Aid for Trade: Competitiveness and Adjustment
Joint Note by the Staffs of the IMF and the World Bank

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1. Multilateral trade liberalization under the Doha Round has the potential to generate significant economic opportunities that could lift many people out of poverty. Fulfilling this potential requires the leadership of developed countries in further opening their markets, particularly in agriculture and other areas of export interest to developing countries. Developing countries must also reform their own policies in order to take advantage of industrial countries' market opening, and in order to strengthen trade among themselves.

2. Many developing countries are concerned about the adjustment costs associated with trade liberalization, or are ill-equipped to take advantage of new export opportunities. There are a number of ways the IMF and World Bank can help. After a brief review of the status of the Doha Development Agenda, this note summarizes Bank and Fund efforts to help developing countries adjust to trade liberalization and enhance their capacity to take advantage of more open markets, and explores additional ways in which they, and the international community more generally, could contribute in this area via enhancements to the Integrated Framework for trade-related technical assistance.

I. THE DOHA ROUND

3. The Doha Round – covering 148 WTO members accounting for over 97 percent of world trade – offers an unprecedented chance to free up trade and contribute to poverty reduction on a global scale. But this opportunity could be missed if the Doha negotiations do not achieve an ambitious outcome (Annex I outlines the state of play in different negotiating areas).

4. Agriculture could account for some two-thirds of the potential gains from trade liberalization; substantially reducing agricultural protection may be the single greatest contribution that developed countries can make to the Doha Round. Market access in agriculture is the key to a pro-development Doha Round, but with bound tariff rates often well above currently applied rates, meaningful increases in market access will require large cuts in bound rates. Exempting even 2 percent of tariff lines deemed "sensitive" would sharply reduce the benefits from the package. Similarly, large cuts in currently bound levels of domestic support are needed to generate reductions in actual support. The offer to eliminate export subsidies within an agreed timeframe as a part of the outcome of the Doha Round is welcome, if long overdue; however, its actual development impact will depend critically on the transition period and other unresolved modalities.

5. Developed countries must lead, but all countries must contribute. Middle-income countries, particularly those in the relatively new and influential G-20, have to reduce barriers in heavily protected agricultural markets, bring down high tariffs in manufactures,

and contribute with offers to open services markets. Rather than pushing exclusively for "policy space," developing countries should use the opportunity of the Doha Round to lower the barriers that sap the productivity of their economies, taking advantage of special treatment provisions that allow for longer implementation periods when necessitated by fiscal, capacity, and other constraints. Moreover, South-South trade now constitutes between one quarter and 40 percent of developing country exports (depending on the definition of "developing country"), and just under 40 percent of exports from least developed countries (LDCs) go to other low and middle income countries. South-South trade is also growing 50 percent faster than world trade in general. Even without considering the benefits derived from own liberalization, exempting this dynamic segment of global trade from further liberalization undercuts the development objectives of the round.

6. A meaningful Doha package will require action on all fronts by all WTO members. Overall protection for manufactures in developing countries is some four times higher than in high income countries. Yet protection in high-income countries, while relatively low, is biased against the exports of poor countries. Further market opening in services, in particular in key sectors in developing countries such as financial services, has the potential to remove important brakes on development. But equally, further liberalization of the movement of natural persons as service suppliers (under GATS Mode 4) promises large and ongoing gains for both developing and developed countries.

7. In sum, the potential gains are significant, but unless WTO members increase their commitment to an ambitious DDA outcome, this round will not deliver on the promise of its name. All countries must contribute if all countries are to gain.

II. Differential Benefits

8. Despite significant potential income gains overall, even a Doha Round that stimulates pro-poor growth throughout the developing world will not benefit every country equally. Some countries could face significant transition costs following liberalization, including pressures on their balance of payments and their fiscal accounts. Net-food importing countries, particularly in sub-Saharan Africa, may suffer from rising food prices as subsidies in rich countries are reduced.

9. A relatively few countries may see their preference margins in key export markets for products such as sugar, bananas, and textiles and clothing significantly eroded. There are some mitigating forces: terms of trade effects for these countries might be offset as prices of their other exports, for example cotton or labor-intensive manufactures, rise. Costs will also be spread over the long (10–15 year) implementation period of any liberalization. Even so, the internal adjustment costs for some countries with limited capacity to bear them could be significant, and they will require support and assistance from the international community if they are to benefit from a successful Doha Round.

10. A more widespread and fundamental issue is that a number of developing countries are ill-equipped to take full advantage of new trade opportunities because of significant

supply-side and institutional constraints. Many countries' ability to compete in world markets is undermined by the absence or inadequacy of the basic machinery for trade—be it modern and efficient customs, roads and ports, the infrastructure and institutions needed to meet standards in export markets, or simply knowledge about market opportunities and how to access them. Furthermore, while trade reforms are necessary to stimulate increases in productivity and output, rarely are these reforms sufficient, especially in the poorest countries. For trade to become a strong lever for growth, good trade policies typically need to be accompanied by complementary reforms, capacity building, technical assistance, and investments in infrastructure.

11. The potential adjustment costs faced by developing countries as a result of trade reforms were recognized in a September 2003 joint letter from the President of the World Bank and Managing Director of the IMF to the WTO Director-General. The letter outlined the tools available to the two institutions to help address developing countries' concerns with trade liberalization and promised the support of the Bank and Fund in: (i) assessing the nature and magnitude of any adjustment need, (ii) assisting with the design of policies, institutional reform and investment programs aimed at addressing key obstacles to trade expansion, and (iii) helping to manage the impact on affected population groups.

III. CURRENT AID FOR TRADE: BANK AND FUND ACTIVITIES

12. Against this background, the IMF and World Bank have been strengthening their activities in support of trade (these activities are further described in Annex II). The World Bank is engaged across the five fronts of "aid for trade": (i) technical assistance; (ii) capacity building; (iii) institutional reform; (iv) investments in trade-related infrastructure; and (v) assistance to offset adjustment costs, such as fiscal support to help countries make the transition from tariffs to other sources of revenue.

13. World Bank resources for activities across these five areas have been significantly increased. In FY05 alone, 44 trade components of country-level studies and 11 regional studies covering more than 50 countries were completed. Bank lending for trade, through enhanced investments in infrastructure and programs to support trade facilitation, increased 50 percent for FY04-06 over the level for FY96-03 and operations on trade facilitation are expected to extend to more than 50 countries.

14. The IMF has also responded to the trade-adjustment challenges facing developing countries by stepping up its work on trade. With the introduction of the Trade Integration Mechanism (TIM) in 2004, the IMF enhanced its ability to provide financial assistance to members facing balance of payments pressures resulting from multilateral trade reforms. The IMF has sharpened its surveillance of countries with trade-related vulnerabilities and has continued to provide trade-related technical assistance for customs and tax reform.

15. Looking forward, the Fund is examining ways to further strengthen support for trade adjustment, including through the use of floating tranches under Fund arrangements aimed at mitigating the balance of payments impact of trade reforms whose timing remains uncertain.

The Fund could discuss the case for such tranches with authorities in the context of new Fund-supported programs, or under existing arrangements, in conjunction with an augmentation of access at the time of a review. While it is not expected that floating tranches would be large, their release might serve as a trigger for additional donor funding in support of trade adjustment.

IV. Strengthening Aid for Trade through the Integrated Framework

16. Development assistance to support trade reform and integration benefits not only the recipient country, but the global economy as a whole. Yet demand for, and capacity to absorb, "aid for trade" still exceeds available resources. For these reasons, the Bank and Fund staffs see a strong case for increased assistance, in the form of grants or loans, to cover the gamut of needs in aid for trade from technical assistance to budget support or investment lending. Such resources should be genuinely additional to existing aid budgets.

17. Most importantly, any additional resources should be used to build on progress already made. In the first instance, this means strengthening the Integrated Framework (IF) (Box 1). A strengthened IF would in turn enhance recipients' ability to bring trade needs into the Poverty Reduction Strategy (PRS) process at the country level, where additional resources, for example to address significant infrastructure constraints, could be generated. Consideration should also be given to extending the IF beyond least developed countries (LDCs) to other poor countries and to ways to strengthen the IF Secretariat (located in the WTO) and the in-country IF focal points.

Box 1: The Integrated Framework

The Integrated Framework for Trade-Related Technical Assistance (IF) brings together multilateral agencies (the IMF, ITC, UNCTAD, UNDP, WTO and World Bank) and bilateral and multilateral donors to assist least-developed countries (LDCs). It has two objectives: (i) to integrate trade into national development plans such as the Poverty Reduction Strategies (PRS) of the LDCs; and (ii) to assist in the coordinated delivery of trade-related technical assistance in response to needs identified by the LDCs. The IF is built on the principles of country ownership and partnership and is financed from a Trust Fund comprising two main "Windows."

The first step in the IF process is a Diagnostic Trade Integration Study (DTIS), financed under Window I. This contains the main elements of a trade integration policy framework and an action matrix that serves as the basis for delivery of trade-related technical assistance and identifies other main needs for investments to address trade integration. A special facility (Window II) was created in May 2003 to finance high priority projects from the action matrices.

18. The IF is an appropriate mechanism upon which to build an expanded aid for trade program, including as a means of ensuring ongoing country ownership and donor coordination. There is considerable scope to scale up and expand its activities. For example, additional resources for Window I could be used to provide "on request" trade diagnostic services on specific issues to governments. Under Window II, additional aid for trade

resources could finance an increase in the US$1 million currently allocated to each country for technical assistance and capacity building. A significant resource increase would enable the IF to play a more sustained catalytic role in building trade capacity through preparation of a multi-year program of activities and investments, including involving the private sector, in the context of the PRS.

19. While the IF Trade Diagnostic Studies (DTIS) form a solid basis for identifying needs, a coherent trade strategy would need to be developed within which additional projects to support trade facilitation and adjustment could be planned. Part of the assistance under a more extensive IF could be devoted to building sustained capacity within Ministries of Trade and other key agencies responsible for advocating and implementing trade policy reforms to engage in this kind of policy design and implementation. This combination of timely support for activities to meet needs identified in the DTIS and building of trade policy capacity could help to build momentum for trade reform, and for trade integration as a priority for further development assistance in the context of the PRS.

20. A stronger IF and its closer linkage to the PRS would help promote increased technical assistance and capacity building to alleviate constraints to the competitiveness of developing countries. The strengthened IF could also include efforts to design a blueprint for new infrastructure investments and institutional reform programs that would eliminate bottlenecks to expanded trade. These could provide a framework for subsequent new investments and programs which could be undertaken with support from existing institutions using existing instruments coordinated under the auspices of the PRS. This would require substantially increased resources to be made available, both for these new investments and programs and for the strengthened IF.

21. Consideration could also be given to extending IF activities beyond LDCs to other low income countries—for example, all IDA-only recipients, an increase from 50 to 68 countries. This might facilitate a regional approach to assistance in cases where supply-side constraints could usefully be addressed at a multi-country level. Extending enhanced IF assistance to this larger group of countries should be manageable, taking into account the likely number of eligible countries, the size of some recipients, disbursements already made and the likely period over which other disbursements would be made (4-5 years).

22. Expansion of the IF and improving its links to the PRS process would require strengthening of, and increased donor resources for, its underlying institutional arrangements. Priority areas include resources for the IF Secretariat (within the WTO Secretariat) and those for diagnostic work and for linkages to the PRS (primarily within the World Bank), as well as institutional strengthening of in-country IF focal points (often within trade ministries) and Trust Fund management and fiduciary functions (within UNDP).

23. An enhanced IF would thus not itself be a mechanism for large scale projects, but would be an essential step in generating additional resources for aid for trade and would help to ensure that such resources were channeled effectively through the PRS process. Improved links between the IF—and other aid for trade initiatives—and the PRS process at the country

level would not only ensure that trade is integrated into broader development and poverty reduction strategies, but also that strategic aid for trade interventions take place in policy environments most conducive to their success.

24. These proposals are offered to stimulate discussion on ways to strengthen aid for trade. The Bank and Fund will continue to consult with all interested stakeholders with a view to developing a more detailed proposal for consideration at their Annual Meetings.

Update on Progress in the Doha Development Agenda

This will be a critical year for the Doha negotiations. After the Cancún failure in 2003, the WTO July Package (formally agreed on 1 August 2004) gave new hope that the negotiations could be put back on track. At this stage, however, there is considerable work to do for the WTO Ministerial in Hong Kong SAR (December 13–18, 2005) to deliver results consistent with the initial ambitions of the Doha Development Agenda (DDA).

The July package was an important milestone since it clarified the framework for agricultural negotiations (agreeing on the future elimination of export subsidies) and put an end to the tug-of-war around the Singapore Issues, with the decision that only trade facilitation would be part of the negotiations under the DDA. At the same time, the text concerning non-agricultural market access (NAMA) and the trade and development aspects of the round left much to further negotiation. With respect to services, the only novelty was the new date (May 2005) for the submission of revised service offers by WTO members.

Agriculture

- The main stumbling block in the negotiations is market access. Key issues include details of the tariff reduction formula and the definition of “sensitive” and “special” products to face lower cuts. Currently, attention is focused on how best to calculate “ad valorem” equivalents (AVEs) of specific duties. The complexity of the issue goes beyond technical questions (e.g., the choice of the representative price of an imported product, particularly, in the presence of tariff rate quotas), encompassing also political considerations (what degree of challenge and verification will be allowed vis-à-vis the numbers produced by each member?). Unless rapid progress is achieved on this front, it is unlikely that the goal of having a first approximation of modalities (formulas and other details required for the final deal) by July 2005 will be achieved.

- The trade-related aspects of the ***cotton initiative*** are being dealt within the negotiations on agriculture in the Cotton Sub-Committee, with progress tied to the overall agriculture negotiations. The WTO DG has also been consulting with relevant international organizations, including the World Bank and IMF, on how best to make progress on the development assistance dimensions of this topic. A report on these consultations was presented by the DG to the General Council in December 2004, emphasizing the good level of cooperation among all parties involved. This exercise is currently focusing on mapping existing actions by development agencies, but the debate will soon move toward the adequacy of these efforts vis-à-vis expectations of the LDCs.

- The Cotton-4 (Benin, Burkina Faso, Chad and Mali), with the support of NGOs, are pushing for the establishment of an “emergency fund” to address the needs of cotton farmers while the distortions caused by OECD subsidies are not eliminated. However, there does not appear to be support for this initiative among donors. The role of World Bank programs in the Cotton-4, in particular its pro-privatization initiatives in the 1990s, has come in for criticism.

- An important recent development with respect to cotton was the final decision of the WTO's Appellate Body, issued on March 3, 2005 concerning Brazil's challenge of US cotton subsidies. This ruling in favor of Brazil has potentially far-reaching implications for the interpretation of the criteria for non- or minimally-trade distorting subsidies in agriculture and the relationship of obligations under the Agreement on Subsidies and Countervailing Measures (SCM) and those under the Agreement on Agriculture.

Non-agricultural Market Access (NAMA)

- The framework on non-agricultural market access sets the stage for the pursuit of tariff cuts according to a nonlinear formula and the reduction or elimination of nontariff barriers (NTBs). Its level of specificity, however, is low reflecting the many issues where progress in the negotiations has been limited (e.g., the details of the formula for tariff cuts, the rules for participation in sector-specific initiatives, the flexibilities for developing-country participants).

- Major points of contention include the character of the sectoral negotiations and the degree of flexibility to be given to developing countries. The text can be construed to imply that participation on sectoral negotiations is mandatory for all WTO members with the exception of LDCs. Some middle-income countries, however, would like participation on sectoral negotiations to be voluntary, reflecting their interest in maintaining "policy space" for the pursuit of industrial policies. The framework provides special and differential treatment (S&DT) to developing countries, allowing for longer implementation periods for tariff reductions. In the case of LDCs, the only requirement is that they are expected to increase their level of binding commitments. Some African countries, however, would like to see even greater flexibility in the application of the formula for developing countries outside the LDC category, increasing the number of tariff lines that would be treated as exceptions in the tariff cuts dictated by the formula and/or the proportion of tariff lines that could be kept unbound. Another area of concern—particularly for African, Caribbean, and Pacific (ACP) countries—relates to the fear of preference erosion brought by most-favored-nation (MFN) liberalization in industrial products.

- Currently the main topics under discussion include: the definition of product coverage (should this include all products not covered by the negotiations on agriculture?); whether unbound tariffs should be treated outside the formula; how to convert specific duties into ad valorem tariffs; and flexibilities for developing countries (particularly with respect to sectoral initiatives) and newly acceded countries.

- Several proposals concerning the character of the nonlinear formula to be adopted for tariff cuts are also currently under debate. There seems to be growing support for the adoption of a Swiss formula-type of approach (under which higher tariffs are cut by a greater percentage) with different coefficients for developed and developing countries. Some of the proposals also incorporate a system of credits (influencing the Swiss formula coefficient) to reward participation in sectoral initiatives and to promote comprehensive binding. The aim of the NAMA negotiations is to reach modalities by the Hong Kong SAR Ministerial. Many participants, however, continue to express concern that—as was the case in 2004—NAMA negotiations are continuing to take a backseat to the agricultural negotiations and this could jeopardize the achievement of substantive consensus on modalities by December 2005.

Services

- Services negotiations have also been overshadowed by the focus on agriculture so far. By mid-March 2005, only 51 WTO members had submitted initial offers (counting the EU-25 as one) although others are expected. Excluding LDCs, more than 40 members have yet to submit initial offers. Many of the offers are confidential but the general view is that most have a low level of ambition. Revised offers are due by May 2005.

- Parallel negotiations on services rules covering subsidies, government procurement, domestic regulation and emergency safeguard measures (ESM) are reported to be proceeding slowly. Debate on subsidies and government procurement has been quite limited. Most of the focus is on ESM, where there is a wide gulf among those that believe that such a mechanism is fundamental (some East Asian developing countries) and others (most OECD countries) that dispute the feasibility and desirability of a GATS safeguard. Domestic regulation also received attention, but the issues (e.g., a possible necessity test in services) are complex and sensitive.

- Developing countries remain particularly interested in Mode 4 (movement of natural persons), and especially the liberalization of industrial countries' markets for business personnel. However, it is unlikely that the United States will improve its offer in this area by the May deadline. There is significant reluctance from industrialized countries to provide greater freedom of movement of natural persons in view of economic and political considerations (concerns about links between temporary movement and permanent migration as well as potential implications for labor markets), not to mention increased security concerns. There is, however, scope for creative thinking in this area fostering not only greater transparency and faster procedures, but also increasing opportunities for market access. Developed countries, for their part, are interested in greater liberalization in financial services, a position that enjoys increasingly active support from the financial services industry.

- The complexity of the services negotiations—often involving/affecting ministries that are not otherwise directly engaged in trade issues—and the mechanics (based on bilateral request/offer procedures) of the negotiations add to the difficulties faced by negotiators in advancing this agenda. Still, unless there is a renewed engagement of capitals in pushing for progress in the services negotiations, it is difficult to envisage substantive progress on this front by the Ministerial.

Trade Facilitation

- The July package authorized negotiations on trade facilitation**,** focused on expediting the movement, release and clearance of goods, including goods in transit.[1] Annex D of the General Council Decision (Modalities for Negotiations on Trade Facilitation) establishes that the focus of the negotiations should be on clarifying and improving relevant aspects of Articles V (freedom of transit), VIII (trade-related fees and formalities) and X (transparency in the regulation and administration of trade regulations) of the GATT-1994 while promoting technical assistance for capacity building in trade facilitation. The text has many S&DT provisions, linking trade facilitation commitments by developing countries to implementation capacity and availability of technical assistance. It explicitly asks WTO members to collaborate in this area with the IMF and World Bank, as well as other international organizations such as the OECD, UNCTAD, and the WCO.

- Substantive negotiations have started with several submissions made on Articles VIII and X by WTO members. Most of the debate so far has focused on the scope of transparency requirements (with the EU, for example, adopting a broad definition of the concept, including requirements on prior consultations with regulatory authorities, while some members—for example, Brazil—favor a less expansive approach), the scope for S&DT (the "value" of longer implementation periods and the role of technical assistance), the costs of trade facilitation and the required technical assistance in the case of developing countries.

Development

- Concrete recommendations on operationalizing *special and differential treatment* (S&DT) provisions are expected by July 2005. These should build upon the 88 S&DT proposals presented to the Committee on Trade and Development before Cancun. These proposals can be categorized into requests for greater flexibility in terms of "policy space" for developing countries (e.g., greater freedom to pursue industrial policies and to address supply-side constraints via government interventions), preferential market access, support for institution and capacity building, and improvement in the capacity of developing countries to benefit from dispute-settlement procedures.

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[1] The General Council decision also made clear that the other Singapore Issues will not be part of the single-undertaking under the DDA. Their future in the WTO remains open to debate. Many developing countries (particularly members of the G90, that congregates ACP countries, LDCs and the African Union) would like to see these themes definitively dropped from the WTO agenda. Other members (e.g., the EU, Japan, Korea), however, would rather see work on clarification of these themes continue under their respective working groups. At present, these working groups are inactive.

- There is little hope that consensus will be reached on all of these proposals. An important challenge ahead is to narrow this body of proposals to a substantive package that could be operationalized. One of the key difficulties in this context is that any attempt to calibrate S&DT by level of development, leading to greater “differentiation” across developing countries, is bound to face strong opposition from developing WTO members.

Other Considerations

- Trade frictions outside the Doha process could affect the pace of negotiations. Possible dangers include discussions between the EU and United States regarding aircraft subsidies and issues surrounding the EU banana trade regime. The schedule for selecting the new WTO DG calls for a decision to be made by end-May for a term beginning in September 2005. Should that process spill over into the summer it may become a drag on the Doha negotiations.

World Bank and IMF Activities to Date in "Aid for Trade"

World Bank

Resources for trade-related activities have been significantly increased. In FY05 alone the Bank has completed 44 trade-related components of **country-level studies** and 11 **regional studies** covering more than 50 countries. This is an important knowledge base; however more needs to be done to integrate trade into the Poverty Reduction Strategy Papers (PRSPs) and Country Assistance Strategies (CAS), so that knowledge can be translated into programs and investments that strengthen the capacity to trade.

Bank lending for trade, through enhanced investments in infrastructure and programs to support **trade facilitation**, increased 50 percent for FY04-06 over the level for FY96–2003. In FY04, the Board approved 16 new projects with trade facilitation components for total commitments (assigned) of more than US$560 million, more than doubling the number of projects and commitments in FY03. Further, it is anticipated that Bank lending for trade facilitation in FY04–06 will amount to US$1 billion, more than three times the total lending during FY96-03. Operations on trade facilitation are expected to extend to more than 50 countries.

The Trade Facilitation Initiative has already developed a series of tools, including a "Customs Modernization Handbook" and a modular approach to project preparation in ports, transport and security for task managers. The Bank is also developing Global Logistic Indicators, to measure progress in key areas such as customs, regulatory environment, and port performance. These are complemented by new analytical tools—Trade and Transport Facilitation Audits, Supply Chain Studies and Investment Climate Surveys—and an ambitious dissemination and awareness-building program of regional seminars.

The Bank is also working closely with partners at the country level to implement programs tailored to country needs, spanning **policy advice for countries pursuing unilateral trade liberalization reforms** (such as Bangladesh, Ecuador, Ethiopia, India, Iraq, Madagascar, and Vietnam), **policy-based operations with trade components** (for example, in Bangladesh, Ecuador, Madagascar, and Vietnam) and **advice and technical assistance for countries working towards WTO accession** (such as Russia, Ethiopia, and Vietnam).

Strong partnerships with local and regional institutions has also enabled the World Bank Institute to increase its trade-related activities in **training and capacity building**, promoting 49 learning events around the world in FY04—up from 28 activities only a year ago and 12 activities the year before. This year alone, new courses have been delivered on trade in services, trade facilitation, trade and poverty, and standards.

The Bank continues to work actively with other international organizations on aid for trade, for example via the Standards and Trade Development Facility, initiated by the World Bank and the WTO.

IMF

Trade-related activities at the IMF fall mainly into four categories: surveillance; financial support; technical assistance; and research.

Following the Doha Declaration, the IMF Executive Board encouraged the stepped-up **surveillance** of trade policies, especially in industrial countries whose policies are of fundamental importance for the world trading system. The Fund has now established a track record of frank dialogue with members about trade, both in the context of bilateral surveillance and through multilateral instruments such as the World Economic Outlook (WEO), which has incorporated ten significant trade sections or boxes since 2001.

The Fund remains fully committed to assisting members that face external payments imbalances in finding the appropriate mix of adjustment and **financing**, including when these imbalances stem from trade policy reforms. The Trade Integration Mechanism (TIM), introduced in April 2004, provides additional assurances to Fund members of the availability of Fund financing in the face of uncertainty over the possible balance of payments impact of liberalization by *third* countries—such as from preference erosion, changes in food terms of trade or the expiry of textiles quotas. Support from the TIM has been approved for two countries and discussions with several others are at an advanced stage.

The Fund’s trade-related **technical assistance** (TA) has increasingly focused on strategic elements aimed at providing an overall framework for reform and continuing oversight, thus complementing the more detailed elements of the TA provided by other institutions and donors. The Fund has fielded 25-30 trade-related TA missions annually in recent years.

Trade-related **research** is an important input into the more operational trade work. Fund studies in such areas as preference erosion, for example, have helped to identify countries with trade-related macroeconomic vulnerabilities and thereby led to more focused surveillance and a better dialogue with national authorities. Operational work has also benefited from Fund studies in areas such as the revenue implications of trade reform, the design of regional trade agreements, balance of payments safeguards, and the links between exchange rate volatility and trade.

The Integrated Framework

The Bank and IMF are key participants in the Integrated Framework (IF), the central mechanism for inter-agency cooperation on aid for trade, which brings together bilateral and multilateral donors and multilateral agencies (the others being the ITC, UNCTAD, UNDP and the WTO) to assist LDCs. The aim of the IF is to integrate trade into the national development plans of LDCs and assist in the coordinated delivery of trade-related technical assistance in response to needs identified by those countries. Seventeen donors, including the Bank, have contributed a total of US$28.1 million to date, with a further US$10.5 million required for 2005.

Following the completion of fourteen Trade Diagnostic Studies (DTIS) and the organization of dissemination workshops in these countries, the IF has moved from diagnostics to implementation. Under this stage, special technical assistance resources of up to US$1 million per country are distributed from the Special Grant Facility approved in July 2003 (Window II). Twelve of the fourteen countries have submitted projects for approval and projects totaling almost US$7 million have been approved.

World Bank trade activities in IF countries are also growing. In Cambodia, support includes the development and dissemination of trade information tools, trade policy research, and advocacy, capacity building for trade officials and private sector participants. In Madagascar, the IF has provided a strong impetus to recent trade reforms, which focused on the reduction, simplification and consolidation of taxes and duties. In Southern Africa, Trade and Transport Facilitation Audits for Malawi, Mozambique, and Zambia are expected to help these IF countries strengthen their integration and competitiveness.

There is considerable interest and demand from new countries to enter the IF process, and the leadership of the WTO and several bilateral and multilateral aid agencies have declared strong support for the mechanism. Between January 2004 and June 2005, we will likely have almost doubled the number of active IF countries from 14 to 28. There is considerable scope to do more.