

## Briefing on the Integrated Framework and Enhanced Integrated Framework

The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF) was mandated by the First WTO Singapore Ministerial Conference in December 1996. It was officially inaugurated in October 1997 at the WTO High Level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development by six multilateral institutions, which became known as the IF Agencies, these being IMF, ITC, UNCTAD, UNDP, World Bank, and WTO.

IF is a multi-agency, multi-donor programme meant to assist LDCs to expand their participation in the global economy through fully integrating trade into national development plans, including poverty reduction strategies. IF had 3 broad implementation stages:

- Preparatory activities through a Technical Review;
- Diagnostic phase through a Diagnostic Trade Integration Study and Action Matrix; and
- Follow-up activities through implementation of the Action Matrix.

The IF's achievements in its early years were relatively modest, with only a handful of LDCs accessing the limited benefits from the initiative. At this stage the IF did not have an established trust fund. In 2000, the six agencies involved in running the IF conducted a review and adopted a number of recommendations and institutional changes aimed at improving the IF's effectiveness. Two main objectives were formulated for the revamped IF:

- to mainstream trade into the Poverty Reduction Strategy Papers (PRSPs) or similar national development plans of individual LDCs; and
- to assist in the coordinated delivery of trade-related technical assistance.

The IF was revamped to include two funding "windows":

- Window 1: for financing Diagnostic Trade Integration Studies (DTISs) (US\$300,000 per country) and strengthening in-country structures (US\$38,000 per country).
- Window 2: for financing priority capacity building projects in LDCs as identified in the DTIS Action Matrices (US\$1 million per country).

At the country level, the delivery of the IF was structured around a number of processes and responsibility centres, including:

- The National Steering Committee (NSC): representatives of government, civil society and the private sector. Its main functions are to provide overall in-country coordination and direction to the IF, to monitor progress and to help integrate trade into the PRSP.
- The National Focal Point (NFP): usually a high level civil servant from the Trade Ministry or other core economic Ministry. The NFP's main functions are to coordinate the IF process, build awareness and liaise closely with donors.
- The IF Facilitator (IFF): a representative of the local donor community. The IFF's main functions are to coordinate activities between the donors and the government, to assist the government in developing a work programme, and to liaise with donor headquarters.
- The Local Project Appraisal Committee (LPAC): comprising various representatives of government, private sector, civil society, the core agencies, the NFP and the IFF. Its main function is to approve projects for funding under Window 2.

However even the revamped IF and the new structures did not generate the expected impacts in terms of mainstreaming trade into development plans. A report of the Chairman of the Task Force on an Enhanced Integrated Framework noted that:

*"The IF has generally failed to mainstream trade into the PRSP process and has not provided adequate financial and human resources to the LDCs to deliver the intended outcomes. The process has been slow and the success in moving from the diagnostics and priority-setting of the IF to investments by the donors and agencies under their permanent programs has been*

*relatively low. In other words, there is an implementation gap; priorities identified in the DTIS process are not being picked up in mainstream investments*".<sup>1</sup>

A joint paper<sup>2</sup> by the World Bank and IMF presented at the Development Committee in 2005 also illustrated a number of challenges faced by the IF:

*"The IF faces considerable challenges in mainstreaming trade into the PRSP process and translating diagnostics into implementation. Such challenges include: weak in-country capacity; lack of systematic follow up at the country level; insufficient and uncertain financing; and variable donor response to priorities in the DTIS. The enhanced IF could meet these challenges in several ways: (i) by supporting the creation of strong in-country leadership on trade; (ii) promoting the development of a coherent strategy for trade and competitiveness; (iii) sustaining this trade push via a multiyear, rolling program of capacity building, and; (iv) promoting increased donor coordination on aid for trade, via both multilateral and bilateral channels.*

These recommendations were subsequently endorsed in the WTO's Hong Kong Ministerial Declaration<sup>3</sup>, which reaffirmed the commitment "to effectively and meaningfully integrate LDCs into the multilateral trading system," noted that the Ministers attached "high priority to the effective implementation of the Integrated Framework" and recognised the "urgent need to make the IF more effective and timely" (paragraph 48). Ministers recommended the establishment of a task Force and required the Task Force to report back to the IF Steering Committee by 30 April 2006 so that an enhanced IF could be launched by 31 December 2006.

Intensive and long preparatory work started on the design of the EIF in early 2006. The Task Force (TF), which was created to make recommendations to improve and enhance the IF, acknowledged that the (old) IF had failed to mainstream trade into the PRSP process. In line with its mandate, the TF focused on 3 specific elements:

- Increased, additional and predictable financial resources to implement Action Matrices;
- Strengthened in-country capacities to manage, implement and monitor the IF process; and
- Enhanced IF governance.

The IF Working Group (IFWG) and IF Steering Committee (IFSC) approved the TF recommendations on 23 and 25 June 2006, respectively. A Transitional Team was created to oversee the process of producing detailed guidelines needed to put the TF recommendations into operation. The work was carried out through 3 clusters focusing on:

- In-country issues;
- Legal and administrative issues; and
- Financial issues.

In spite of the recommendations of the Task Force it emerged that it was not possible to host the EIF secretariat and the Trust Fund Manager in one institution. Hence, it was decided that the WTO will host the EIF Secretariat and the role of the Trust Fund Manager will be given to another institution to be selected according to criteria to be set by the stakeholders. This division of responsibilities and protracted negotiations on almost every aspect of the programme has caused a number of delays so the EIF has not been able to be launched as per the original schedule envisioned in Hong Kong.

The cluster process lasted until April 2007 and a detailed EIF *modus operandi* or "Compendium" was endorsed by IFWG and IFSC on 1<sup>st</sup> May 2007 to guide the EIF management and implementation process. It includes the Terms of Reference for the bodies that constitute the EIF

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<sup>1</sup> Report of the Task Force on the Enhanced Integrated Framework

<sup>2</sup> "The Doha Development Agenda and Aid for Trade", DC2005-0016 (September 12, 2005)

<sup>3</sup> Ministerial Declaration of the WTO Ministerial Conference held in Hong Kong, December 2005.

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and procedures to access funding under Tier 1 and Tier 2 modalities (with the Tiers replacing the Windows of the old IF).

However, despite this progress, at the end of April 2007 the selection criteria and the selection itself of the Trust Fund Manager and the accountability framework were still outstanding.

An Interim EIF Board was elected by respective constituencies, to oversee the smooth transition to the EIF and to address outstanding issues. The Sub-Committee on LDCs, in June 2007, transferred the mandate given to the old IFWG to the EIF Board as a decision-making body for operational and financial oversight and policy direction. Currently, the Board is chaired by Lesotho and comprises Canada, Switzerland and the UK as the cooperating partner representatives; Rwanda, Senegal and Yemen as LDC representatives; and the six IF Agencies. The Board has convened more than 20 meetings since May 2007. It is assisted by an IF Programme Implementation Unit, working as a temporary secretariat for the newly enhanced IF.

On 25 September, the Government of Sweden hosted a High-Level Conference to mobilise international financial support for the EIF. Canada and the UK were very active co-partners in securing the success of this landmark event. The Conference brought together representatives of some 38 donors, the six IF Agencies, as well as five LDCs, the chair, the three LDC interim Board members and the previous LDC coordinator at the WTO, Zambia. Concrete pledges or announcements of full intentions to do so were made by 22 donors. The first two years' target of US\$100 million for the replenishment has been over-subscribed by about US\$10 million. A total amount of about US\$170 million for the envisaged five years EIF duration has been pledged to date. This represents about 75 per cent of the total target of US\$250 million for the five years. Given the support donors have shown so far, it is reasonable to assume that the full funding target will be met. These figures only relate to the multilateral IF Trust Fund and not to additional bilateral contributions that donors may make during the IF process. The IF is guided by the aid effectiveness principles set out in the Paris Declaration.

As at the beginning of February 2008 the following 3 important tasks needed to be finalised:

- Recruitment of an Executive Director to manage a fully-fledged new EIF Executive Secretariat;
- Selection of a Trust Fund Manager, to manage the EIF multilateral funds; and
- Adoption of an EIF Monitoring and Evaluation mechanism.

The Interim Board is looking to complete these outstanding tasks by the end of the first quarter of 2008. From then on, the EIF should be fully operational, albeit having been delayed by more than one year from the original deadline. The start of operations of the EIF will allow it to attend to the needs of the 29 LDCs that had validated their diagnostic studies and action matrices; the 11 LDCs that have had their Technical Reviews approved and the 5 LDCs in which Technical Reviews are underway (as at November 2007).

### Design of the EIF and lessons learned

The evaluation of the IF carried out by the Task Force reported that the main problems with the IF were that country ownership continued to be weak, that the national IF structures had generally not worked to integrate trade into the development process and that there was still a lack of overall awareness of the importance of trade at the country level.

The lessons learned in attempting to mainstream trade into development plans are inextricably linked with the overall functioning of the IF. This calls for holistic, results-based programme management processes to achieve improved results. Such lessons suggest that on-the-ground action, well-defined roles for partners, and minimum transaction costs, supported by the necessary financial and administrative resources, are needed.

During the discussions on EIF modalities a questionnaire was sent to IF Focal Points and Donor Facilitators on the key aspects of the IF process. Two key aspects of the IF were discussed and at times criticised: the performance of the Trust Fund that constituted one of the main innovations of the revamped IF; and the respective roles of the Core Agencies.

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In particular, it emerged from the responses to the questionnaire that almost all Focal Points had reservations concerning the procedures used by UNDP to approve and disburse funds for Window II projects. During the preparatory work for the establishment of the EIF, UNDP maintained that procedures for the approval of Window II projects were established by the IFWG and not by itself. In addition, UNDP attributed the low delivery rate primarily to scarce in-country capacity. It is hoped that the lessons learned on procedures and disbursement of funds under Window II, now Tier II, have been taken fully into account in the design of the accountability framework and the role of the new Trust Fund Manager.

During the negotiations for the establishment of the modalities under Tier I donors clearly expressed their preference for government execution, where project funds are transferred to the NIU. This will, amongst other things, provide an indication as to the level of local ownership there is. Government execution implies that an auditable account is established within the NIU. In those cases where this is not possible, or too complicated, funds can be transferred to a Local Fund Agent who will assist the NIU and will be accountable for project expenses. This issue will need to be carefully monitored as the existence of auditable accounts separate to the ministry's general government account, in trade ministries is not a given nor can it be taken for granted that a Local Fund Agent can be readily found.

The usual current practice under the IF Trust Fund is to provide funds to the IF government through the UNDP country office (referred to as NEX or national execution). This has worked well in some cases and not worked well in other cases<sup>4</sup>. The Sauvé report indicates that the NEX category of implementation showed unspent funds of 76.7%, equivalent to a delivery rate of 23% compared to an overall delivery rate of 51% reported by the Trust Fund report of 2007.

These lessons have been taken into account in the design of the EIF so that the responsibilities of the Board, the Trust Fund Manager and the Executive Secretariat have been strengthened; measures have been taken to strengthen in-country arrangements and the role of the recipient country; the role played by the six IF agencies has been modified; and efforts have been made to ensure that appropriate checks and balances between the NIU and the NSC are in place. However, it is also important that LDCs themselves closely monitor the implementation of all aspects of the EIF.

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<sup>4</sup> See "*Developing a trade policy framework to mainstream trade into national development plans: practical steps under the EIF*" by Sauvé, UNCTAD, 2007