



# AID-FOR-TRADE: CASE STORY

INTERNATIONAL CENTRE FOR TRADE AND SUSTAINABLE DEVELOPMENT



## Caribbean Aid for Trade and Regional Integration Trust Fund (CARTFund)



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### Executive Summary

CARTFund is a Trust Fund, financed by the United Kingdom Government's Department for International Development (DFID) and administered by the Caribbean Development Bank (CDB) with headquarters in Barbados. Its overall aim is to assist CARIFORUM countries in boosting growth and reducing poverty through trade and regional integration, which are important planks of the UK's Regional Development Strategy (RDS) for the Caribbean. A key aspect of the RDS is to support the implementation of the CARICOM Single Market and Economy (CSME), and to help Caribbean signatory states to benefit from the CARIFORUM-EC Economic Partnership Agreement (EPA) signed on October 15, 2008. This is the only comprehensive EPA concluded to date and its provisions have been provisionally applied from December 29, 2008.

CARTFUND became operational in 2009 with a resource complement of five million pounds (GBP 5,000,000), the equivalent of seven million one hundred and fifteen thousand United States dollars (USD 7,115,000). Its first project submissions were approved in September 2009. The facility is due to come to an end in March 2011 when the Fund would have doubled to ten million pounds (GBP 10,000,000) or USD 15.7 million, of which USD 14.4 million would have been allocated to projects. The Fund's Steering Committee has already approved 18 projects and committed USD 9.6 million, leaving USD 4.8 million available to finance eight additional projects still to be approved. The Fund's short lifespan does not allow for any impact evaluation since even projects that were approved initially are still

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<sup>1</sup> The Caribbean Forum of African, Caribbean and Pacific (ACP States), which comprises 14 member states of the Caribbean Community (CARICOM) plus the Dominican Republic. CARICOM members are Barbados, Belize, Guyana, Haiti, Jamaica, Suriname, The Bahamas, Trinidad and Tobago along with 6 states – Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines – that are members of the integration sub-grouping known as the Organisation of Eastern Caribbean States (OECS).

<sup>2</sup> Henry S. Gill has been collaborating with the International Centre for Trade and Sustainable Development (ICTSD) for a larger research on "Assessing the Effectiveness and Development Impact of the Aid for Trade Initiative in the Caribbean". The current story was written as part of this project. For further information contact Paolo Ghisu at ICTSD at: [pghisu@ictsd.ch](mailto:pghisu@ictsd.ch)

being implemented. However, the experience to date offers some useful insights and lessons that merit consideration.

## 1. Background

CARIFORUM countries are small vulnerable economies, some extremely so since most OECS countries have populations numbering much less than 100,000 inhabitants. Small economic size is reflected in extremely high external trade dependence and also vulnerability as a result of their narrow range of exports, whether dominated by goods or services, and undiversified markets. Goods exports continue to be heavily reliant on preferential market access.

**Regional integration** has long been seen as the indispensable requirement for the economic and political survival of CARICOM countries and the regional integration movement has been existence since the 1960s. Notwithstanding the July 1989 commitment by regional leaders through the Grand Anse Declaration and Work Programme, which recognised *the need to work expeditiously together to deepen the integration process*, target dates have been missed repeatedly even though significant advances have been made. The 1998 Revised Treaty of Chaguaramas established a firmer legislative framework and a new timetable for achieving CSME.<sup>3</sup> However, the CSME remains a work in progress with important planks of the single market project still to be erected. The single economy part of the integration equation has to be envisioned at considerable distance.

Various factors account for this situation, including limited human resource and institutional capacity to implement commitments, limited financing, inadequate regional governance arrangements and differential perceptions of benefits and risks by individual countries. The region's trade potential is also bedevilled by the lack of competitiveness of businesses dominated by SMEs, unsupportive business environments, inefficient trade facilitation arrangements, deficient physical infrastructure, weak transportation systems, entrepreneurial inadequacies and labour productivity shortcomings, among others. In addition, while most economies, are services based, services-related economic thinking (apart from the tourism sector) is still relatively new and a CARICOM services regime has not been completed. This is also inextricably linked to difficulties still encountered regarding the movement of natural persons within the CSME.

**EPA challenge.** The conclusion of EPA negotiations at the end of 2007 heralded a new set of challenges for CARIFORUM countries, especially insofar as the agreement involves reciprocal, albeit asymmetrical, obligations in relation to trade in both goods and services. Previous CARICOM trade agreements were far more limited in scope, had exempted the less developed members (OECS states and Belize) from reciprocal obligations in relation to trade in goods and CARICOM had never negotiated trade in services schedules outside of the WTO context, where liberalisation commitments of individual countries are minimal. The EPA also includes undertakings in relation to such subjects as competition, innovation and intellectual property, transparency in government procurement and personal data protection, implementation of which has not been completed or undertaken within the CSME.

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<sup>3</sup> The Bahamas is not a member of the CSME. Haiti is formally a member but has obtained approval for a deferral of its obligations.

The provision of EU financial and other types of support for the strengthening of regional integration is prominent among EPA goals, as well as for the attainment of priority objectives specified in the EPA in relation to the various subject headings under which commitments were made. Indeed, during the EPA negotiations representatives of CARIFORUM and the European Commission had made efforts to identify strategic areas for support within the framework of what was known as the Regional Preparatory Task Force (RPTF) and a work programme was developed encompassing nine subject categories based on a number of studies that were carried out. The following were considered to be the strategic areas for support to the Region: Fiscal Adjustment and Reform, Intellectual Property, Technical Barriers to Trade, Sanitary & Phytosanitary Measures, Competition & Innovation, Customs & Trade Facilitation, Trade in Services & E-Commerce Study, Agriculture, Fisheries and Investment & Business Facilitation.

EPA commitments bring a new set of competitive challenges and considerably increase CARIFORUM's implementation challenges at both national and regional levels within specified deadlines. They include the need for legislation approval or amendments, policy reforms, institutional creation or adaptation, capacity building requirements, private sector stimulus and engagement, infrastructure development, improvements in the functioning of government agencies and trade-related information dissemination.

## **2. Objectives**

The Trust Fund was intended to provide non-reimbursable resources to finance important national, sub-regional and regional projects in four areas:

### **(a) EPA implementation support:**

- (i) Support for work planning and implementation by CARIFORUM and the European Community's task force, fast-tracking effective proposals as necessary
- (ii) Developing the EPA implementation monitoring policy, mechanism and institutional framework
- (iii) Completing the regional competition policy and institutional framework; and
- (iv) Completing the regional customs and trade facilitation policy and institutional framework

### **(b) Deepening CARICOM Economic Integration**

- (i) Completing the legal and institutional policy and institutional framework for the implementation of CSME
- (ii) Completing the regime of free movement of people; and
- (iii) Establishing a framework for macro economic and sectoral policy coordination

### **(c) Deepening the integration of the OECS member states, including formulation of an OECS trade policy**

- (d) Assisting potential beneficiaries of the Trust Fund in project preparation in the areas described above.

Of these eligibility criteria, EPA implementation was accorded the highest priority as evidenced by the indicative allocation of programmable CARTFund resources, as follows: 57% for EPA implementation support, 30% for deepening CARICOM economic integration and 4% for deepening OECS integration. The remainder of resources were for technical assistance to beneficiaries and CDB's administrative costs.

### **3. Project characteristics**

**Project submissions** were forthcoming from all CARIFORUM countries. Applications came from: (a) individual government ministries and agencies, which constituted the largest category; (b) various regional institutions and (c) certain private sector umbrella agencies, mainly national but also regional. Noticeably, the NGO community was virtually absent in this regard and one such submission made by a regional umbrella NGO is being assessed.

**Thematic emphases.** While the range of subjects covered was quite varied, certain emphases can nevertheless be identified.

Most funding requests were made for establishing national EPA Implementation Units in addition to a Regional Implementation Unit housed within the CARICOM Secretariat. This emphasis is by no means surprising given the human resource and financial challenges, particularly of the smaller countries in the Region, in the face of the sizable and fairly urgent undertaking that EPA implementation entails. Since the implementation period of CARTFund projects does not exceed two years, an important consideration in this regard is the sustainability of such units in view of the fact that EPA implementation is a far longer undertaking.

Second in line among recurring subjects was support for national Coalitions of Services – either their establishment or strengthening. Such bodies are seen as critical to giving stimulus to the services sector generally, bringing together the various existing services affiliations and helping to incubate new ones where different service subsectors remain unorganised.

Tourism-related project submissions by both regional and national bodies appear next in line. Finally, there were a couple of submissions in each case in relation to the development of a national export strategy, the implementation of an automated Single Window Customs system and agriculture related projects.

**Cost range.** Projects approved were generally in the range of \$400,000-\$600,000 not counting counterpart contributions, though in rare instances they surpassed the million dollar mark. Projects exceeding this range –indeed some were in the multimillion dollar range– did not pass initial screening, in order to be able to accommodate as many projects as possible given the demand on resources.

**Resource adequacy.** It is evident that demand for project support could in no way be satisfied. A telling indicator is that at the Steering Committee's final round of selections from the remaining submissions in December 2010, only eight of 73 submissions could be accepted for appraisal taking into account the remaining resources.

#### 4. Lessons and observations

Notwithstanding CARTFund's relatively limited timeframe, the experience provides important insights for AFT initiatives and management in the Caribbean, some of which would no doubt be relevant elsewhere.

**Process aspects.** After initial screening of project submissions to ensure they meet the Fund's eligibility criteria, CARTFund's process design allows for the hiring of consultants in order to improve project submissions before they are formally assessed internally by the CDB and ultimately submitted for approval to the Fund's Steering Committee. This facility proved to be critical to the approval process; without it there would have been a high rejection rate since many project submissions were substandard. It is instructive to provide certain details of this undertaking.

As a general rule, even where their themes and orientation were valid, project submissions that had passed the screening test were frequently found to be, among others: (a) too economical or imprecise in their background explanation of the issue(s) to be solved or improved; (b) lacking thoroughness in overall conceptualisation; (c) insufficiently detailed regarding budgetary proposals; (d) providing unsatisfactory or no terms of reference for consultants required under the project; (e) devoid of required implementation schedules; (f) (g) offering little or no information in relation to the Design and Monitoring Framework and (h) leaving gaps or providing unhelpful responses to various questions on the application forms.

Remedying this situation often proved to be a far more complex task than anticipated. It always entailed (a) initial critical examination of the submission by the consultant; (b) submission of consultant's comments and questions to the CDB and the applicant; (b) subsequent travel by the CDB officer responsible and the consultant for detailed discussion with the applicant of issues raised by the consultant along with others that inevitably emerge. Such an exercise always required the applicants to do further work, including intra-organisation consultations, in order to provide adequate responses and even to reformulate the submission. The revised submission or detailed explanations normally triggered a phase of ongoing exchanges between the consultant and applicant to obtain still further clarification, and often between the consultant and the CDB officer to agree on what was allowable. Consideration was even given to the need for a second visit in certain cases though this never came to pass. The consultant's task is therefore to bring the submission to a level that would be acceptable to the CDB and the Steering Committee.

The CARTFUND experience has therefore revealed that skills in preparation of project proposals are inadequate in the Region and that there is considerable merit in building a compensatory mechanism into the overall design of funding arrangements to make the necessary adjustments to submissions in order to obtain high project approval rates. This is most probably the main lesson. The experience also points to the need to undertake capacity building in project preparation at various levels throughout the Region.

**Strategic framework.** A very heartening aspect of the project submissions has been their thematic shift from the areas for which aid has traditionally been sought in the Region to what could be termed newer topics that are also quite diverse. Some examples of such themes are Services Coalitions, Specialty Foods, Health and Wellness, Intra-Regional Trade in Germplasm and Mutual Recognition Agreements for Professional Bodies.

Yet the criticism can justly be made that these disparate projects lack an overall strategic framework and raises questions about the strategic use of funds. It must be appreciated in this regard that the Caribbean has not yet elaborated an AFT Regional Strategy and national AFT strategies have also not been initiated or completed apart from a late 2010 draft prepared by Belize with assistance from the Inter-American Development Bank (IADB). Few countries fully mainstreamed trade in their national development plan<sup>4</sup> or poverty reduction strategy, and only a few countries have prepared national export strategies.<sup>5</sup> While the CARICOM Secretariat's *Caribbean Regional Economic Integration and Cooperation Roadmap (Draft)* is a very informative document, it was prepared primarily within the framework of funding under the 10<sup>th</sup> European Development Fund (EDF).

Against this backdrop CARTFund administrators had been expecting that the RPTF exercise and studies could have served this strategic purpose but this has not happened.

It should be noted in this context that subsequent to CARTFund's commencement, the Conference of Heads of Government of the Caribbean Community, meeting in Montego Bay in July 2010, endorsed a recommendation to develop a major CARICOM AFT Project for presentation to international donors focused on the development of proposals for (a) an Infrastructure Fund; (b) Trade Facilitation and (c) Sanitary and Phytosanitary Measures (SPS). The Heads also agreed that priority should be given to developing project proposals in the area of Maritime Transport building on work already undertaken by the OECS in this area and in Information and Communication Technologies (ICT), in time for the Caribbean Aid for Trade Forum scheduled for January 2011. It is not clear how far this effort has advanced.

**Donor coordination.** A further complication has been the absence of donor coordination in relation to AFT in the Caribbean. The result is that CARTFund's Steering Committee and the CDB itself have operated in ignorance of what other donors are doing and with uncertainty as to whether duplication of effort was taking place. Services are considered to be the most challenging area because seemingly everyone is supporting services.

In order to glean as much information as possible, CARTFund's submission form requires applicants to *describe how the project supports and complements what the government and other donors are doing*. While the responses have provided useful information in this regard, it is uncertain how extensive or thorough such information has been.

**Results focus.** In the Caribbean projects have not generally had a strong results focus and planned results are not clear. Monitoring is also relatively weak. Trying to figure what has been achieved is also not easy because of the absence of baseline information to work with because of statistical weaknesses, which are glaring in some areas. This is notably the case with services trade statistics.

As previously mentioned, CARTFund's application form nevertheless includes a table on a *Design and Monitoring Framework* but this is probably the aspect that has presented the

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<sup>4</sup> The WTO/OECD *Aid for Trade at a Glance 2009* indicates that trade is fully mainstreamed in the national development plans of Barbados, Guyana, Jamaica and the Dominican Republic. In the other CARIFORUM countries trade is partly or not mainstreamed.

<sup>5</sup> These were completed in the case of Grenada, Dominica, Jamaica and St. Lucia with the help of the International Trade Commission (ITC).

greatest difficulty. If aid effectiveness is to be seriously evaluated, consideration should be given to building into projects an additional cost for a line item to improve monitoring and evaluation for the provision of the necessary expertise, even though it would increase budget cost.

**Private sector.** A brief final observation relates to the fact that private sector-related submissions were considerably less than hoped for in both the application and approval lists. This was so despite the fact that an effort was made to communicate as much as possible the availability of funding. While CARTFund was not designed to address issues and admit proposals at the level of the firm, it has been eager to consider priority needs at the sector level proposed by business support organisations. One possible explanation is that most private sector associations have not done analysis in terms of what their supply side constraints are and were unable to grasp the opportunity. For future reference it seems advisable that the idea of developing a project proposal hub for this purpose should be given more attention.

## **5. Final comments**

It is not known what will become of the large number of project proposals remaining after the final round of selections made by the Steering Committee, as previously indicated. While it is heartening that the level of interest of applicants has been so high, it would be disheartening if so much effort and optimism should flounder because of the discontinuation of CARTFund financing. Consideration should therefore be given to finding ways for the donor community to salvage as much as possible of the remaining projects.

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