Review, the OECD reported that the aid for trade initiative had succeeded in raising awareness “about the support” necessary for developing countries and notably LDCs to overcome the barriers that constrain their ability to benefit from the opportunities that trade can offer to growth, development and poverty reduction. As a result, partner countries are raising the profile of trade in their development strategies and donors are responding by providing increased resources to build trade capacity – whether in terms of policies, institutions, or infrastructure (OECD 2009). In the period 2005-2007, funding commitments to aid for trade increased by 10 percent per annum and represented around U.S. $ 25 billion with an additional U.S. $ 27 billion estimated in non-concessional loans.

Going forward, however, several factors are changing the landscape for delivery of aid for trade, including the impact of the financial crisis on traditional donor budgets, the consequent need to demonstrate increased aid efficiency to domestic constituents in a resource constrained environment, and the rising number of non-traditional players, including emerging donors, foundations, and the private sector.

(i) Pre-utilization issues

Small and medium enterprises (SMEs), in particular, in developing countries are often unaware of the market access opportunities offered by trade preference programs (Stevens and Kennan 2004). This creates a need to broaden the knowledge base at the country level and thereby translate the opportunities offered by preferences into action. For many countries this may well represent a key impediment to preference utilization.

In a recent study, Kawai and Wignaraja (2009) found that institutional support systems were highly correlated with use of preferential market access. While issues of rules of origin and coverage were important, the institutional support structures mattered at least as much. Services demanded included more information on market access opportunities, support systems for SMEs, and increased resources and closer cooperation between government agencies and business associations to help formulate policy to exploit preferential market access. In particular, electronic systems that evaluated the relative benefits of various preferential access opportunities were highly relevant in determining utilization outcomes. For Africa, it may well be the case that similar electronic evaluation systems on market access opportunities would be highly valuable for SMEs.

In addition, compliance costs (for example documenting origin and other paperwork requirements) can be significant. The empirical evidence suggests that, on average, the documentary requirements cost up to 3 to 5 percent of the value of goods (Anson et.al. 2005, Brenton and Ikezuki 2005, Brenton and Manchin 2003). Such costs substantially reduce the actual benefits of trade preferences for developing countries and they mean that non-preferential tariffs must exceed 4 percent for preferential access to be meaningful (Hoekman, and Prowse 2009). Reducing compliance costs, by improving documentary efficiency, including through electronic procedures, may well be an effective use of aid for trade. A first requirement of aid for trade for preferences is overcoming these “knowledge based” impediments to utilization.

(ii) Capacity Constraints to Utilization

Even assuming that at the country level adequate knowledge of the market access opportunities is available, being able to translate this into a sufficient supply response may be very difficult. Market access programs, such as the U.S. African Growth and Opportunity Act (AGOA) and the EU Everything But Arms (EBA) provide opportunities for poorer countries to expand exports often in food and agriculturally based products. However, lack of capacity to certify food products to meet international standards often prevents such opportunities from being exploited. Meeting tough food and safety standards is a key obstacle for many countries.

In addition, for many low-income developing countries, transport and logistical costs are often a more important component of total costs to trade than tariff barriers. Many developing countries, with appropriate support, could reduce the price of imported goods and enhance export potential through trade facilitation measures. This is particularly true for landlocked countries, and notably those in Africa, where land transportation adds significantly to logistics costs (typically 10 cents per ton per kilometer) (Maur, 2008). This potentially could double shipping charges, which, for high volume, relatively low value goods, such as primary agricultural commodities could represent a significant part of the final price to consumers. Research by the United Nations Conference on Trade and Development (UNCTAD 2004) estimated that international transport costs for imports of landlocked African countries account for an average of 20.7 percent of the value of their imports – a much higher figure than the world average of 5.1 percent and the average for all African countries of 12.7 percent. UNCTAD notes that access to high-frequency, reliable, low-cost liner shipping services largely determines a country's connectivity to overseas markets and thus its competitiveness in global markets.

Experts who have analyzed developing country experiences agree generally on the importance of trade facilitation measures to help businesses in developing countries. In most cases improved practices are within the technological and resource reach of even the poorest countries. For countries that have undertaken trade facilitation reforms, many are among the best performers on indicators such as the length of time for delivery or cost of moving a container into or out of the country. Moreover, because improved facilities mean better business for local companies, reforms in developing countries are often driven and financed by local public-private partnerships. The WTO draft agreement on trade facilitation rules and performance standards is also a useful, if incomplete, template for good practice (Finger, 2008).

III Effective Support Mechanisms

Responding effectively to the physical, institutional, and other capacity constraints on preference utilization requires an understanding of the aid architecture. In 2005, donor countries pledged to both scale up aid commitments in order to reach the development targets defined by the Millennium Development Goals, and to monitor aid effectiveness through the harmonization of donors' policies. Harmonization, along with scaling up and predictability, is seen as a prerequisite for aid effectiveness. The Paris declaration, signed by donors in 2005, stresses that donor action must be "more harmonized, transparent and collectively effective" and, crucially, that aid be delivered and centered around a country's development plan (often supported by poverty reduction facilities of the main multilateral lending institutions). By signing the declaration, donors recognize that "excessive fragmentation of aid at global, country, and sector levels impairs aid effectiveness" and committed themselves to more coordinated and multilateral implementation.

Consequently, delivery of aid for trade needs to be considered in terms of the current thinking and philosophy on effective aid delivery. Increasingly UN members (both partner countries and donors) are actively encouraging partnerships between international agencies, notably in the area of capacity building and technical assistance. This approach strengthens synergies and encourages collective action and impact. The approach was very much at the heart of the Aid for Trade initiative and its *modus operandi* for delivery. Such a collective approach is being advocated more broadly across the delivery of technical assistance. For example, the "One UN Coherence in Technical Assistance" initiative calls on UN agencies to work together to deliver assistance in a co-ordinated and coherent manner. The aim of this holistic approach is to provide support for trade capacity building, competiveness measures to develop productive supply capacity, including by SMEs, enhanced "connectivity" to markets through trade facilitation, and trade "conformity" and standard setting. (United Nations 2008). Annex 1. Provides details on three recently introduced trade-related initiatives that have been designed to conform to this new aid framework.

IV Preparing for eventual graduation from preferences and dealing with preference erosion

The rationale for preferences as a policy instrument for development explicitly recognizes that their use is finite. There are two reasons for this. First, correctly designed and applied, preferences should help to propel countries onto a growth path that allows for eventual graduation. Second, over time, preference margins are eroded by progressive unilateral and multilateral trade liberalization, as well as through the negotiation of free trade agreements by preference-granting countries. Aid for trade needs to be designed in a manner that complements both of these areas.

The principle policy objective of preferences is to encourage countries to produce and export more advanced manufactured products and services, and to increase their output and potential to develop and thereby put them on a growth path which many successful developing countries have followed. Some argue (Venables & Collier 2007) that trade preferences, correctly structured, can act as a catalyst for manufacturing exports, leading to rapid growth in exports and employment. To do so, the research suggests, preferences need to be designed in a manner that is consistent with international trade in fragmented "tasks" according to a country's potential comparative advantage, rather than complete products. Programs also need to be open to countries with sufficient levels of complementary inputs such as skills and infrastructure and, here, aid for trade instruments can help.

With respect to preference erosion, the real costs depend on a range of factors and can be less than the nominal preference margin would suggest. These factors include actual utilization, which can vary substantially, and the extent to which the preference benefit accrues to exporting firms versus importers, distributors, retailers, or others along the supply chain (Tangermann 2002).

The most recent preference erosion shock was the implementation, under the auspices of the Uruguay Round, of the Agreement on Textiles and Clothing in 2005. This agreement, which removed quantitative restrictions on exports, confronted all countries with the prospect of far greater competition from the lowest-cost suppliers of textiles and apparel – especially China. Although the shock was not attributable to the removal of a program explicitly aimed at granting preferential access – rather the aim was to restrain the most competitive suppliers – the effect of the quotas was to give less competitive producers a piece of this highly restricted market (Hoekman & Prowse, 2009). Investments aimed at taking advantage of preferential market access initiatives are also at risk when preferential access erodes or is eliminated. For example, some investments related to clothing exports to the United States under AGOA were withdrawn after removal of the quantitative restrictions in 2005 because the costs of production in the host economies outweighed the preference advantage, while some production locations, in Asia for example, proved more competitive (UNCTAD 2009).

Indeed if preference schemes do not support a country's longer term transition to more favourable comparative and competitive advantage (Venables & Collier 2009), higher utilization of preferences can create a greater risk of significant future adjustment as margins are progressively eroded. This has several consequences. Firstly, countries in recognising the future prospect of erosion may well not respond to the short term market access benefits, but if they do, will have an increased incentive to block multilateral, MFN–based trade liberalization.

Consequently putting in place instruments to deal effectively with adjustment to potential and future preference erosion, has to be seen as a necessary complement to any preference reform program. In terms of adjustment support to preference erosion, one of the few mechanisms is the IMF's Trade Integration Mechanism (TIM). The IMF introduced this mechanism in April 2004 to assist member countries in meeting balance of payments shortfalls that might result from multilateral trade liberalization. The TIM is not a special lending facility, but rather a policy designed to make resources more predictably available under existing IMF facilities, subject to the same terms and conditions as traditional IMF lending facilities. For example, a member country can request consideration under the TIM if it experiences a net balance of payments shortfall as a result of trade-liberalizing measures implemented by other countries that cause a decline in the member country's exports. The TIM does not cover the implications of the member country liberalizing its own trade measures. Three member countries, Bangladesh, the Dominican Republic and the Republic of Madagascar, have so far requested and obtained assistance.

Neither the TIM nor other mechanisms directly address the concerns of developing countries about preference erosion. The TIM involves loans and thus implies that the costs of adjustment to erosion will be borne by the countries that lose preferential access to markets. The TIM does not "offset" the losses incurred. Page and Kleen (2004) argue that the most direct and simplest solution would be for donor countries to agree to compensate developing countries directly for preference erosion that is attributable to multilateral trade reform. This approach would help realize the potential global efficiency and welfare gains associated with a multilateral trade round and help directly offset any preference erosion losses for developing countries.

In the context of current aid efficacy criteria, stand-alone specific funds and associated mechanisms are unlikely to find widespread support among donors and recipient countries in so far as they are not integrated into national poverty reduction and development strategies. However, the fact that a stand-alone fund for preference erosion may not be acceptable does not get away from the fact that the issue needs to be tackled, especially in the context of any preference reform scheme. As with other global public good agendas, and discussions, more innovative forms of financing may need to be found.

Proposals have been made (for an elaboration and further details see, Lawrence & Rosito 2006, Prowse 2006, Tangermann & Verissimo 1999) to backload the phase-in of tariff reductions (multilateral and regional) in sensitive sectors and use the revenues to generate a fund to provide compensation for preference erosion. This would be both an equitable and effective measure. Funds would be forthcoming only on negotiated tariff lines; hence, the greater the commitment to reduce tariffs on an MFN basis, the greater the resources available for adjustment. The total revenue available would automatically decline over time as implementation of liberalization takes place. This would be appropriate and consistent with the aim and motivation of support, which is to facilitate adjustment, integration and eventual graduation.

V Conclusions

Market access gaps in preference programs are not the most important variable constraining export growth in many developing economies. Dealing with the supply-side constraints are usually more important and addressing them will require funds (investments), as well as the adoption of policies to address specific government and market failures that prevent a supply response from emerging.

Aid for trade to support preference reform can be divided into three categories (i) knowledge based support to advise governments, SMEs and business associations of the opportunities that preferential market access can potentially offer; (ii) once identified, support to meet the supply side and policy constraints, and (iii) support to ensure a process of graduation and eventual adjustment to preference erosion.

In terms of the current aid architecture, and the increased need to improve aid delivery and efficiency, donors and recipients will require that support be primarily driven around mechanisms that place trade-related support within the context of a country's overall development process. Inter-agency mechanisms that look to leverage support, and work in partnerships are likely to be the preferred *modus operandi.*

As currently conceived, aid for trade programs are largely focused on the second category of problems, meeting supply side constraints, and do not necessarily address the first classification, much less the third. Initiatives such as the Integrated Framework, a trade-related program specifically for least developed countries, needs to work more closely and complement the preferential schemes and initiatives (notably for LDCs) in a far more dynamic, cohesive and pro-active manner.

Even so, the existing mechanisms are not designed to address eventual graduation and inevitable preference erosion. Countries that are encouraged to make increased use of preferential market access, need to be assured that when eventual erosion comes, predictable systems are in place to alleviate adjustment costs. It is here that new thinking needs to emerge and resulting mechanisms need to go beyond the traditional aid architecture approach. Various proposals to backload the phase-in of tariff reductions (whether MFN or regional) in sensitive sectors and use the revenues to generate a fund to provide compensation for preference erosion, would offer a predictable system of support.

Annex 1

Recent Trade-Related Capacity Building Initiatives

Against the emerging trend to increase coordination and cohesion in assistance as a key requirement to improve aid effectiveness, it is useful to look at recent initiatives to promote greater co-ordination and coherence in trade assistance delivery. Three recent initiatives, that are designed to conform to the new aid framework and aim to meet some of the pre-utilization and supply capacity constraints, are considered here: the Enhanced Integrated Framework (EIF); the Trade Facilitation Facility (TFF) and the Standards and Trade Development Facility (STDF).

(i) *The Integrated Framework*

The Integrated Framework is a six-agency program[2] launched in 1997 when trade ministers called on the multilateral agencies providing trade-related assistance to work more collaboratively with donors to enhance support. The IF has served as a technical advisor to LDCs on trade related issues by evaluating and helping create action plans.

At the time it was hoped that better co-ordination of assistance would improve resource allocation and effective delivery. To a large extent it represented a "Grand Co-Ordination Plan" (Prowse, 2006). Several years of implementation made evident a number of problems. The difficulties arose out of different perceptions regarding the original objectives and purpose of the Integrated Framework between the LDCs and donors. LDCs expected substantial additional funding while donors expected better co-ordination and delivery to achieve positive and meaningful results. The fundamental challenge, however, reflected the stand-alone nature of the Integrated Framework (i.e. much of the assistance was assessed outside of a country's overall development strategy). The structural impediments to effective aid delivery in the case of trade assistance, was evident at three levels of governance, namely; (i) in country by both policy makers and stake-holders alike, (ii) by the multilateral agencies working in-country and (iii) by the bilateral donors. The identified assistance was largely generated by the trade ministries with little or no broader consultation. This lack of ownership in-country meant that governments failed to give trade sufficient priority in the country's overall development strategy. Consequently, both multilateral agencies and bilateral donors failed to generate sufficient coordination between the trade and aid communities to respond to the assessed trade capacity needs.

As a result of these various "implementations gaps" (Njinkeu and Cameron, 2007), including the lack of take up by developing countries on the assessed needs, at the September 2005 IMF and World Bank Development Committee meeting it was decided that the IF should

[2] The Integrated Framework is a joint initiative supported by six agencies – the International Trade Centre (ITC), the International Monetary Fund (IMF), the UN Conference on Trade and Development (UNCTAD), the UN Development Program (UNDP), the World Bank, and the WTO.

be enhanced and provided with additional resources. The task force charged with developing proposals for the Enhanced integrated Framework had four main conclusions: (i) to raise the level of funding from $35 million to $400 million over five years; (ii) to strengthen capacity of recipient countries to manage the IF process; (iii) to create a new Executive Secretariat in Geneva, housed at the WTO; and (iv) to establish a monitoring and evaluation framework. The task force further determined that the IF should not be expanded to include non-LDC low-income countries and that alternative or parallel structures should be developed for non-LDCs.

There is no doubt that the Integrated Framework has contributed to putting trade on the aid agenda. As of summer 2010, just over $170 million has been committed by 22 donors, and, while short of the target, this represents one of the most broadly supported initiatives for trade-related capacity building. The funds will be used to support Geneva administration and to fund capacity building in LDCs.[3]

The objective of the administrative structures created in the LDCs under the EIF is to strengthen the capacity of trade ministries to identify key constraints and to develop policies and programs to overcome these constraints. The objectives of the administrative structure in Geneva is (a) to help donors to provide more and better coordinated trade-related assistance, and (b) to help LDCs to prepare proposals for the assistance that will be provided through the EIF, to evaluate proposals and to decide which will be funded.

The EIF Executive Director has responsibility for the day-to-day work of the EIF, supported by the Executive Secretariat; along with a Trust Fund Manager and Staff. The EIF Steering Committee sets overall policy. Representatives of all LDCs, all contributing donors, and the 6 sponsoring multilateral agencies make up the Steering Committee, which meets at least twice per year. The EIF Board reports to the Steering Committee and is responsible for overall management. Its voting members are three representatives of least developed countries and three representatives from donors. Representatives of each of the six multilateral agencies are non-voting members.

Until there is meaningful, on the ground implementation of projects, the EIF remains subject to continuing criticisms. It is seen as more about process (largely Geneva based) than about effective trade-related capacity building to support economic development in line with a country's poverty reduction agenda. However, the resources committed to the EIF and the framework objectives as laid out by the task force to integrate trade more consistently, at the country level, into the economic development structures of the country, should provide an opening to move forward. This needs to be seen as an opportunity for engagement and "capture" of the key interest group(s) in developing countries that can use the EIF framework and resources to push for action around the trade agenda. The relevant groups will need to be identified and targeted. In particular and related to effective preference use, building the

[3] Tier 1 projects focus on building capacity in LDCs to integrate trade in development plans and access aid for trade resources; Tier 2 is aimed at providing initial costs for project activities. Both Tier 1 and Tier 2 funding requests need to come from the LDCs.

knowledge base and incentive structures to take advantage of preferred market access should be highlighted.

Importantly, the IF is a program for LDCs. All LDCs are eligible and therefore it remains highly relevant to ensure that the most broad-based trade related assistance program operates in a manner that complements the preferred market access initiatives currently being discussed.

(ii) Trade Facilitation Facility

The Trade Facilitation Facility, created in September 2009, is a multi-donor trust fund at the World Bank that will draw providers from a wide range of sources, including from regional organizations, other multilateral organizations, and governments. Projects will largely be determined by recipients in consultation with a small dedicated team of trade facilitation specialists housed at the World Bank. As of August 2009, the Bank had received pledges from Sweden and the United Kingdom and is hoping to raise $40 million over the next three years.

The intention of the TFF is to enhance developing countries' competitiveness by strengthening trade facilitation systems and reducing trade costs, notably in the following areas: border management improvement, institutional development, trade procedures, logistics services markets and gateway infrastructure. The facility will also support trade corridors and other regional facilitation initiatives around the world. The support can also include helping developing countries implement trade facilitation provisions of international trade agreements, including a possible future WTO Trade Facilitation Agreement. The intention is that it will act as a catalyst for mobilization of resources from others, including development banks and traditional and non-traditional donors, and that TFF assistance will be delivered through technical advisory services and capacity-building activities by a range of providers.

Examples of expected TFF activities include providing long-term technical advisors to support the implementation of regulatory and policy reforms related to trade and transport facilitation; short-term advisory services in the design and improvement of regional trade facilitation and transit regimes; technical support for the improvement of border management clearance technical controls and standards systems and capacity building to promote better design, investment and management of critical trade-supporting infrastructure.

Governments of developing countries and regional organizations are eligible to apply for TFF funding. Proposals will be evaluated on their consistency with countries' development priorities and potential for concrete, measurable improvements in trade facilitation systems. The intention is that the TFF will respond on a rolling basis and through a fast-track process, with approvals expected within 4-6 weeks. The implementation period for TFF projects could be of any duration up to two years.

(iii) Standards and Trade Development Facility

In 2002, five international agencies (World Trade Organization, World Health Organization, World Bank, World Organization for Animal Health, and Food and Agriculture Organization) created the Standards and Trade Development Facility (STDF) to assist developing countries in strengthening public and private capacities to implement sanitary and phyto-sanitary standards (SPS), particularly for agricultural products destined for international markets. The WTO agreed to serve as the executing institution.

Public sector entities (including regional or international bodies) with responsibility for SPS measures or policy, either on their own or in cooperation with the private sector or non-profit non-governmental organizations with expertise in SPS operating in developing counties, are eligible to apply for STDF funding. While open to all developing countries, applications for funding are particularly encouraged from public and private sector organizations in LDCs.

The STDF funds small technical assistance projects in specific countries and commodities. It also links clients to other sources of technical assistance. Broadly the work of the STDF falls into several categories, including: preparation of capacity evaluation tools; research on good practices among developing countries; dissemination related to good practices and to the use of capacity evaluation tools; as well as project work (for example an initiative to control various fruit fly species in West Africa that limit the possibility of exporting). Total funds for SPS projects, including projects related to SPS evaluation and planning tools, as well as capacity building projects, amount to around $5 million.

Started in August 2002, the STDF was not slow off the mark. As of August 2009 a total of 43 projects and 40 project preparation grants had been approved for STDF funding; 19 projects and 30 project preparation grants had been completed. The agency has received more proposals than it has resources to support, and its approvals have at times been ahead of resources available.

The external evaluations of the STDF program (the latest in March 2008) point to positive outcomes. In particular it is one of the areas where there has been a successful collaboration with the Enhanced Integrated Framework. A number of projects have been developed and funded over the last couple of years based on SPS needs identified in the DTIS process of the EIF. More recently links with the broader Aid for Trade initiative have been strengthened. The STDF program clearly results in tangible and operational outcomes, notably with SPS standards.

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