23. The 2005 Hong Kong SAR Ministerial will be a key test of the ultimate ambitions of the "development" round. If all countries stick to minimalist positions, there is little chance that the Doha Round will make a significant contribution to reducing global poverty. And an investment in a successful Doha Round is an investment in the future of a strong and effective multilateral trading system. To this end, the World Bank and IMF are intensifying their efforts in support of an ambitious outcome from the Doha Round. In addition to support for the trade facilitation negotiations (see paragraph 16), and increased lending for trade (see paragraph 31 below), the Bank has conducted an extensive program of research, seminars and outreach, including in Geneva, to help inform key issues in the negotiations. This work has focused on the impact of agricultural trade reform on all WTO members, including the poorest; preference erosion; services liberalization and the GATS; and trade liberalization and poverty. The IMF has introduced the Trade Integration Mechanism (TIM) (see paragraph 32 below), to provide financial assistance to members facing balance of payments pressures resulting from multilateral trade reforms by other countries, and is examining the use of floating tranches under Fund arrangements aimed at mitigating the balance of payments impact of own trade reforms. The Fund has also sharpened its surveillance of countries with trade-related vulnerabilities and is providing trade-related technical assistance for customs and tax reform.

II. AID FOR TRADE

24. At their meeting of February 5, 2005 G7 Finance Ministers called on the IFIs to develop proposals for additional assistance to countries to ease adjustment to trade liberalization and to increase their capacity to take advantage of more open markets. In response, a joint paper from the Bank and IMF was tabled at the 2005 Spring meetings.[9]

25. At the Spring meetings, the Development Committee and the International Monetary and Financial Committee (IMFC) called on the Bank and Fund to work with others to develop more detailed proposals to help developing countries adjust to and take advantage of the round, for consideration at the Annual Meetings. These requests were echoed by the G8 in Gleneagles in July 2005.

26. In response to these requests, the Bank and Fund organized a consultation process with key stakeholders in Geneva, ably chaired at our request by the Ambassadors of Rwanda and Sweden. The outcome of those consultations is reflected in the cover letter and paper forwarded to us by the Ambassadors at Annex I.[10]

27. In line with the above request from the Development Committee and the IMFC, this note outlines proposals by IMF and World Bank staff to help developing countries adjust to and take advantage of the Doha Round, for consideration at the Annual Meetings.

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[9] "Aid for Trade: Competitiveness and Adjustment," DC 2005-0006, dated April 12 2005.

[10] Bank staff contributed to the drafting of this paper in a personal capacity.

A. The Case for Aid for Trade

28. To reach the MDGs, growth must be accelerated in many countries. Trade can be an important engine of growth, but many poor countries lack the basic infrastructure to trade and face considerable supply-side constraints in participating in global markets. These difficulties can be compounded by own trade policy settings that create disincentives to enter international markets, such as maintenance of high unbound tariffs.

29. There may be too little trade reform in part because MFN (non-discriminatory) trade reform is a global public good not adequately internalized in country processes. Trade policy reforms (such as lowering of tariffs) and investments in trade machinery (such as customs reform and ports) can have significant externalities. All countries benefit from one country's trade reforms and trade-related investments, and benefits are increased when undertaken by a number of countries concurrently. However, the full benefits of reform are not captured by the country itself, leading potentially to "under-investment" in reform.

30. In the current Doha Round, aid for trade[11] can help to encourage an ambitious outcome in which all countries participate. Indeed, both the Doha declaration and the July Framework Agreement[12] contain multiple references to the need for technical assistance and capacity building for poor countries to undertake commitments and benefit from the round. Many poor countries see limited benefits from the round unless their supply-side capacity constraints are addressed. Others fear that they only stand to lose from preference erosion under multilateral liberalization, and that they would have to forego scarce fiscal revenue or suffer other adjustment costs. Addressing these concerns is an important part of ensuring overall success of the Doha Round and a strong and effective multilateral trading system—both of which are very much in the interests of poor countries as well as of the global trade community as a whole.[13]

31. While aid for trade may be a key complement to ambitious liberalization under the Doha Round, and is important in its own right, it is not a substitute. Put more starkly, the majority of developing countries will gain more from a successful Doha Round that opens markets and reduces subsidies than from any aid for trade package.

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[11] "Aid for trade" comprises: technical assistance; capacity building; institutional reform; investments in trade-related infrastructure; and assistance to offset adjustment costs, such as fiscal support to help countries make the transition from tariffs to other sources of revenue.

[12] See WTO, Ministerial Conference, Fourth Session, Doha, November 9–14, 2001, "Ministerial Declaration: Adopted on November 14" WT/MIN(01)/DEC/1, dated November 20, 2001 and WTO, "Doha Work Program: Decision Adopted by the General Council on 1 August 2004," WT/L/579, dated August 2, 2004.

[13] Goal 8 of the MDGs (a global partnership for development) includes as one of its targets the further development of an open, rules-based predictable, nondiscriminatory trading system.

B. Progress to Date on Aid for Trade

32. Some progress has already been made on aid for trade:

- The OECD DAC/WTO database indicates that resources devoted to trade-related capacity building and technical assistance increased significantly in 2003, after being static between 2001 and 2002. Commitments for trade policy and regulations increased from about US$660 million per year in 2001–2002 to almost US$1 billion in 2003. Commitments for trade development activities increased from US$1.35 billion per year in 2001–2002 to US$1.8 billion in 2003.[14]

- The World Bank has scaled up its activities, with lending for trade increasing from US$0.8 billion in FY98–00, to US$1.4 billion in FY01–03, to a projected US$3 billion in FY04–06. Trade facilitation is a significant component of this, accounting for US$1 billion in FY04–06.[15]

- The IMF has introduced the Trade Integration Mechanism (TIM), designed to assist member countries to meet balance of payments difficulties that might result from trade liberalization by other countries. Two countries have taken advantage of the TIM to date—Bangladesh (US$78.03 million, equivalent to 10 percent of their IMF quota) and the Dominican Republic (US$32.03 million, equivalent to 10 percent of their IMF quota).

- The Integrated Framework of Trade-related Technical Assistance (IF), which brings together multilateral agencies (the IMF, International Trade Centre (ITC), UNCTAD, UNDP, WTO and World Bank) and bilateral and multilateral donors to assist least-developed countries (LDCs), has been re-vamped and is now operating in 28 countries, with another 9 in the offing.

33. But while things have improved, much remains to be done for the trade and competitiveness vision to be shared and articulated at the highest levels of government, and fully reflected in national development strategies. While the IF was designed to spur this process, as a vehicle to mainstream trade in the Poverty Reduction Strategy (PRS) process, and to promote donor coordination in trade-related assistance, follow-up has often been incomplete and donor response slow. It is clear that more needs to be done, and there is a window of opportunity to move forward:

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[14] The 2004 Joint Report on Trade-Related Capacity Building and Technical Assistance (TRTA/CB) cautions that these amounts cannot be summed to give an overall value for TRTA/CB. See p. 8 of: http://www.oecd.org/dataoecd/27/4/11422694.pdf.

[15] Trade-related lending refers to the trade theme component of loans (i.e., those components with a significant impact on trade).

- Annual development aid is expected to increase by US$50 billion between now and 2010. Scrutiny of the extent to which the increased aid results in sustained growth outcomes is bound to increase. Furthermore, dealing with the likely real exchange rate appreciation ("Dutch Disease") effects of increased aid will require that greater attention be paid to trade liberalization, facilitation and to international competitiveness more generally.

- The critical juncture of the Doha Round provides a political focus for aid for trade.

- The current work program of the IF runs through to the end of 2005. This provides an opportunity to look again at how the IF can work to promote an agenda of trade, competitiveness and growth in poor countries.[16]

C. Ways Forward on Aid for Trade

34. It is against this background that the World Bank and the IMF were asked by the Development Committee and the IMFC to develop proposals on aid for trade. The Geneva consultation process undertaken pursuant to that mandate identified a number of non-mutually exclusive approaches for increasing aid for trade (Annex I):

- An enhanced IF, including significantly strengthened machinery for in-country follow up, as well as increased, multi-year resources, to strengthen basic trade capacity building and promote mainstreaming of trade in the PRS.

- A multilateral fund to provide a predictable source of follow up financing for priorities identified in the country-level Diagnostic Trade Integration Studies (DTIS) conducted under the IF.

- A multilateral fund to address adjustment concerns from multilateral liberalization under the Doha Round.

35. Based on the input and feedback received via this process, the following section outlines those areas that the Bank and Fund staffs feel represent the most effective response. In sum:

- The staffs of the Bank and Fund support a significantly enhanced IF, with the design and resources to function as an effective platform for integrating the growth and competitiveness agenda into the national development strategies of poor countries.

- The staffs of the Bank and Fund have, however, doubts about the value of a general, multilateral fund to follow up on priorities identified in the DTIS. Such a fund may

[16] Provision of technical assistance is also included in the mandate for WTO negotiations on trade facilitation under the DDA (see Part I). WTO members may wish to consider the implications of this mandate for the broader aid for trade agenda.

not be necessary with full and faithful implementation of the enhanced IF. That said, Bank and Fund staff see merit in exploring the feasibility and desirability of a fund to provide co-financing for *regional or cross-country* aid for trade projects that are inevitably insufficiently addressed under the country-based PRS process.

- The staffs of the Bank and Fund see value in strengthening the assessment of adjustment needs to enable existing assistance mechanisms to be better utilized, and, in cases where adjustment effects are particularly severe, in having the IFIs coordinate with other donors to provide a package of additional assistance in the form of grants or loans as appropriate. However, the staffs have serious misgivings about the desirability and effectiveness of a separate fund to address adjustment, given the availability of existing mechanisms and the need to consider adjustment as part of an overall package of domestic policy reforms and economic planning.

Enhancing the IF

36. The IF is a potentially powerful instrument to help countries generate and embed a trade and competitiveness agenda in their national development strategies. As a mechanism for mainstreaming trade into the PRS, with country priorities identified on the basis of sound diagnostics (DTIS), it provides the most effective channel for trade to tap into existing and additional aid flows. The IF has two central objectives: (i) to mainstream trade into the PRS of LDCs for both policy coherence and proper financing of trade-related projects; and (ii) to assist in the coordinated delivery of trade-related technical assistance in response to needs identified in the LDCs. The key principles upon which the IF is built are country ownership, coherence and partnership.

37. Much has been achieved under the IF to date:

- By the end 2005, DTIS and national validation workshops will be completed in 21 countries. A further 7 LDCs have started the process and 9 more have applied to join.
- As of end of May 2005, 22 Window II projects[17] had been approved in 12 countries, amounting to US$8 million, covering diverse areas, from trade negotiation capacity building (Cambodia, Madagascar, Ethiopia), export-related information gathering and dissemination (Yemen) to sector-specific institutional and technical support (e.g., Burundi, Ethiopia, Senegal).
- As of end of April 2005, 17 IF donors, including the Bank, had pledged a total of US$30.2 million to the IF Trust Fund.

[17] Window II of the IF is a bridging mechanism designed to finance small, priority technical assistance and capacity building projects prior to the incorporation of the DTIS findings in the PRS and subsequent donor funding. Window II currently provides a maximum of US$1 million for each country. See Annex II.

38. The IF enjoys strong support amongst donors and LDCs.[18] In LDCs where it has been implemented, the IF has contributed to increased knowledge of trade issues, facilitated intra-governmental dialogue on trade and growth, and raised awareness of the wide array of complementary reforms needed for trade integration. Donors have found the IF to be a useful common framework for, and knowledge base for the design of, trade-related assistance. Overall, the IF has enabled a more fluid dialogue on trade amongst LDCs, stakeholders within LDCs, donors and trade-related agencies.

39. That said, the IF faces considerable challenges in mainstreaming trade into the PRS process and translating diagnostics into implementation (the achievements and identified shortcomings of the IF as currently implemented are discussed in Annex II). 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.

40. To this end, the enhanced IF would fund two main types of activities:

- ***Multi-year programs of technical assistance and capacity building*** related to, for example, trade policy and strategy, strengthening of core trade-related institutions and functions, certain administrative/regulatory reforms, intra-governmental coordination, and private sector capacities/initiatives. This would encompass a wide range of activities, including the existing range of activities from Windows I and II[19] from the current IF and smaller projects to address supply-side issues.[20]

- ***Project preparation:*** The enhanced IF would strengthen the link between identified large-scale needs in the DTIS (e.g., key trade-related infrastructure), and donor funding by financing project preparation in areas of priority. Completed project proposals could then be presented to donors for appropriate response.

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[18] The Doha Declaration endorsed the IF as a viable model for LDCs' trade development and urged development partners to significantly increase contributions to the IF Trust Fund. Op cit. paragraph 43.

[19] Window I of the IF trust fund is used primarily to provide financial resources up to US$300,000 to the IF diagnostic studies (DTIS) for eligible countries. Window II is explained in footnote 17 above.

[20] Projects would depend upon country needs and priorities, but could: include: trade policy capacity (training, funding for staff or external experts); customs (valuation, computerization, risk management); standards (training, upgrading legislation, surveillance and international accreditation), development of export and investment promotion agencies or private sector industry associations; sectoral support (product development, policy analysis, supply chain upgrading); and development of regulatory and institutional frameworks to support services liberalization or export processing zones. The enhanced IF could incorporate the current Window II funding or, for existing Window II countries, could be implemented sequentially.

41. The enhanced IF would require *predictable, multi-year financing,* with resources increased to a sum in the order of $200–$400 million, disbursed over an initial 5 year period.[21] Financing would continue to take the form of grants, not loans. *Strengthened in-country structures* would also be required to move from diagnostics to implementation (Box 1), along with *improved links to donor processes* to maximize both multilateral and bilateral resources for aid for trade. For example, to assist mainstreaming into country programs, the IF Secretariat could work with countries to follow up pro-actively with donors where necessary. *Engagement with the private sector and civil society* would also be enhanced (Box 1)

42. Improved *monitoring and administration* is an essential component of the enhanced IF. The IF should be placed on a sustainable, fully-funded footing, with adequate resources to ensure its professional operation. Careful attention will also need to be paid to the necessary reforms to the IF governance structure at the global level. The enhanced IF could be reviewed after 5 years, any necessary adjustments made and the possibility of scaling up explored.

43. Operation of the IF is the prerogative of the IF Steering Committee in Geneva; however, in view of concerns expressed by some donors, and structural issues identified in previous evaluations of the IF (Annex II), Box 1 sets out one possible approach to improving the operation of, and outcomes from, the IF at the country level.

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[21] This number is based on an estimated 40 active clients under the program, with exact amounts per country being allocated according to needs and circumstances.

Box 1. A Possible Model for In-Country Institutional Strengthening of the IF

A key first step would be the establishment, with assistance from the IF, of a national IF implementation body (NIB), with trade and operational expertise. The Trade Ministry would play a central role, but the NIB could be housed within a core economic ministry (e.g., Ministry of Finance, or Planning). It will be critical to ensure the effectiveness of the NIB.

The first major task of the NIB would be to develop an overall 5 year implementation plan, translating the DTIS matrix into priority themes and time slices for capacity building. Next, in consultation with donors (e.g., at DTIS follow up conferences), the NIB would identify gaps where existing or planned activities were not meeting needs. Two key gaps are likely to be in capacity building and project preparation, both of which would be financed from the IF Trust Fund. The NIB would then solicit and screen project proposals on these priority topics.

The NIB would also monitor implementation and advocate trade in PRS/economic planning. Additional oversight and assistance would be provided by an intra-governmental policy committee, and private sector and civil society advisory groups.

Projects would be approved by the Trust Fund administrator, who would manage disbursements and arrange for periodic independent reviews of portfolios of projects and operation of the NIB in individual IF countries. Allocation of resources for subsequent tranches of projects would be based, in part, upon satisfactory performance.

Overall oversight would be provided by the IF Steering Committee. The IF Secretariat would manage regional coordinators to support country NIBs and a roster of experts to advise on particular proposals, and coordinate with the country NIBs and the Trust Fund administrator.

Eligibility

44. Appropriate eligibility criteria would need to be developed and could include governance, absorptive capacity and a demonstrated commitment to an integrated trade agenda. Ongoing allocations would also be subject to performance review (Box 1), promoting mutual learning and demonstration effects amongst IF countries.

45. While the IF has traditionally been a program for LDCs only, from a development perspective, consideration should be given to extending the IF beyond LDCs to other low income countries, for example to other IDA-only eligible countries (Annex III). However, LDCs have expressed considerable concern about possible extension of the IF (Annex I), and the possible dilution of benefits. One possibility to address these concerns would be for a separate window to be created to fund non-LDCs.

Inclusion of a Regional/Cross-Country Window

46. A further enhancement to the IF could be the creation of a separate window to finance diagnostics of regional, or cross-country, impediments to trade development (e.g., regional transport corridors, standards, disease or pest issues). A regional diagnostics window under the DTIS could also examine the feasibility and desirability of regional solutions to trade

capacity problems, such as regional standards bodies, infrastructure, or regulatory frameworks. Requests for regional DTIS, making a *prima facie* case, would require the support of all countries concerned, but would be funded from a separate window and not included in the allocation of the individual countries. Regional DTIS would need to involve at least one LDC, but would not be limited to LDCs.

Resources for Implementation

47. In addition to $200–400 million for IF countries (see paragraph 40 above), an essential corollary for the enhanced IF will be increased donor willingness to fund aid for trade via the PRS process. Increased resources will also be required for more effective IF implementation at both the country and global levels. Under the scenario in Box 1, for example, the IF trust fund would finance operation of the country NIB, the roster of experts, regional advisers, and costs of the trust fund administrator. The enhanced IF will also have resource implications for the major IF implementing agencies (WTO, UNDP, ITC, World Bank) that would need to be addressed in order to substantially scale up IF efforts.

A Dedicated Multilateral Fund for Cross-Country and Regional Aid for Trade Projects

48. With thorough and meaningful implementation, the enhanced IF should address most aid for trade needs through countries' increased capacity to bring trade needs to the PRS process, and donors' increased willingness to make funds available for aid for trade, including as part of the growth agenda, in the context of PRS.

49. However, the country-focused PRS process may not be adequate to ensure follow up to regional issues, including but not limited to those identified in the regional DTIS above. Regional or cross-country projects might be particularly important for small, very poor, or landlocked countries dependent on action by a neighbor for whom the issue may not be a high priority. For example, the roads that Rwanda requires to have access to the ports of Mombasa or Dar es Salaam require the cooperation of Kenya, Uganda, and Tanzania—but for these countries, roads in the hinterland may be a low priority. Small, very poor, or landlocked countries are also likely to face numerous competing demands for existing donor resources within their PRS process and may benefit from cost-effective regional machinery for trade, such as regional laboratories for conformity assessment or, potentially, regional infrastructure or regulatory frameworks to support liberalization in services such as electricity or telecommunications.

50. There may thus be a case for the establishment of a separate multilateral fund to provide co-financing in the form of a grant, as an incentive for countries to undertake cross-country or regional projects clearly related to trade. The fund could: fill a gap in the market, without disturbing the country-driven PRS process; complement regional projects run, for example, by the regional MDBs; encourage regional solutions to problems; and assist in promoting regional integration amongst poor countries.

51. Grant co-financing from the fund could cover, for example, project preparation; training and technical assistance (e.g., training of the private sector or national standards bodies on newly adopted regional standards); capacity building; infrastructure (e.g., construction of a port access road); and project monitoring and evaluation. The support of all countries concerned would be required and priority would be given to proposals involving low income countries. Issues identified in country or regional DTIS would also be a priority for funding, although other issues would not be excluded.

52. The Bank and Fund staffs are willing to explore the desirability and feasibility of a multilateral fund to address regional or cross-country aid for trade needs, in cooperation with other relevant stakeholders, and to report back to the Development Committee and the IMFC at the 2006 Spring Meetings. Exploration of the desirability and feasibility of a fund would be without prejudice to a final decision and would be guided by the following principles:

- The fund should provide co-financing in the form of grants to support projects clearly linked to trade, in close coordination with MDBs, regional development banks and other relevant agencies.

- The fund should complement, but not duplicate, existing mechanisms.

- The fund would provide for the widest possible range of implementing agencies. Involvement of the private sector would be encouraged.

- The management structure would be light but accountable, leveraging existing expertise and systems to the extent possible, with all costs fully met by the fund.

Addressing Adjustment Costs

53. Trade liberalization creates adjustment problems for some countries; and in some cases, these can be relatively large. Countries suffering adjustment shocks from trade liberalization, including—but not only—via the Doha Round, should be assured of transitional support from the international community. The key is (i) ready and objective identification of these countries and (ii) ensuring that they are given assistance under existing mechanisms.

54. To address these concerns the staffs of the IMF and World Bank propose to work closely with our member countries to:

- assess the nature and magnitude of any adjustment need;

- work with countries to design policies aimed at addressing key obstacles to trade expansion and at managing the impact on affected population groups;[22] and
- provide assistance under existing mechanisms (e.g. Bank and Fund lending, including, in the case of the IMF, the TIM) and, where a country is found to be suffering particularly severe adjustment costs, to coordinate with other donors to bring an additional package of assistance, in the form of grants or loans as appropriate.

55. Analyses of adjustment impacts could be undertaken in the context of regular staff work or could be done on a stand-alone request basis, in consultation with other relevant international organizations. It is not intended to conduct these analyses for every country, but only for countries with a prima facie case of significant adjustment shocks. Depending on the number of such countries, conduct of these analyses could have resource implications for both the World Bank and the IMF.

56. Analyses could examine the economic impacts of trade reform, undertaken multilaterally, unilaterally or as the result of regional agreements (indeed, the impacts can be difficult to separate).[23] Likely candidates for such analyses could include (but are not limited to) countries negatively affected by the end of textile quotas, countries affected by preference erosion, net food importing countries,[24] and countries undertaking major programs of trade reform, including significant reductions in applied tariffs.[25] Analyses would not be limited to LDCs, given that the purpose is to identify those countries that are suffering the largest adjustment shocks. Analyses would also not be limited to macro impacts, but could also

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[22] This would be consistent with the joint letter of the heads of the IMF and World Bank to the WTO before the Cancun Ministerial ("IMF and World Bank Announce Plans to Support Developing Countries with Trade-Related Adjustment Needs in WTO Round," Press Release No. 03/140, August 21, 2003. Available at: http://www.imf.org/external/np/sec/pr/2003/pr03140.htm).

[23] Analysis of adjustment shocks might also consider, for example: the extent to which adjustment shocks from regional liberalization might be offset by gains from multilateral liberalization; the scope for improved revenue collection from lower tariffs and customs reform; the likely timeframe for adjustment; utilization rates of preferential access (including due to strict rules of origin); the extent of liberalization for products subject to preferences; and regional, social, gender or other characteristics of affected industries/groups.

[24] Without disputing that gains from the removal of export subsidies outweigh losses from the standpoint of poor countries, the negative income effects can precede in time the efficiency gains and some affected countries may thus require transitional income support.

[25] Fund staff have already sharpened surveillance of countries with trade-related vulnerabilities (as noted in Annex IV), as well as surveillance of the spillover effects from trade policies of large industrial and middle-income countries.

potentially draw upon World Bank Poverty and Social Impact Analyses as tools to capture impacts upon the poor, and to propose ways of mitigating them.[26]

57. Analyses would estimate the scale of adjustment challenges and identify appropriate policy responses and necessary assistance from the international community. These could serve as the basis to ensure that the needs of the countries are appropriately addressed under existing Bank—and Fund—supported programs (Annex IV) and for recommendations for increased assistance from bilateral donors in the context of the PRS/Consultative Group process.[27] Where a country was found to be suffering particularly severe adjustment shocks, there may be a case for additional assistance beyond that already available. In such cases, the IFIs could coordinate with other donors to bring an additional package of assistance, making additional funds available in the form of grants or loans, as appropriate. These analyses would also be widely disseminated within the World Bank and IMF to ensure that their findings were fully reflected in all country operations.

58. A further possibility proposed in the Geneva consultation process is the creation of a dedicated fund to address problems arising for some countries from multilateral liberalization under the Doha Round, to be targeted at preference erosion and, perhaps, loss of government revenue from tariff reductions and terms-of-trade impacts on net food importers. Proponents of this dedicated fund argue that it is necessary to help build support for ambitious liberalization under the Doha Round.

59. However, the staffs of the Bank and Fund do not believe that a dedicated adjustment fund would be a desirable use of additional aid for trade resources. There are a number of drawbacks to such a fund, beyond the risk of politicization, and few benefits:

- Adjustment needs should not be considered in isolation, but as part of an overall package of domestic policy reforms and economic planning.
- Multiple channels already exist to provide adjustment assistance, including in the context of an overall economic assessment—e.g., IMF TIM and World Bank structural adjustment lending (Annex IV).[28]

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[26] The Poverty and Social Impact Analysis (PSIA) approach analyses the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable. PSIA has an important role in the elaboration and implementation of PRS in developing countries and has been used to analyze the poverty and social impacts of a variety of reforms in different sectors and regions.

[27] Some projects related to adjustment (e.g., worker retraining) could be financed under the enhanced IF, where prioritized by the country concerned.

[28] Fund staff are already experimenting with the floating tranche concept, mentioned in the Aid for Trade note sent to the Development Committee and the IMFC at the Spring Meetings.

- The evidence suggests that serious adjustment problems from preference erosion will be limited to relatively few countries. Further, preference erosion raises both bilateral and multilateral issues.

- The impact on government revenue from tariff reductions by low income countries in the context of the Doha Round will depend upon the degree of liberalization undertaken. The fiscal impacts of unilateral and DDA trade reforms can be addressed under existing IFI financing facilities.

- The cost of setting up a fund, which would duplicate existing mechanisms, could detract from availability of funds for other approaches to aid for trade, such as those outlined in this paper.

60. We believe that the above approach—improved diagnostics to enable the better utilization of existing mechanisms for assistance, with coordination for additional packages of assistance where adjustment affects are particularly severe—should be sufficient to ensure appropriate response, both by the IFIs and bilateral donors, to adjustment concerns.

D. Conclusions and Recommendations

61. The staffs of the Bank and Fund recommend that the Development Committee and IMFC:

(a) *Endorse the enhanced IF outlined above (paragraphs 39–47), including predictable, multi-year financing, of the order of $200–$400 million, over an initial 5 year period.*

(b) *Grant a mandate to the staffs of the Bank and Fund to explore the desirability and feasibility of a multilateral fund to address regional or cross-country aid for trade needs (paragraphs 50–52), based on the principles that such a fund would: (i) provide co-financing to support projects clearly linked to trade; (ii) complement, but not duplicate, existing mechanisms; (iii) provide for a wide range of implementing agencies and encourage involvement of the private sector; (iv) entail a light but accountable management structure, leveraging existing expertise and systems to the greatest extent possible. The staffs of the Bank and Fund would report back to the Development Committee and IMFC at the 2006 Spring Meetings.*

(c) *Agree to a strengthened framework for assessing adjustment needs so that existing assistance mechanisms can be better utilized. Agree that, where a country was found to be suffering particularly severe adjustment costs, the IFIs would coordinate with other donors to bring an additional package of assistance, in the form of grants or loans as appropriate (paragraphs 54–57).*