



DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
POLICY DEPARTMENT



**THE CARIFORUM - EU
ECONOMIC
PARTNERSHIP
AGREEMENT (EPA):
THE
DEVELOPMENT
COMPONENT**

DEVELOPMENT



EUROPEAN PARLIAMENT

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- POLICY DEPARTMENT -

STUDY

**THE CARIFORUM–EU
ECONOMIC PARTNERSHIP AGREEMENT (EPA):
THE DEVELOPMENT COMPONENT**

This study was requested by the European Parliament's Committee on Development.

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LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific
AfT	Aid for Trade
Caricom	Caribbean Community
Cariforum	Caribbean Forum of African, Caribbean and Pacific States
CDF	Caribbean Development Fund
CIDA	Canadian International Development Agency
COFAP	Council for Finance and Planning
CRS	(OECD) Creditor Reporting System
CSME	Caricom Single Market and Economy
CSP	Country Strategy Paper
DAC	(OECD) Development Assistance Committee
DFID	UK Department for International Development
DFQF	duty- and quota-free (access to the EU market)
DR	Dominican Republic
EC	European Community
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
FTA	free trade agreement
GAERC	General Affairs and External Relations Council
HS	Harmonised System (of trade classification)
IDB	Inter-American Development Bank
MDGs	Millennium Development Goals
MFN	most-favoured-nation (rate of duty)
NAO	National Authorising Officer
NIP	National Indicative Programme
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
PEU	Project Execution Unit
PIU	Project Implementation Unit
PRSP	Poverty Reduction Strategy Paper
RAO	Regional Authorising Officer
RIP	Regional Indicative Programme
RPTF	Regional Preparatory Task Force
RSP	Regional Strategy Paper
SFA	Special Framework of Assistance (for traditional ACP banana suppliers)
SWAp	sector-wide approach
TCBDB	Trade Capacity Building Database
TCF	Technical Cooperation Facility
TQ	tariff quota
TRA	trade-related assistance
UK	United Kingdom
US	United States
WSG	Works Services Group
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Economic Partnership Agreement (EPA) between the Caribbean Forum (Cariforum) and the European Community (EC) is the only comprehensive EPA negotiated so far, and was signed by all parties (except Haiti) in October 2008. Now that the details have been finalised a start can be made to identify the likely development impact, and this report provides an initial assessment.

Comprehensive changes to trade, investment and related policies produce profound and wide-ranging economic impacts, but do so gradually over time with multiple, cross-cutting effects. The impact of the EPA on the Cariforum states will be especially wide-ranging (because of its broad scope) and drawn out (because it will be implemented over 25 years). This report focuses on the likely early effects and their implications for European Union (EU) policy both because these are currently the highest development priority and because the scale and scope of later effects will take time (and a great deal of in-country research) to assess accurately.

In commissioning the report, the European Parliament asked that it address four specific questions, with a focus on Barbados, Guyana and Suriname. These were to:

- ◆ identify the available financial resources (within the European Development Fund (EDF) and outside it);
- ◆ identify the needs of sectors and countries;
- ◆ identify the mode of delivery of the promised aid;
- ◆ assess the adequacy of the development chapter and other clauses of the Cariforum EPA and judge how these provisions could best be implemented to promote economic development in the region.

Based on this analysis the authors were requested to make policy recommendations on how the development component of the EPA could be enhanced.

The available resources

The EPA itself contains no financial commitments either to provide new funds or to earmark existing pledges. However, for the coming years (until 2013) our analysis shows that **at least €580 million are earmarked to support the Cariforum EPA**. This figure is obtained by adding up the share of the Regional Indicative Programme (RIP) of the 10th EDF that is clearly marked for EPA support (€72.6 million), the EPA resources made available by the National Indicative Programmes (NIPs) of the 10th EDF (€480 million) and the resources already programmed by the United Kingdom (UK) and Germany (€26.8). This amount is expected to be complemented by other EU Member States (such as Spain and France) as part of the commitment to provide 'regional packages' under their 2007 EU Aid for Trade (AfT) strategy.

The amount of €580 million would be sufficient to deal with the identified high-priority areas of revenue losses and the funding of market research and sectoral needs assessment as identified by the region. However, **it remains open whether the funds will be adequately used for the high-priority areas of the EPA**. The strength and linkages between the available funds and the EPA depend on the political will of the Cariforum states and the European Commission/EU Member States when implementing the programmes. As the analysis of the NIPs of the three case-study countries shows, the types of project that are considered as EPA support are not always in line with the high-priority areas identified by the Consultants. A readjustment of the programming towards

EPA priority areas may be difficult and will impose an opportunity cost in terms of redirection of funds away from other projects.

It is too soon to say whether aid beyond 2013 will be adequate. The EDF is expected to continue for the period 2014–20 but neither the size of the next RIP and NIPs nor the share of EPA-related support is yet decided. There is also the worry that part of the Commission and EU Member State commitment that *could potentially* be available is the pledge to provide €2 billion annually to AfT by 2010 – yet the definition of AfT remains disputed. There is a risk that existing aid activities, such as infrastructure projects, will simply be re-labelled and count as ‘EPA-related activity’. Moreover, in the current economic climate there appears to be a general risk of donors retrenching their aid budgets, with some EU Member States doing so already.

The needs

The multiple effects of the EPA can be grouped into four broad categories, each of which has development implications and its own timetable, and each of which will need aid to ensure a positive outcome. We call these the revenue, implementation, adjustment, and export effects – and they will begin to ‘bite’ in the order that we have listed them.

The liberalisation of ‘substantially all trade’ implies that eventually ‘substantially all tariff **revenue**’ from the EU will be lost. This will be a considerable technical, administrative and political challenge, requiring development support to help set up new tax collection systems, to fill part of any funding deficit during the period when these new systems are becoming operational, and to protect vulnerable groups from any decline in government expenditure.

The scale of the revenue effect will be determined by the tax currently collected on imports from the EU and the extent to which the EPA produces ‘trade diversion’ (resulting in a fall in the share of imports sourced from non-EU sources on which full tariffs continue to be imposed). Bearing in mind these uncertainties, we calculate that there will be an immediate ‘spike’ of revenue loss (as some medium tariffs are removed in the months preceding and immediately after EPA signature) together with continuing annual falls. By 2013, the losses in annual revenue will have reached between €2 and €6 million for Barbados, some €3 million for Suriname and between €0.5 and €2 million for Guyana. These figures do not include the elimination of additional taxes levied on imports, such as customs charges and environmental duties which have to be removed within ten years.

Another early ‘cost’ arises from the need to **implement the many new obligations** that the EPA imposes. This will require technical and financial assistance but needs will vary between each country and accurate assessment requires very detailed technical studies of each and every area the EPA deals with, such as customs administration, competition law, or compliance with export standards. The Joint Regional Preparatory Task Force (RPTF) of the Cariforum–EC EPA is currently undertaking 20 studies in each of the 14 signatory Cariforum states to assess national and regional needs to implement the EPA and to cope with its effects.

Moreover, Cariforum countries have to **adjust to increased imports from the EU**. Reducing tariffs may make some producers more competitive (especially if the imports are production inputs) but others will face increased competition. They will need assistance to become more competitive or, if this is not possible, to shift into alternative activities. Now that the details of the EPA are known, it is a high priority to identify accurately the socio-economic groups that will be most affected – a task that has not been possible until now.

All three of the focus countries have some high tariffs (40% or more) that must be removed soon under the EPA and Barbados also has some specific duties. Despite this, the short-term impact of the EPA is likely not to be as sharp as might be imagined because countries have tended to liberalise first goods that they do not import much from the EU (either because the EU cannot supply them competitively or because they are not consumed locally). The study concludes that the sectors likely to experience the most substantial effects of early liberalisation include fruit and vegetables and vegetable fats/oils, processed food products and garments. However, whether the three focus countries produce the same lines as those being liberalised is impossible to say without full market research. It is therefore recommended as an urgent priority that market research in these sectors be undertaken to determine how far this will increase competition for local producers and is likely to affect vulnerable socio-economic groups.

In addition to these short-term priorities, there are also medium-term needs for which Cariforum countries will need support so as to **take advantage of the export effect of the EPA**. Since 1 January 2008, Cariforum has had duty- and quota-free (DFQF) access to the EU market (phased in over some years for sugar and rice), resulting in improved market access conditions for 13 *existing* exports from Suriname and six each from Barbados and Guyana ⁽¹⁾. Whether Cariforum countries will be able to develop *new* export lines in goods that faced high tariffs under Cotonou will be determined by whether or not DFQF provokes an increase in their export supply. Development assistance may be needed to help countries take advantage of these opportunities and to attract new investment on the basis of the EPA commitments. Existing production may need to be expanded and upgraded and new product lines to be developed. Whilst the EPA may foster new private investment, this process is likely also to require public support. The most likely candidates requiring increased investment are rice and, possibly, citrus. There could also be scope to increase exports of processed foods (especially those containing sugar), but this will depend largely on how far the current rules of origin are amended (which is due to happen by 2013 at the latest).

Delivering the aid

In addition to funding levels there are crucial questions regarding the mode of delivery: how should aid for the EPA be delivered to ensure that it has the desired effect in a timely manner? The EPA is silent on the mode of delivery of aid but the multiplicity of donors and the complexity of aid programmes within the region make it important to coordinate activities so as to avoid duplication and increase aid effectiveness according to the principles of the Paris Declaration.

The Caribbean Community (Caricom) already receives high levels of external aid per capita which supplement domestic revenues and capital market borrowing. Stand-alone aid projects are prevalent in the region, many of them appearing to be more appropriate for larger governments with greater capacity. Other projects tend to be too narrowly targeted, leading to a plethora of weakly coordinated interventions. Some of the countries have rather limited aid absorption capacities and require accompanying support for institutional strengthening and public financial management if AfT is to be effective. There is a low incidence of donor integration behind priorities identified and articulated by the recipient countries. The experience of past development assistance in the region suggests that effective projects need to be of moderate size, of short duration, and to have well-defined objectives. Development agencies need to be conscious of the

¹ For Barbados three processed food, two sugar and one beverage product lines now receive improved market access; for Guyana four rice and two sugar product lines; and for Suriname three product lines each of rice, vegetables (onions, cucumbers, brassicas), and fruit (bananas and two types of oranges), plus one each of cereal meal, sugar (cane), olive oil and animal feed.

impact that their projects have on government policies and must be ready to provide relevant technical advice and support on policy issues before launching into new programmes.

Making EPA-related AfT to the region effective will require Cariforum countries to exercise strong leadership and donors to give centrality to the region's development plan. Discussions on a regional Cariforum EPA implementation unit and a regional coordinator are continuing and the relations between Caricom and the Dominican Republic (DR) are currently adjusted according to the EPA requirements.

With respect to the delivery mechanism of funds, the EPA text ⁽²⁾ makes reference to a single regional development fund that serves all Cariforum countries. An argument in favour of such a fund is that once an effective institution has been established that can be held accountable, funding disbursement (which was very slow under the 9th EDF) will no longer be a problem. There are considerations that the Caribbean Development Fund (CDF), which is responsible for channelling funds to Caricom disadvantaged countries and sectors, should establish a 'special window' which would allow the Fund also to manage and distribute the EPA funds disbursed by the European Commission and EU Member States. This would, however, require close auditing and monitoring so as to ensure that the funds allocated for Cariforum are strictly separated from those destined for Caricom disadvantaged countries/sectors. Still, the creation of a 'special window' within an existing institution is regarded as more feasible than the creation of a new institution to channel EPA funds.

Are the development provisions of the EPA adequate?

The overarching objectives of the EPA are to alleviate poverty in Cariforum, to promote regional integration and economic cooperation and to foster the gradual integration of the Cariforum states into the world economy by improving their trade capacity and creating an investment-conducive environment. The development provisions of the EPA focus strongly on financial and technical support to cope with the challenges the EPA poses for Cariforum's public and private sectors, and on support to reform public institutions and administrations and to upgrade and diversify products and services of private actors.

However, while the EPA acknowledges the need for development support to implement its provisions in each and every Chapter, it neither specifies the financial and technical support needed nor the financial means that will be made available. Consequently there is much dispute over the adequacy of the 'development component' of the EPA, with critics arguing that neither countries' needs nor the availability and delivery of funds have yet been established clearly.

Although the EU donors have made commitments that appear to be adequate there is no guarantee that they will be applied in an appropriate and timely way – and there is complete uncertainty over the funds for EPA support that will be committed by the European Commission and EU Member States beyond 2013.

Taking into account that the effects of the EPA on Cariforum countries' legislations, administrative and institutional capacities will only become apparent over time, the Cariforum EPA contains several clauses that foresee the review of various chapters as well as a comprehensive review once the Cotonou Agreement has expired. The objective is to adapt the provisions in a way that maximises the development impact of the EPA. While this is a laudable objective it needs to be

² Part I, Art. 8.3 of the Cariforum-EC EPA.

considered that any decision to revise certain provisions of the EPA will be made jointly by the EU–Cariforum Council and so change cannot be guaranteed

Recommendations to enhance the development impact of the EPA

The EPA contains a bewildering array of new legal, procedural and administrative requirements, the implications of which will take some time fully to assess. Laws will need to be changed and regulations amended. Details of the new rules on services and investment vary substantially between the countries and will require extensive country- and sector-specific analysis. Needs assessments are currently on-going, led by the RPTF. Countries are reflecting on the coherent strategies needed to implement AfT and will follow this by the identification of concrete projects. In addition, optimal delivery mechanisms are being explored which are supposed to contribute to making funds more accessible and may find better ways to target actors in the private sector.

Our analysis shows that sufficient funds are available *in theory* to cover first-round needs while the following rounds that will emerge over time still need to be quantified. What is needed is to tighten up the framework for aid to ensure that it is given in adequate amounts, in an appropriate and timely way and to deal with the actual, new costs that will be created by the EPA. **It is necessary to commit the European Commission and EU Member States to supply immediately available resources according to countries’ high-priority needs, to specify medium-term needs as soon as possible, and to monitor the delivery and effectiveness of aid.**

One way to achieve this would be for the European Parliament to establish a timeline and deadlines for the most important stages in the identification, design and implementation of EPA-related support. In this way European and Cariforum parliamentarians could play an important role in ensuring that adequate and timely resources are made available to support the Cariforum–EC EPA, both now and in the future.

It is **recommended** that the European Parliament emphasise to the European Commission and Cariforum policy makers the need to:

- ◆ speed up the needs assessment exercises carried out by the RPTF and define the actions required at national and regional levels in the most precise way possible;
- ◆ involve European and Cariforum private sector and civil society actors in identifying support needs;
- ◆ assure effective cooperation and information exchange between national EPA implementation units and the regional coordinator;
- ◆ create effective regional institutions representing all Cariforum countries, in particular with respect to the regional funding mechanism;
- ◆ explore innovative delivery mechanisms targeting the private sector (and learn from current experiences such as the UK Department for International Development (DFID) ‘Private Sector Challenge Fund’);
- ◆ set up the Joint Trade and Development Committee;
- ◆ ensure that the mandate of the Joint Trade and Development Committee to supervise the proper application and implementation of the agreement is clearly defined.

It is **recommended** that the European Parliament uses for this purpose the Joint Parliamentary Committee that it will form with Cariforum parliamentarians to advise the Joint Council and the Trade and Development Committee of the EPA.

In particular, it is **recommended** that the Joint Parliamentary Committee consider setting an advisory timeline for the highest-priority needs to be assessed (which will require inputs by the Cariforum governments) as identified in this report. These are:

- ◆ the EPA revenue effect: countries must determine how far they need support (to offset shortfalls in revenue collection and to establish new systems);
- ◆ implementation needs given country circumstances;
- ◆ which domestic producers will face direct competition from imports in the light of the tariffs that are being reduced and the supply capacity of the EU.

It is **recommended** that the Joint Parliamentary Committee is also used:

- ◆ to ensure that the current EPA funds of the RIP and NIP of the 10th EDF are provided according to countries' immediate EPA needs: coping with early revenue effects and identifying adjustment and implementation needs;
- ◆ to ensure that the regional development fund that channels resources from the EDF and EU Member States to the region becomes functional, so as to ensure immediate disbursement of funds;
- ◆ to monitor that the European Commission and EU Member States provide first tranches of aid according to countries' immediate EPA needs now, because if they arrive too late they will be useless;
- ◆ to monitor the implementation of the Agreement in order to ensure that technical and financial assistance is providing the intended results;
- ◆ to continue to apply political pressure over the next two decades in order to make sure that the EPA delivers the development impact it promises.

This last point is very important. Supporting the EPA adequately over its full, 25-year, implementation period requires a better understanding of Cariforum's medium-term objectives and the challenges/opportunities that the EPA will create – which can only be obtained over time. This report focuses on the early impact of the EPA, since this is the initial point of reference for development support: the first phase has already begun and if development support is not already organised or in the pipeline it may arrive too late to be of help. But over the full implementation period of the EPA all countries in the region will need substantial assistance in many areas. Since this will last for 25 years there is sufficient time to agree the details of what is needed in the middle and end phases. But unless a start is made soon on this process, agreement may not be reached in time.

Section 1. Introduction

The Cariforum–EC EPA is the only comprehensive EPA negotiated so far and was signed by all parties (except Haiti) in October 2008. The overarching objectives of the EPA are to alleviate poverty in Cariforum, to promote regional integration and economic cooperation and to foster the gradual integration of the Cariforum states into the world economy by improving their trade capacity and creating an investment-conducive environment (Part 1 of the EPA). However, while the EPA acknowledges the need for development support to implement its provisions in each and every Chapter, it specifies neither the financial and technical support to be provided nor the financial means being made available. Consequently, dispute remains over the adequacy of the ‘development component’ of the EPA, with critics arguing that neither countries’ needs nor the availability and delivery of funds have yet been established clearly.

The European Parliament asked the Consultants to address this controversy by analysing the development component associated with the implementation of the Cariforum–EC EPA with a focus on Barbados, Guyana and Suriname. It was requested that they identify:

- ◆ the financial resources available (within the EDF and outside it);
- ◆ the needs of sectors and countries; and
- ◆ the mode of delivery of the promised aid.

Moreover, the Consultants were requested to look at the adequacy of the development chapter and other clauses of the Cariforum EPA and to judge how these provisions could best be implemented to promote economic development in the region. The European Parliament expects policy recommendations on how the development component of the EPA could be enhanced.

This report aims to shed light on the development component of the Cariforum EPA by identifying, on the one hand, what costs occur when dealing with the adjustment and implementation of the EPA (focusing on Barbados, Guyana, and Suriname) and, on the other, the financial resources being made available by the European Commission and the Member States now and in future. There are, however, caveats with respect to both tasks:

1. While the Consultants are able to quantify estimates of the loss of revenue as a result of the EPA it is not possible to quantify the adjustment and implementation costs. The EPA is a highly complex document that foresees the comprehensive modernisation of Cariforum’s trade and trade-related regimes. To assess the implications of new legal, procedural and administrative requirements for each and every country and the policy changes required on a national and regional level requires detailed, technical in-country studies. In addition to this, it needs to be borne in mind that the full effect of the EPA on the countries and the region will only evolve (and be understood) over time.
2. While the Consultants are able to identify a large proportion of aid that will be made available for the EPA in the coming years (until 2013), we cannot determine whether aid commitments beyond this time will be adequate. Moreover, the uncertainty about definition and transparency of Aft and what will count as EPA support adds to the difficulty of estimating the level of future resources.

To support the EPA adequately it needs to be understood what are Cariforum's immediate priorities and what are medium-term challenges that require effective development support. We acknowledge this need by focusing on the early impact of each effect created by the EPA, which is the best point of reference for development support. Over the full implementation period of the EPA all countries in the region will need substantial assistance in many areas – but since this will last for 25 years there is sufficient time to agree the details of what is needed in the middle and end phases. But the first phase has already begun – and if development support is not already organised or in the pipeline it may arrive too late to be of help.

The report is structured in six sections. After this introduction, Section 2 identifies EPA needs by discussing the export, adjustment/implementation and revenue effects of the Agreement for Barbados, Guyana, and Suriname. As will become clear, the countries face the challenges of the EPA in these areas simultaneously – and will need development support for all of them. Section 3 reviews the financial resources already made available for the EPA, and those in the pipeline, and also tries to predict whether future resources will be adequate. Section 4 discusses the importance of an effective mode of delivery of the aid for the region and sets out the progress that has been made with respect to a regional funding mechanism. Section 5 looks at the development chapter of the Cariforum EPA and analyses selected other clauses in respect of their development impact. The final section covers policy conclusions and policy recommendations.

Section 2. Identification of needs

The controversy that has raged over the potential development effects of EPAs has not arisen because of disagreements over what observers expect to happen – but from disagreements over the consequences. The text book effects of EPAs have been well studied ⁽³⁾. The intended effect on the region is to increase economic efficiency as a result of cheaper imports (from the EU and regional sources) and to increase production (through investment and the greater economies of scale that will result from a larger market and by increased opportunities to export to the EU).

The extent to which such effects materialise in practice will depend upon two things. The first is how far the actual EPA commitments are the same as those assumed in the studies undertaken before the EPA was finalised. The second is whether the Cariforum economies are sufficiently flexible to adjust in the way foreseen.

Detailed analysis of the Cariforum goods schedules shows among other things that liberalisation will take many years to complete but that the removal of restrictions on intra-regional trade will disappear much more quickly. Also, some countries will need speedily to find alternative sources of revenue to replace tariffs and other trade-related taxes that will have to be removed under the EPA.

In the period to about 2018 (when deep cuts in tariffs on imports from the EU start to take effect) the main impact of the EPA will be on intra-regional trade, on institutional and administrative modernisation and, potentially and differentially among the countries, on services and investment. It is these changes that need to be taken into account with the highest priority when assessing the development needs created by the EPA.

The EPA will produce effects in three areas, all of which may require development support. The first is **the export effect**: opportunities created through improved access to the European (or regional) market for goods or services and from increased investment. Development assistance may be needed to help countries take advantage of these opportunities.

The second is the **adjustment effect** of the EPA. Some Cariforum enterprises and social groups will face increased competition from imports as a result of liberalisation. There will be a need for adjustment support to assist them to adapt. Adjustment assistance is also needed to implement the manifold obligations of the EPA, such as plans for the free movement of goods, harmonised competition policies, harmonised customs procedures, etc.

The third is the **revenue effect** of the EPA. The shift away from trade-related taxes to other forms of government revenue will be a substantial challenge for countries in the region that currently rely heavily upon taxes that must be removed under the EPA. The challenge will require development support to help set up new tax collection systems, to fill part of any funding deficit during the period when these new systems are becoming operational, and to protect vulnerable groups from any decline in government expenditure as a result of a temporary or permanent fall in revenue.

³ For an overview see ODI, 2006.

2.1 The export effect

Until the end of 2007 Cariforum exported to the EU under the Cotonou trade regime which granted duty-free treatment without any quantitative limits to most but not all exports. In a few cases (such as fresh sweet oranges) exporters had to pay a residual tariff; in others, most notably sugar, the preference was limited to a limited quantity; and in some, such as rice, the two limitations were combined.

Since 1 January 2008, Cariforum has had DFQF access to the EU market (phased in over some years for sugar and rice) ⁽⁴⁾. Because the previous trade regime was so favourable the improvement is necessarily limited, but it could result in an increase in the region's exports of goods to Europe. Moreover, since the EPA also covers services, there might be an increase in services exports.

There could be two EPA effects on exports of goods. There will be an immediate effect from the removal of any residual tariffs or quotas. Money that was previously levied by EU customs on imports will now accrue to others: the producers, the exporters, the shippers, the importers/retailers or the consumers. The proportions accruing to each will be determined by the market and are not easily forecast. But Cariforum producers might benefit from an increase in price or in demand (since their tariff-free goods will now be cheaper) and may need assistance to scale up production. Moreover, it is possible that in the medium term they could develop new export lines in goods that they can produce competitively but which faced high tariffs under the Cotonou regime. In such cases, too, assistance may be required for market development and promotion.

Which countries and goods may be affected? Most will experience a change to at least one of their exports and for some the number may be quite large: 21 exports from DR are affected, 17 from Jamaica and 13 from Suriname. Barbados and Guyana benefit from enhanced market access for six of their export products to the EU; mainly sugar and rice (see Stevens, Kennan and Meyn, 2009) ⁽⁵⁾.

Furthermore, the changes to the rules of origin for clothing may increase the region's clothing exports to the EU ⁽⁶⁾. The region enjoys preferential access to the United States (US) market for its apparel exports under the US Caribbean Basin Initiative, which resulted in investment from US outward processing firms and boosted the region's apparel exports to the US in the 1990s (Skripnitchenko and Abbott, 2003). Whether the EU's initiative, which entered into force after the expiry of the World Trade Organization (WTO) Multi-Fibre Arrangement (since when there has been a substantial liberalisation of the global apparel trade and, thus, erosion of preferences), will be sufficient to stimulate investment in the Caribbean apparel sector remains to be seen. So far there is anecdotal evidence from DR that investment in the sector is indeed increasing ⁽⁷⁾.

The medium-term impact will be determined by whether or not DFQF provokes an increase in Cariforum export supply. The most likely candidates requiring increased investment are rice and, possibly, citrus (in addition to sugar and bananas). There could also be scope to increase exports of

⁴ Initially provided under an autonomous decision by the European Council in December 2007 pending finalisation of the negotiations. DFQF for sugar has been accompanied by the removal of the price guarantee that, under the Sugar Protocol (which it replaces), related the price received by ACP exporters to that received by the EU.

⁵ See footnote 1 (page xi).

⁶ The rules of origin in the Cotonou Agreement had a 'double transformation' requirement, i.e. to enter the European market duty free clothing exports had to meet two stages of production – transformation from yarn to fabric and from fabric to clothing had to take place within the ACP. This has been changed under the EPA to a 'single transformation' requirement, which just requires the transformation from fabric to clothing to take place within ACP.

⁷ As reported by Ambassador Federico Cuello Camilo at the Joint Parliamentary Assembly in Georgetown, Guyana, 25 February 2009.

processed foods (especially those containing sugar)⁸) but this will depend largely on how far the current rules of origin are amended during the continuing negotiations. Whilst it seems improbable that many Cariforum countries will be able to increase substantially their production of all the basic raw materials that go into processed food products, there could be scope, were the origin rules to be amended, to undertake value-added processing that would use some locally sourced raw materials together with some imported inputs.

With the information currently available it is impossible to make any realistic estimate of how far the EPA will induce an increase in services exports. Clearly access to the European market has improved for some Cariforum services, but whether this will increase exports – and whether the services sectors need assistance to develop the potential – are questions that remain to be studied.

2.2 The adjustment effect

The scale and speed of these three EPA effects will depend largely upon the current extent of the trade taxes that must be removed and on how rapidly they will fall. This sub-section analyses the effects of the liberalisation that Cariforum will undertake; the next looks at the potential impact of the EU's liberalisation on the region's exports.

The impression has been given (in the EPA text and by the negotiators) that there is a single Cariforum regional liberalisation commitment with a few national exceptions, but this is misleading. Rather than there being 'one schedule with some exceptions' the reality is that the Cariforum states have 15 different national schedules with a certain, limited overlap between them during much of the first 15 years of the implementation period; even by the end of the 25-year implementation period there will remain differences for a relatively small number of goods. During the implementation period they will apply widely differing tariffs to imports from the EU of different goods.

For the foreseeable future, therefore, each country will have its own, individual tariff policy towards the EU. The liberalisation schedules of the three focus countries of this report, Barbados, Guyana, and Suriname, are described below (Box 1). Each has its own specific development needs related both to its economic and tax situation and to its liberalisation schedule.

The extent of the development challenge/opportunity created by the EPA will depend upon how much liberalisation takes place, and how rapidly it occurs. If a large number of 'important tariffs' are removed quickly the effect will be more substantial (for good or ill) than if lower tariffs are removed more slowly. But which are the 'important tariffs'? Because each of the three countries is removing tariffs on as many as 5,000 different products (between 4,858 by Suriname and 5,099 by Barbados), with widely differing liberalisation timetables, it is essential to focus attention on the changes that will produce the greatest effect. Broadly speaking, the 'adjustment effect' of the EPA will occur mainly on goods that currently face high applied most-favoured-nation (MFN) tariffs but, as explained below, the 'revenue effect' may be greater in relation to goods facing medium or low tariffs.

Table 1 provides information on the level of high tariffs in each of the three focus countries prior to the EPA. It shows that all of them had applied MFN tariffs of 40% or more and that Barbados also imposed specific duties. Of the three countries Barbados had the largest number of very high tariffs (430) covering the highest proportion of imports (almost 10%) and with the highest

⁸ Once sugar quotas are lifted and provided that the remaining safeguards are unconstraining.

maximum rate (184%). Suriname was at the other end of the scale, but even this country will be liberalising 161 goods with tariff rates of 40–50%. Guyana was in the middle.

Box 1. Phasing of Cariforum liberalisation

The Cariforum states will be removing their tariffs on substantially all imports in up to 12 tranches (depending on the country) over the 25 years ending 1 January 2033. During each multi-year tranche tariffs will be reduced progressively in sequential steps (often at two-yearly intervals). In most cases it is very clear when a product will be liberalised (or whether it is excluded from liberalisation). But there is one major area of uncertainty which is explained in this box – and which needs to be taken into account in interpreting Figures 1–5.

The Cariforum text states that the first EPA liberalisation tranche begins in 2011 – a point emphasised by the negotiators. But this position assumes a very specific use of the term ‘EPA liberalisation’. Many Cariforum states have been expected to ‘liberalise’ some existing tariffs by the end of 2008 in order to comply with the EPA.

How many of these cuts had been made before the EPA negotiations were completed is uncertain – but probably not all. Evidence obtained from one Cariforum state indicates that only about one-third of the tariff cuts had been made by the third quarter of 2008. In this report we consider as ‘EPA liberalisation’ any cuts needed to reduce tariffs from the level recorded in the most up-to-date available source to the level required by 1 January 2009⁹). In most cases the most recent rates are for 2007 or 2006 (although for Suriname it is 2004). Although the figures cited in this report overlook the tariff cuts made in the last few years, and hence overstate the number of tariffs that needed to be reduced between EPA signature and the start of 2009, they do not exaggerate the extent of *recent* liberalisation. The effects of this recent liberalisation (together with that commenced after EPA signature) will start or continue to be felt during 2009 – and will form part of the immediate development challenge facing these countries.

Table 1. Highest-tariff items being liberalised

	Highest ad valorem tariffs ^a			Specific duties	
	Range	Number of lines	Prop. of value of imports from EU (average, 2004–6)	Number of lines	Prop. of value of imports from EU (average, 2004–6)
Barbados	40–184%	430	9.9%	10 ^b	0.4%
Guyana	40–100%	195	1.2%	n/a	n/a
Suriname	40–50%	161	0.5%	n/a	n/a

Notes:
 (a) i.e. the maximum ad valorem tariff applying to any item within the relevant Harmonised System (HS) 6-digit subheads: other items in the same subhead may have lower (or zero) tariffs.
 (b) For only one of these does *only* a specific duty apply; for the remainder ad valorem rates of 0 to 40% or a specific duty may apply.

How soon must these tariffs be removed? Figure 1 shows the number of goods in each liberalisation phase that faced tariffs set prior to the EPA at levels that were high (20% or over or specific duties) or moderate (over 10% but under 20%). In all three countries some very high tariffs have had to be removed by 1 January 2009, as have some moderate tariffs in Barbados and Guyana. In the case of Barbados, 20% of the high and 49% of the moderate tariffs that are being liberalised under the EPA have had to be eliminated by this deadline.

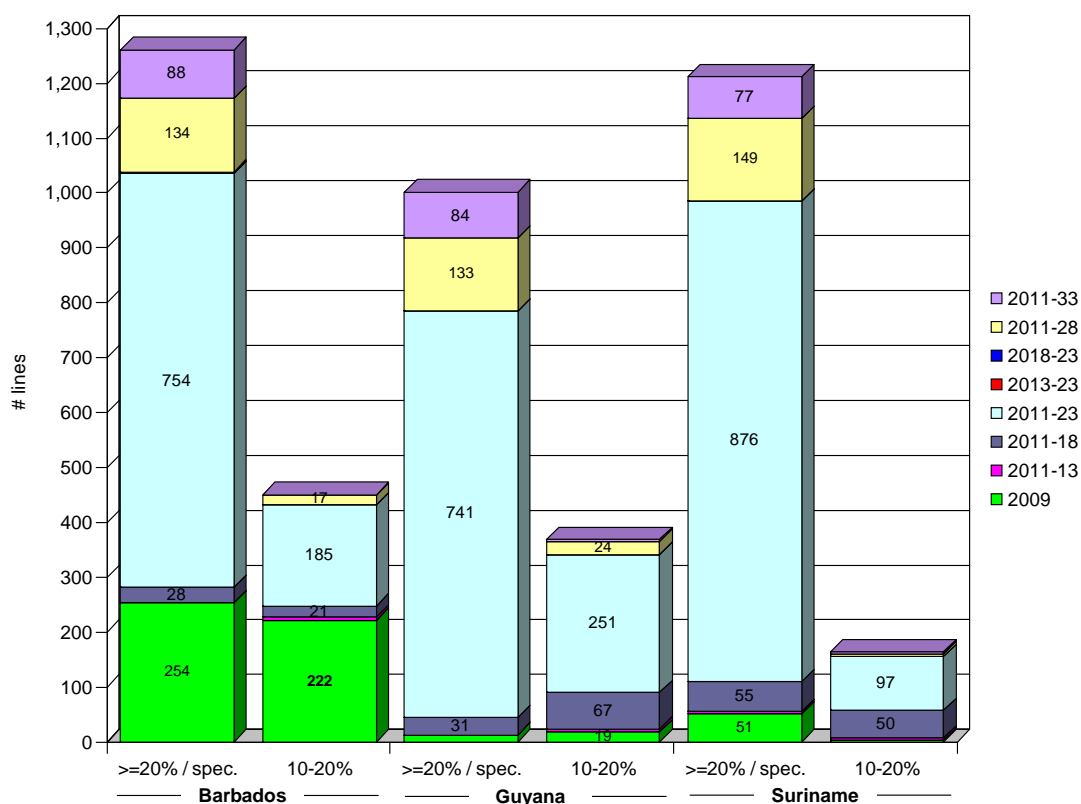
⁹ For details of other methodological problems involved in establishing the extent of EPA liberalisation see Stevens, Kennan and Meyn, 2009.

Although such figures suggest a sharp, quick EPA impact, the situation is not quite what it seems at first sight. Countries have tended to liberalise first goods that are not imported to any great extent (as well as goods that are imported but which already face low or zero tariffs). This can be seen by comparing Figure 1 with Figure 2 (on page 9). Although Barbados had to eliminate 49% of the moderate tariffs being liberalised under the EPA, these goods accounted for just 3.1% of its imports in 2004–6.

The reality is that there will be an ‘adjustment effect’ only if three other conditions are met.

- ◆ First, the EU (or another Cariforum state) must be able to produce these goods reasonably competitively – otherwise there will be no EPA-induced imports for local consumers to buy.
- ◆ Second, they must be goods for which an actual or potential demand exists among Cariforum consumers, otherwise no one will want to buy imports.

Figure 1. Phasing of high- and moderate-tariff liberalisation (by number of tariff lines)



- ◆ Third, there must be local producers who will face increased competition; if consumption is currently supplied mainly from imports the EPA will have a trade diversion but not an adjustment effect.

We can eliminate goods from Table 1 that do not meet the first condition by analysing EU exports. If the EU does not export to any country in the world a significant value of an item being liberalised by Barbados, Guyana or Suriname it is unlikely that it will suddenly start to export just because it will (eventually) get duty-free access to three tiny markets. Out of the 384 separate highest-tariff

items being liberalised by one or more of the three Cariforum states, a full 56% (summarised in Appendix 1) are not exported by the EU to the world to a significant value ⁽¹⁰⁾.

The EU is not necessarily a competitive supplier to small Cariforum markets of all the remaining 170 highest-tariff items – but they form a ‘long list’ of goods to which we now apply the second test – is there a demand for them in Cariforum? It is clear that many of them are not currently imported by Barbados, Guyana and Suriname to any great degree. A very broad indication is provided by column four of Table 1 – the goods’ share of imports. Imports of high-tariff goods that are being liberalised under the EPA and for which the EU is a major supplier totalled €13.5 million for Barbados but only €0.8 million for Guyana and €0.7 million for Suriname (2004–6 average). In Barbados and Guyana the bulk of imports are vehicles (65% and 77% respectively) while in Suriname vegetable fats and oils account for 47% and silver for 12% of the high-tariff items for which the EU is a global supplier.

The tariffs on vehicles and on silver are likely for revenue, and the effect of their removal is discussed below. In the case of the other goods which might compete with domestic supply, the current tariffs of 40% and more are likely to have depressed demand (by making imports more expensive), but they are unlikely completely to suffocate it. As tariffs rise there is an increasing likelihood that demand is suffocated rather than simply depressed, but even at 100% it is improbable that no consumers are able to afford a particular item – just consider by how much prices rise simply as a result of fluctuating exchange rates without causing a total cessation of imports.

Possibly the goods currently protected by very high tariffs for which the greatest EU supply capacity exists are fruit and vegetable products (Suriname), processed food products and vegetable fats/oils (Barbados and Suriname), and garments, cement, paper products, electronic components, insecticide, and soap (Barbados) (see Appendix 2). For Guyana no high-tariff items that might compete with domestic supply and for which the EU is a major supplier were identified ⁽¹¹⁾. All of the product categories for Barbados and Suriname contain many sub-components. Whether the two countries produce the same lines as those being liberalised is impossible to say without full market research

2.3 The revenue effect

It is certain that the EPA countries will lose government revenue from the removal of tariffs. By eliminating tariffs on ‘substantially all’ trade with Europe the EPA must result, by definition, in the elimination of ‘substantially all’ tariff revenue from imports sourced in the EU *by the end of the implementation period*. In addition, the Cariforum states must remove other trade-related sources of government revenue.

2.3.1 Removing tariffs

Unlike the ‘adjustment effect’, it is the removal of moderate tariffs that will have the greatest impact; moreover, revenue could actually rise in the shorter term. This is because very high tariffs

¹⁰ What is a ‘significant value’? Given the size of the EU as a trading bloc and the fact that we are considering exports to any country in the world, we have set €100 million as the cut-off threshold for ‘significant’. Only goods exported in excess of €100 million by all EU states combined to all countries in the world in 2006 are considered to be ‘significant’.

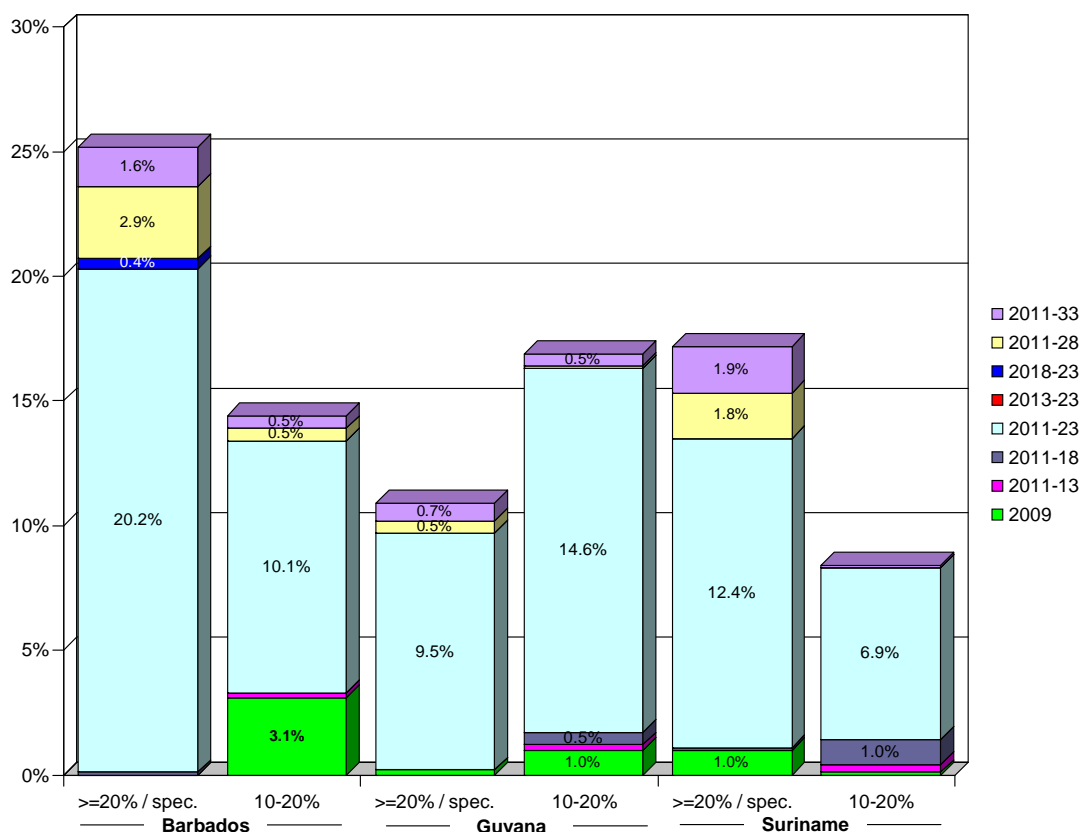
¹¹ This is a preliminary conclusion based on desk analysis. Only full market research could provide a more detailed picture.

Figure 2. Phasing of moderate- and high-tariff liberalisation (by share of total import value)

often generate little revenue since they keep the volume of imports low, as is illustrated by comparing Figures 1 and 2 – the former shows many more very high-tariff than moderate-tariff lines, but when attention shifts (in the latter) to the share of import value, this disparity is greatly reduced or, in one case, reversed. As the higher tariffs come down by degrees, so import volumes may increase, generating temporarily increased revenue, until continued liberalisation reduces and finally eliminates revenue.

The key factor affecting the impact of the revenue effect, therefore, is the speed at which lower tariffs are removed (absolutely, and relative to the speed of high-tariff removal). By 2023, when most of the liberalisation will be completed, it should be possible to have alternative revenue systems in place – but to achieve this goal by, say, 2011 or shortly thereafter might be a considerable challenge. So it is very important to know when, within the EPA window, the greatest falls can be expected.

Figure 2 shows the phasing of liberalisation for moderate tariffs and high tariffs. It indicates the proportion of the total value of imports from the EU accounted for by items that are being



liberalised in each tranche.

Box 2. The task of calculating EPA revenue effects

The fiscal impact of the EPA liberalisation will depend upon:

- how much revenue is currently collected from the tariffs being removed (taking account of any exemptions or errors in collection);
- whether the EPA provokes trade diversion so that goods currently imported from other sources (on which tariffs will not be reduced) are diverted in future to EU sources (so that

the loss of tariff revenue is increased);

- the relative importance currently of tariff revenue in total government financing (including aid); and
- the level, incidence and collection rate (relative to tariffs) of any alternative taxes that government introduces to replace the lost tariffs.

Any serious analysis of the revenue impact of the EPA will need to take into account all of these factors. The first one would tend to result in the estimated revenue loss being lower than would otherwise be expected, whilst the second would have the opposite effect. Whether or not any loss has a significant impact on the level or distribution of government expenditure depends critically on the relative importance of tariffs as a source of income. And, of course, for the mainly island Cariforum economies it may be perfectly feasible to institute alternative non-tariff taxes that are collected on imports. Seychelles and Mauritius, for example, are setting sales taxes at a level such that, when they are collected on imports by the customs authorities (in place of tariffs), they generate revenue that is not far short of the current level. In such a case, the 'revenue impact' of the EPA would be not a loss of total government revenue but the fact that domestic producers would also need to pay the sales tax in order for it not to be considered a tariff or para-tariff.

The competitiveness of domestic markets is also relevant. If a 10% tariff is removed and replaced by a 10% sales tax, the net impact on consumers should be zero. But if importers are able to pocket all or part of the tariff cut whilst passing on the sales tax to the consumer the impact would be very different.

Clearly, very detailed country-by-country analysis is needed. In its absence, an initial broad picture can be obtained by calculating the 'hypothetical revenue loss' that will result from the removal of tariffs. This is obtained by applying the tariff (where known) to the value of imports in the reference year(s) in order to produce the 'hypothetical revenue' currently being collected. In other words, if imports are €100 and the tariff is 15%, the hypothetical revenue is €15. This assumes that collection is 100% efficient and that there are no rebates, which is unrealistic. It also assumes that all tariffs are known, which is not always the case. These two 'errors' will work in opposite directions. One will produce a figure for current hypothetical revenue (and hence the figure for EPA-induced revenue loss) that is the maximum possible figure and is almost certainly overstated, but by an unknown amount. The other will overlook some revenue that is currently being collected (assuming that the 'missing tariffs' are positive).

In all three countries the great majority of moderate tariffs will have been removed completely by 2023 in a process beginning in 2011. Although some tariffs had to be eliminated by 1 January 2009, these applied to only a relatively small share of imports.

But the removal of low tariffs (below 10%) will also have a revenue effect. Figures 3–5, which cover all tariffs, high and low, provide guidance. They are based upon the 'hypothetical revenue' that could be raised by tariffs on imports from the EU. As explained in Box 2, 'hypothetical revenue' is a problematic measure of the EPA revenue effect that is used only because data on the actual revenue collected by countries product-by-product on imports from the EU are unavailable and could be obtained (if at all) only through a major data collection exercise⁽¹²⁾. Although it very probably overstates the absolute revenue loss resulting from the EPA, it may provide a reasonably realistic picture of the timetable for revenue loss, as is done in Figures 3–5.

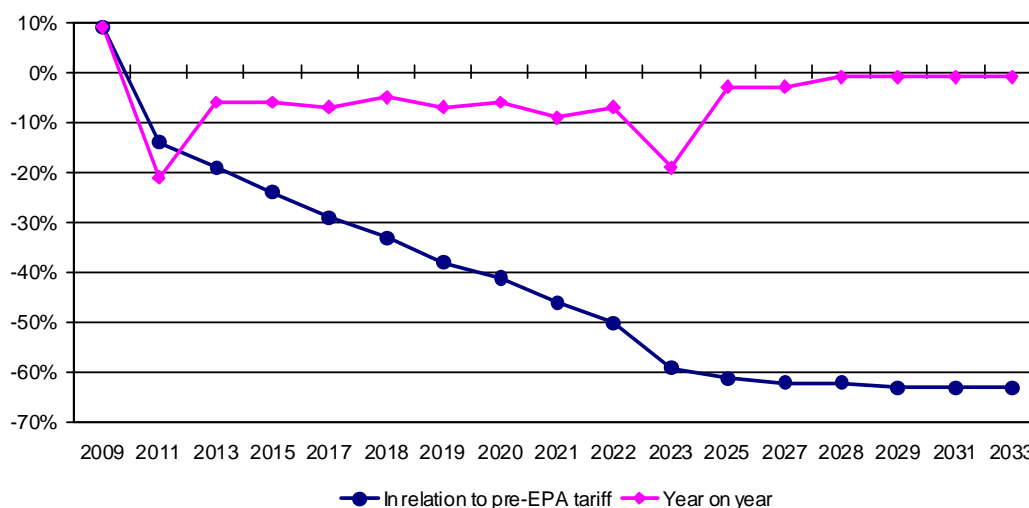
In each of the next three figures:

¹² CaPRI estimate the costs of collecting such data (if it is available) at up to US\$100,000.

- ◆ the pink line represents the percentage loss in each year vis-à-vis the previous year;
- ◆ the dark blue line represents the percentage loss in each year vis-à-vis the total hypothetical revenue pre-EPA.

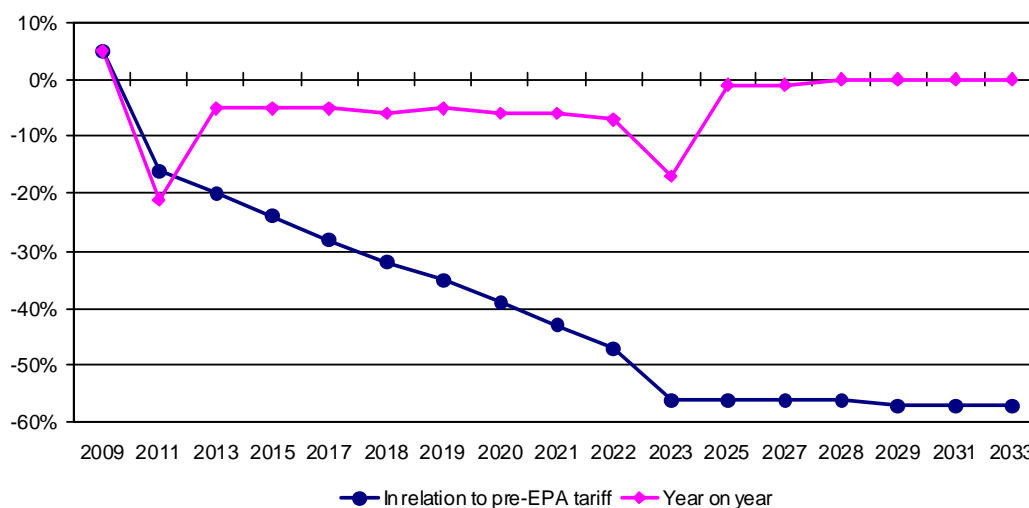
In all three cases the removal of many low and some medium tariffs in the months preceding and immediately after EPA signature means that there is an immediate ‘spike’ of revenue loss, after which the rate of decline stabilises until 2023. The initial spike plus the annual falls mean that by 2015 Barbados and Guyana will have lost about one-quarter of their hypothetical revenue from tariffs on EU imports, whilst Suriname will have reached this position within a further three years.

Figure 3. Barbados: timetable for hypothetical revenue loss

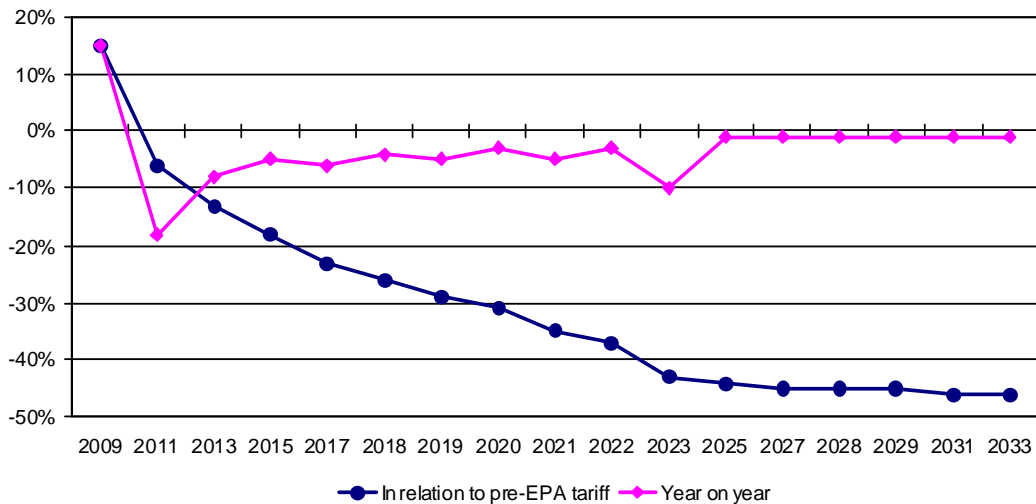


Note:
 (a) All percentages calculated on average import values 2004-6 (EU mirror data). Excludes 23 items to which specific duties only apply.

Figure 4. Guyana: timetable for hypothetical revenue loss



Note:
 (a) All percentages calculated on average import values 2004-6 (EU mirror data).

Figure 5. Suriname: timetable for hypothetical revenue loss

Note:

(a) All percentages calculated on average import values 2004-6 (EU mirror data).

2.3.2 Removing 'para-tariffs'

The early impact of the EPA on revenue may be greater than these figures suggest because tariff removal is not the only route through which government revenue will be affected. The Cariforum states must also eliminate within ten years what in this report we call 'para-tariffs'. These are taxes levied on imports in a variety of ways, such as ad valorem customs charges and environmental duties that exceed the cost of providing customs services.

Article 11 of the Cariforum–EC EPA prohibits the imposition of any trade-related internal taxes and charges other than anti-dumping and countervailing duties. To be exempt from this prohibition, a tax or charge must either be set at a level that reflects the 'costs of the service rendered' (Article 13) or be applied equally to domestic products and imports (Article 27). Article 16.4 gives Cariforum countries up to ten years to eliminate any such para-tariffs (but a start must be made not later than year 7); the process is supposed to be accompanied by technical assistance for fiscal reform.

Unfortunately, whilst it is possible to make very broad-brush estimates of a hypothetical loss of tariff revenue (using data on the value of imports and the current tariff) it is not possible to do the same with para-tariffs without specific knowledge of the net revenue currently collected. The net revenue is defined as the income generated by these taxes minus the actual cost of providing the services they are designed to cover ⁽¹³⁾.

2.3.3 The relative impact on government revenue and expenditure

The impact of these tariff and para-tariff cuts on government revenue and expenditure will depend on the relative importance in total revenue of taxes. These data (Tables 2–4) can also be used to validate the realism of the hypothetical revenue figures and establish the extent to which the revenue impact of the EPA might be increased if it diverts trade so that there is an increase in the proportion of imports that are sourced from the EU (and pay the reduced duties).

¹³ It should, however, be borne in mind that ad valorem customs service charges have been ruled to be inconsistent with WTO rules by the Appellate Body in various cases.

The first step is to determine how dependent the three focus countries are on trade taxes to fund government expenditure. In Barbados over the period 2001/2 to 2006/7 trade taxes accounted for on average about 9% of government revenue (with an environmental levy, which might be classified as a para-tariff, contributing a further 0.7%). Guyana has been much more dependent upon trade taxes, although the most recent figures are for the early years of this decade. They show trade taxes accounting for about 20% of government revenue in 2001 and about 19% in 2002 (WTO, 2003: 37). Since then the share may have fallen: there has been a rise in grant receipts and debt relief as well as increased revenue from property tax, withholding tax and income tax for companies and the self-employed (EIU, 2009: 10). In Suriname, too, the share of the government current revenue derived from customs duties is higher than in Barbados, but it has fallen: from around 17% in 2002 (WTO, 2004: 33) to an estimated 10.7% in 2007. In addition consent and statistical fees (which might be classified as para-tariffs) account for a further 3% of total revenue.

Table 2. Barbados central government operations (Barbados \$ million and percent)

	FY2001/2	FY2002/3	FY2003/4	FY2004/5	FY2005/6	FY2006/7
Current revenue	1,722.2	1,716.3	1,865.7	1,897.4	2,143.0	2,223.4
Tax revenue	1,644.2	1,636.9	1,793.5	1,836.2	2,075.1	2,155.3
<i>of which</i>						
<i>Taxes on income and profits</i>	571.4	604.7	596.5	621.3	706.2	804.7
<i>Taxes on property</i>	102.6	95.7	106.0	112.9	137.4	151.2
<i>Taxes on goods and services</i>	749.5	718.7	835.1	837.9	959.9	939.3
<i>Taxes on international trade</i>	146.3	160.1	194.1	193.0	180.5	173.8
Taxes on international trade as percentage of total revenue	8.50%	9.33%	10.40%	10.17%	8.42%	7.82%
<i>Environmental levy</i>	11.3	12.1	13.5	14.2	16.0	16.0
Environmental levy as percentage of total revenue	0.66%	0.71%	0.72%	0.75%	0.75%	0.72%
Total current expenditure	1,791.7	1,914.4	2,059.8	2,154.8	2,272.2	2,517.1

Source: Financial data provided by the authorities as quoted in WTO, 2008: 4–5.

Table 3. Guyana central government finances

	Guyana \$ billion		
	2007	2008	% change
Current revenue	40.5	42.5	4.9
Current expenditure	26.9	33.3	23.9
Current balance	13.6	9.1	-32.7
Capital revenue and grants	4.3	11.4	161.8
Capital expenditure	13.5	12.5	-6.8
Capital balance	-9.1	-1.2	-87.2
Overall balance	4.5	8.0	78.3

Source: Bank of Guyana as quoted in EIU, 2009: 10.

Table 4. Suriname central government operations (Suriname \$ million and percent)

	2003	2004	2005	2006	2007 (est.)
Total revenue and grants	919.6	1,072.0	1,352.1	1,601.0	2,002.0
Current revenue	857.2	1,016.5	1,270.8	1,520.0	1,902.5
Tax revenue	738.1	891.8	1,047.7	1,285.1	1,582.8
Direct taxes	308.7	422.2	540.7	610.4	778.8
Indirect taxes	429.5	469.5	507.0	674.7	804.0
Taxes on international trade	251.2	306.4	362.7	388.4	430.9
Taxes on international trade as percentage of total tax revenue	29.3%	30.1%	28.5%	25.6%	22.6%
<i>of which</i>					
<i>Sales tax on imports</i>	97.7	116.6	139.7	146.9	169.8
<i>Customs duty</i>	118.7	146.4	170.5	180.1	204.8
Customs duty as percentage of total tax revenue	13.8%	14.4%	13.4%	11.8%	10.7%
<i>Consent and statistical fees</i>	34.0	41.5	50.0	58.4	54.1
Consent and statistical fee as percentage of total tax revenue	2.8%	4.1%	3.9%	3.8%	2.8%
<i>Export taxes</i>	0.8	1.9	2.5	3.0	2.2
Export tax as percentage of total tax revenue	0.09%	0.19%	0.20%	0.20%	0.12%
Other taxes	3.0	5.0	4.0	4.3	4.3
Non-tax revenue	119.1	124.7	223.1	234.9	319.7
Grants	62.3	55.5	81.3	81.0	99.5

Source: International Monetary Fund, 2008: 11.

2.3.4 The bottom line

Only part of these total revenues will be lost as a result of the EPA, though trade diversion effects might aggravate revenue losses⁽¹⁴⁾. The next step, therefore, is to compare the figures on hypothetical revenue loss with these data on actual trade taxes collected.

The EU accounted for an average of 15% of Barbados's imports in 2005–7 (Table 5). If its goods had fallen under different tariff rates in exact proportion to total imports, they would have generated some 15% of Barbados trade taxes in 2006/7 or B\$26 million (€9 million). The figures for hypothetical revenue from EU imports are much higher than this (at €30 million in 2004–6). The difference is due either to the fact that imports from the EU are in goods facing higher tariffs than the average or to the fact that actual customs collection rates are much lower than the '100% achievement' assumed in the hypothetical revenue calculations – or to both. Between them these two figures provide approximate upper and lower bands for the level of revenue loss. If the time profile for revenue loss shown in Figure 3 is applied to them it suggests that Barbados will have lost annual revenue of between €2 and

Table 5. The relative importance of the EU as a source of Cariforum imports

Country	Value of imports from EU25 as share of value of total imports		
	2007	2006	2005
Belize	5.8%	6.5%	
Bahamas	1.9%	1.6%	
Barbados	17.2%	13.7%	13.3%
Dominica	11.4%	12.6%	
Grenada	n/a	12.7%	
Guyana	11.3%	9.8%	8.4%
Haiti	n/a	n/a	
Jamaica	6.7%	9.4%	
St Kitts	n/a	7.2%	
St Lucia	10.8%	13.3%	
St Vincent	n/a	13.6%	
Suriname	24.5%	24.0%	21.1%
Trinidad	11.1%	10.5%	

Source: United Nations Comtrade database, accessed 14 August 2008.

¹⁴ Unless, of course, the countries also liberalise towards other major trade partners, which is not unlikely.

€6 million by 2013 (when some 20% of all revenue losses will have occurred) and between €6 and €18 million annually by 2023 (which equates to between 0.7% and 2.2% of government revenue for 2006/7) ⁽¹⁵⁾. There might also be a loss of para-tariff revenue not included in the figures for trade taxes in Table 2.

Following the same approach for Suriname indicates that trade tax revenue accruing on imports from the EU would have been about 23% of the total (if goods were distributed between tariff groups in the same proportion as total imports) or S\$99 million (€26 million) in 2007, a figure that is very close to the hypothetical revenue calculations. The time profile shown in Figure 5 suggests that by 2013 the government will have lost annual tariff revenue of some €3 million and that by 2023 this will have risen to €11–12 million (equating to between 2.2% and 2.4% of revenue for 2007) (see footnote 15). Any loss of para-tariff revenue not classified as a trade tax in Table 4 will be additional.

Calculations in the case of Guyana are hampered by the absence of recent data for the level of trade taxes. But if trade taxes accounted in 2008 for as much as 19% of total revenue (as in 2002), and if EU imports were distributed proportionately across tariff bands, the implied revenue would be G\$791 million (€3 million). As with Barbados, this is much lower than the calculated hypothetical revenue on imports from the EU of €8 million, providing upper and lower bands to the calculations of actual revenue loss. Given the time profile for revenue loss in Figure 4, they imply that by 2013 the government will be facing an annual revenue loss of between €0.5 and €2 million, which by 2023 will have risen to €1–5 million (equating to between 0.7% and 3.5% of revenue in 2008) (see footnote 15), with possible para-tariff loss on top of these figures.

It is important to emphasise that the Cariforum–EC EPA contains provision for a review of the tariff concessions granted in case of ‘serious difficulties’ (Title 1, Article 16.6). This allows a country during the 25-year implementation period unilaterally to raise its tariff up to the applied MFN rate if the Joint Trade and Development Committee does not decide to the contrary within 30 days. This measure can stay in place for up to one year. The lesser developed Cariforum countries ⁽¹⁶⁾ can further modify the level of customs duties stipulated in their liberalisation schedule up to the maximum applied MFN rate without the one-year time limit. As in the case of the standard provision, the Joint Development Committee must approve applications (Article 17).

Furthermore, the parties ‘may also decide to simultaneously adjust customs duty commitments’. Any such modification has to be approved by the Joint Trade and Development Committee.

¹⁵ Based, for Barbados in this instance, and for Suriname and Guyana later in this sub-section, on the latest current revenue figures shown in Tables 2–4, and current national currency:€ exchange rates downloaded from <http://www.oanda.com/convert/fxhistory>.

¹⁶ Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Haiti, St Christopher and Nevis, St Lucia, and St Vincent and the Grenadines.

Section 3. Identification of available resources

Currently, the EU is compiling regional AfT packages, which aim at combining efforts by the European Commission and Member States in a coherent and complementary way. The amounts of European Commission contributions under the 10th EDF have been spelled out in the RIP and NIPs for the period 2008–13. In the case of the region, a major part of the 10th EDF RIP is dedicated to ‘Regional Economic Integration and Cooperation’ and several Country Strategy Papers (CSPs) which address international competitiveness as their focal areas⁽¹⁷⁾. EU Member States are aiming to detail their bilateral contributions to the regional packages in Spring 2009. While Caricom/Cariforum is not a focal region for some EU Member States, several of them carry out substantial bilateral cooperation activities in the region and are expected to provide support for EPA implementation. In addition, resources for AfT are provided under the EDF intra-African, Caribbean and Pacific (ACP) allocations and the EU budget.

Box 3. The Global AfT initiative and the benefits for the Cariforum region

The concept of AfT emerged from the WTO Doha Round, when, in the 2005 Hong Kong Ministerial, trade ministers mandated that AfT become a part of the Round. While the definition and scope of AfT remain debatable, its general objectives include: (a) addressing supply-side constraints and (b) enhancing trade-related infrastructure and institutions in developing and least developed countries to better facilitate trade.

In this context, the WTO established a Task Force with the mandate of making recommendations for the operationalisation of AfT. The Task Force categorised AfT into six main areas: trade policy and regulation, trade development, trade-related infrastructure, building productive capacity, trade-related adjustment and other trade-related needs (WTO/OECD, 2007: 19).

In 2005 the EU announced an increase of its trade-related assistance (TRA) to support trade policy and regulations and trade development by €2 billion per year by 2010. Of this, the European Commission committed to provide €1 billion a year (which it had almost achieved already in 2005), and the EU Member States undertook a similar commitment⁽¹⁸⁾. The EU approach on AfT has been outlined in more detail in the ‘EU Strategy on Aid for Trade’, adopted on 15 October 2007 (Council of the EU, 2007). The Strategy includes a general commitment also to the wider AfT agenda beyond the first two categories and aims at paving the way to a more concrete AfT action plan, to be elaborated in 2008 and 2009.

Cariforum has benefited from the AfT initiatives. The Organisation for Economic Cooperation and Development (OECD) Creditor Reporting System (CRS) reports that the region has been a recipient of an average of US\$259 million per annum over the period 2002–5 and received US\$185 million in 2006 in the areas of trade policy and regulation, economic infrastructure, and productive capacity building⁽¹⁹⁾.

¹⁷ Published by the European Commission at http://ec.europa.eu/development/geographical/methodologies/strategypapers10_en.cfm.

¹⁸ This pledge has been formalised with the General Affairs and External Relations Council (GAERC) formal decision on 16–17 October 2006 to address EPA-related adjustment needs under the broader framework of AfT and has been reiterated in all GAERC conclusions addressing EPAs since, including the recent GAERC Conclusions on EPAs of 26–27 May 2008.

¹⁹ Paper presented by the OECD at the ‘Symposium on Aid for Trade in the Caribbean: making it a reality’ in Jamaica in June 2008. Not all the projects were completed at the time of reporting, but the funds were programmed accordingly.

It is worth noting that in determining the exact levels of financial resources for EPA support and Aft available to the region, difficulties arise due to more general definitional problems. In particular for the wider Aft agenda (see Box 3) it is often questionable whether a specific project, such as constructing a road, is related to trade or not. According to the WTO Task Force report on Aft 'Projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies' (WTO, 2006). However, doubts and imprecise measurement remain. For instance, if a large programme on rural development includes a potential increase in exports of agricultural goods as a minor side objective, should the whole programme be considered as Aft? On the other hand, projects that do not explicitly mention trade among their objectives may have beneficial effects on export competitiveness, e.g. through improvements of the business environment.

Keeping this limitation in mind, the following section attempts to give an overview of resources currently programmed for Aft and future resources for EPA support in Cariforum. Appendix 3 gives an overview of past resources programmed for Cariforum Aft (2000–07).

3.1 Available resources for EPA support

3.1.1 EDF Regional Strategy Paper and RIP

The guiding framework for the EDF is the Regional Strategy Paper (RSP), which outlines both the broad objectives of the programme and the activities envisaged in order to achieve these. It also indicates the total level of resources available and how these are to be distributed amongst the different intervention areas.

The strategy and allocations of the RSP under the 10th EDF are heavily biased towards regional economic integration and cooperation (including EPA implementation and capacity building). Regional integration has been designated as the focal sector for support, receiving €143 million – of which €72.6 million (or 44% of the total RIP allocation) is earmarked specifically for EPA implementation and accompanying measures (see Table 6). Beyond the regional integration focal sector, the remaining allocation is dedicated to the non-focal sector of vulnerability and social issues, with an allocation of €22 million (though some of the funding in the area of 'Investing in Human Capital' might also include elements that support EPA-oriented development).

Table 6. The Cariforum RIP in EDF 10

Total Allocation		€165m
Focal Sector	Regional Economic Integration and Cooperation	€143m
	– out of this allocated to EPA support	€72.6m
Non-Focal Sectors	Vulnerabilities and Social Issues	€22m
Source: RSP/RIP 2008–13.		

Table 7. Summary of the regional strategy on regional economic integration and cooperation

Focal area: regional economic integration and cooperation	
Objective	To achieve sustainable economic development and cooperation through the regional integration dimension of an EPA and active participation in a Cariforum/EU EPA.
Means	(i) Increased regional competitiveness in the production of and trade in goods and services. (ii) Regional economic integration and cooperation with the Caricom Single Market and Economy (CSME) in place and functioning.
Results	The RSP will contribute to achieving the following results: (i) Increased production, diversification and export of goods and services.

	(ii) Deeper and wider regional economic integration and cooperation. (iii) Enhanced human capacity for sustainable development.
Intervention areas	The major interventions envisaged for the focal area are: (i) Economic integration and trade of the Organisation of Eastern Caribbean States (OECS) (approximately 4% of the total RIP allocation, €6.6m) (ii) CSME and Caricom integration (approximately 15%, €24.8m) (iii) Intra-Cariforum economic and social cooperation (approximately 14%, €23.1m) (iv) Cariforum/Départements d'Outre-Mer/Overseas Countries and Territories/EU/Latin America and Caribbean economic cooperation and trade (approximately 4%, €6.6m) (v) EPA implementation and accompanying measures (approximately 44%, €72.6m) (vi) Investing in human capital (approximately 6%, €9.9m)
Source: RSP/RIP 2008–13: 42.	

The RIP is expected to be supplemented at the regional level by contributions from EU Member States within a 'regional AfT package'. At this point it seems clear that the European Commission expects the majority of funds for supporting trade-related adjustment and EPA implementation to be delivered at the regional level, with the main source of funding to be the RIP.

The Cariforum–EC EPA explicitly identifies these resources in a Joint Declaration on Development Cooperation, annexed to the agreement:

The Parties note the availability of EUR 165 million for financing the 10th EDF Caribbean Regional Indicative Programme (CRIP) and recall that under the Revised Cotonou Agreement, a successor to the current Financial Protocol will be agreed for the period 2014-2020. The Parties further recognise that the funds allocated to the Caribbean Regional Indicative Programme (CRIP) in the 10th EDF are to be complemented by Aid for Trade contributions by Member States of the European Union (EU).

As noted above, in addition to the EDF resources, there have in the past also been a number of intra-ACP funds and funds from the EU budget available to support trade-related activities on a thematic basis. Allocations known so far for coming years under such envelopes are covered below, but it is important to note that in practice the distinction between regional, national and intra-ACP programmes can be blurred, as many regional programmes – including those for regional integration and EPA implementation – will need to be implemented at the national level. Coordination of funding is therefore a primary concern.

Another concern is the timeliness of assistance. Partly in response to the problems involved with disbursement of funds under existing EDF instruments, both the European Commission and the ACP regions argued that development support for the EPAs should be financed as much as possible through 'regionally owned mechanisms'. Hence a number of regions, including Cariforum, decided to establish 'regional funds' to manage AfT contributions, potentially streamlining a number of donor finance sources (see Section 4.4).

It is important to note that both the RIP and NIP allocations are subject to a mid-term review in 2010. Potentially, the resource allocation could be increased 'in light of current needs and performance'. EPA monitoring bodies, including the EPA Joint Council could play a significant role.

However, both the RIP and NIPs run only until 2013. Thereafter a further EDF is envisaged to cover the period until the Cotonou Agreement expires in 2020. It is unknown whether a successor to Cotonou will be negotiated, posing questions for the costs of EPA adjustment and implementation.

3.1.2 EDF CSPs and NIPs for Barbados, Guyana and Suriname

Barbados

Barbados expects to be affected by multilateral and bilateral trade negotiations, including the EPA, from two sides: first, by reduced import duties and second, by eroding preferences. Accordingly, the authorities' structural reform agenda is supporting urgent development of new productive activities, notably in the areas of services, such as tourism and international business and financial services (NIP Barbados 2008–13: 9).

In line with these structural shifts in the economy, the focal sector targets skills development through an allocation of €8.33 million (Table 8), with the overall objective 'to increase competitiveness to allow sustainable growth and poverty alleviation' (ibid: 35). While not being exclusively targeted at EPA support, this programme is likely to contribute to taking advantage of new market access opportunities in services to Europe as well as to move away from industries affected by increased competition through imports.

Outside the focal sector the NIP foresees funding of €980,000 for a Technical Cooperation Facility (TCF) with the aims of supporting non-state actors and giving trade-related and tax-related technical assistance. However, no indication is given as to how the total amount will be distributed so it is not possible to assess how much of this should count as EPA support.

Table 8. Summary of allocations under the 10th EDF NIP for Barbados

	Amount allocated for 2008–13	Aid modality	Includes trade as objective?
A envelope	€9.8 million		
Thereof: Focal sector: Skills development	€8.33 million	Sectoral budget support	Yes, through increasing competitiveness
Non-focal sector 1: TCF	€980.000	Project support	Yes, trade related technical assistance is one of the main target areas
Non-focal sector 2: Technical assistance to the National Authorising Officer (NAO)	€490.000	Project support	No
B envelope	€0.2 million		

Source: NIP Barbados 2008–13.

Guyana

The CSP for Guyana mentions several areas to be addressed in the context of EPAs, such as promoting the business environment and economic diversification and support for government reforms in the areas of investment, copyright law and public procurement. Nevertheless, the NIP does not refer to trade-related needs. The focal areas are the management of sea and coastal areas; macro-economic support to reach the Millennium Development Goals (MDGs) and the implementation of Guyana's Poverty Reduction Strategy Paper (PRSP) (Table 9).

Being strongly affected by the changes in the EU sugar regime, Guyana also receives substantial amounts of funding from the EU budget under the accompanying measures for Sugar Protocol countries (see Appendix 4).

Table 9. Summary of allocations under the 10th EDF NIP for Guyana

	Amount allocated for 2008–13	Aid modality	Includes trade as objective?
A envelope	€51 million		

Focal sector 1: Sea defences /coastal management	€14.8 million	Sector budget support	No
Focal sector 2: Macro-economic support to PRSP and MDGs	€30.2 million	Budget support	No
Governance	€1 million	Project support	No
NAO Task Force	€1 million	Project support	No
TCF	€1 million	Project support	No
Development of a land-use master plan and comprehensive land register system	€3 million	Project support	No
B envelope	€4.4 million		

Source: NIP Guyana 2008–13.

Suriname

The CSP for Suriname acknowledges that the EPA is likely to affect Suriname's income from trade revenues and might have negative social and poverty effects in the short run. At the same time, rice and banana exports to the EU are expected to benefit from DFQF and generate new employment. Unlike other Caribbean producers, Suriname's production costs for bananas are competitive.

In the NIP, the focal sector targets transport infrastructure that is expected to be used for the construction of a road in a project jointly funded with other donors (Table 10). The specific objective of this intervention is 'Improved connectivity, flow of goods and persons within Suriname and between Suriname and neighbouring countries, increased trade with neighbouring countries'(NIP Suriname 2008–13: 32). Accordingly, the project is trade related. However, it appears to be a matter of interpretation whether it should be counted as supporting the implementation of the EPA, given that only trade with direct neighbours is concerned.

Outside the focal sector, €2.3 million is allocated to a TCF. EPA support is explicitly referred to among the cross-cutting objectives to be supported by the TCF. However it remains one out of various areas to be addressed without any specific allocation being made.

Table 10. Summary of allocations under the 10th EDF NIP for Suriname

	Amount allocated for 2008–13	Aid modality	Includes trade as objective?
A envelope :	€19.8 million		
Focal sector: Transport sector	€17.5 million	Project support	Yes, one objective is to increase trade with neighbouring countries
TCF	€2.3 million	Project support	Yes, EPA support is one of several objectives to be supported
B envelope	€0.6 million		

Source: NIP Suriname 2008-13.

3.1.3 Further EDF resources for Aft

In addition to the resources programmed in the RIP and NIPs at regional and country level, €2,700 million from the 10th EDF is earmarked for 'intra-ACP and inter-regional cooperation with many or all of the ACP Group of States' (European Commission, 2006). Another €1,500 million is allocated to the Investment Facility managed by the European Investment Bank. Some of this money is expected to be available for EPA support in Cariforum. Moreover, the Centre for

Development of Enterprise and the Centre for the Development of Agriculture carry out trade-related projects that are financed from the intra-ACP envelope of the 10th EDF.

While Cariforum countries are expected to benefit from these funds available to all ACP countries, it is difficult to determine the exact share out of the overall amounts that will support trade-related projects in the region.

3.1.4 Resources from the EU budget

Adjustment programmes for the sugar and banana sectors in ACP countries are financed under the EU budget. For Barbados and Guyana, the allocations for accompanying measures for Sugar Protocol countries for the period 2007–10 amount to €34.667 million and €85.043 million respectively⁽²⁰⁾ and are delivered through sector budget support. The special framework of assistance (SFA) for traditional ACP suppliers of bananas ended in 2008; hence no allocations are made from 2009 onwards. However, several programmes are expected to continue in the coming years and the European Commission indicated in February 2009⁽²¹⁾ that it was working on a scheme to renew support to the banana sector beyond 2011.

3.1.5 Future EU Member States' allocation for Aft

While the majority of the EU's Aft to Cariforum is provided by the European Commission, several EU Member States are allocating funds for EPA support and Aft in the framework of their bilateral cooperation activities.

Aft packages for ACP regions are expected to be finalised by the European Commission and EU Member States in Spring 2009. The Cariforum regional Aft package will then allow a more comprehensive picture of EPA support. Nevertheless, some information is already available.

DFID has announced a contribution of £10 million over two years to the CDF⁽²²⁾. Another £10 million over five years has been committed to a new Challenge Fund to support Cariforum's private sector (see Appendix 5) since a lack of entrepreneurship and innovation was identified by DFID as a key constraint to growth (DFID, 2008a and 2008b).

German bilateral cooperation is taking place mainly at the regional level. Currently, €6.82 million is programmed for several projects (such as improving metrology infrastructure, strengthening negotiation capacities and supporting regional institutions) taking place in the period 2006–11 (see Appendix 5).

Spain has announced that it will provide technical support to the CDF. Further, a Caricom–Spain Joint Fund has been established (Caricom Press Release, 21 January 2009).

For France, which is one of the major bilateral donors to the region, no details on future Aft activities in the region are known, as programming is currently going on.

²⁰ Draft Commission Decision amending Commission Decision C(2007)1688 on indicative allocation of the budget, between countries eligible for accompanying measures for Sugar Protocol countries for 2007–10.

²¹ At the Caribbean Regional Meeting of the Joint Parliamentary Assembly held in Georgetown, Guyana, 24–27 February 2009.

²² However, the £5 million foreseen for the year 2009 might be reallocated to another regional institution in the event that the CDF is not operational by March 2009.

Other Member States, such as Belgium, Italy, Sweden and the Netherlands indicate that the Caribbean region is not a focal region for their bilateral cooperation on AfT.

3.1.6 Non-EU donor allocations for AfT to Cariforum

A couple of other donors are active on AfT in the region, such as the Canadian International Development Agency (CIDA), the United States Agency for International Development and the Inter-American Development Bank (IDB) (a key partner of the WTO in implementing and monitoring the AfT initiative in Latin America and the Caribbean). These might also support the EPA implementation process; the IDB has already approved (in November 2008) a US\$400,000 project specifically targeted at EPA support⁽²³⁾.

3.2 Summary of findings

At this point it is difficult to determine the precise amount of development aid that will be available to support the EPA implementation. The main reason for this is that only a proportion of the possible future resources has yet been committed, let alone programmed. Thus far, €72.6 million has been committed for EPA support under the RIP of the 10th EDF, and total amounts for NIPs are also available. Programming by EU Member States has, however, not been finalised – and given the global economic crisis there are concerns that the allocation of funds could be revised downwards. Moreover, giving estimates of the level of resources is further complicated by the ongoing debates about definitions and transparency of AfT in general.

Nevertheless, as the analysis shows, a significant amount of resources have already been earmarked to support Cariforum countries in implementing and taking advantage of the EPA, at least until 2013. About €580 million has been programmed so far for EPA support by the European Commission and EU Member States. This figure is obtained by adding up the shares of the RIP⁽²⁴⁾ and NIPs⁽²⁵⁾ that are dedicated to EPA support and the resources already known to be programmed by EU Member States⁽²⁶⁾. In addition, €327 million have been allocated to Cariforum (excluding Cuba) to support adjustment in the sugar sector⁽²⁷⁾.

The European Commission, traditionally a strong supporter of regional integration and trade matters, has taken a lead in this regard. The expectation is that the renewed focus on trade, and the needs identified for the implementation of the EPA, will draw in other donors as well. This suggests that the global aid allocations will cover the immediate EPA-related costs identified in Section 2 – *provided that they are used for these purposes*. The critical (and currently unanswerable) question, therefore, is whether recipients and donors will allocate a sufficiently large share of the available resources to cover the three types of EPA-related cost.

However, it needs to be borne in mind that it remains disputed what projects count as EPA support. For instance in the NIPs, some experts may consider a programme aimed at increasing the competitiveness of an industry as preparing the country for liberalisation under the EPA, while others see such a programme as contributing to the general economic development of a country.

²³ <http://www.iadb.org/projects/>, accessed on 23 January 2009

²⁴ €72.6 million is allocated for EPA support under the 10th EDF RIP.

²⁵ According to information received by ECDPM from the European Commission, the part of the resources from the Caribbean NIPs under the 10th EDF that is allocated to EPA support amounts to €480 million.

²⁶ This calculation includes data from UK (at current exchange rate) and Germany.

²⁷ See Appendix 4. This is intended to support ACP sugar exporters in adjusting to preference erosion but is not directly related to the EPA.

As our analysis shows, the types of project that are considered as EPA support are not always in line with the high-priority areas identified in Section 2. However, a readjustment of the programming towards EPA priority areas may be difficult and will impose an opportunity cost in terms of redirection of funds away from other projects.

Also, concerning the RIP, there are different interpretations as to whether only the money specifically allocated to EPA support should be considered as EPA related or whether calculations should include more broadly all support to regional economic integration and cooperation.

Looking beyond 2013, EU aid to the region is expected to continue, but details on both the amounts likely to be committed and spending priorities will not be known for some years. Given that the adjustment costs of the EPA are likely to be felt mainly after 2013, it is important for EPA-related support to ensure that long-term projects have successfully increased the competitiveness of Cariforum enterprises once the liberalisation of sensitive domestic sectors kicks-in. A first assessment of what amounts are needed to adjust to the EPA and to take advantage of the export effect of the EPA is currently being undertaken by the RPTF (see Section 4).

Beyond funding levels, there are crucial questions regarding the accessibility, timeliness, coordination and prioritisation of resources: the issue of whether support is adequate also pertains to how resources are spent, in terms both of concrete projects/programmes and delivery mechanisms.

Section 4. Aid effectiveness and mode of delivery

The multiplicity of donors and the complexity of aid programmes and objectives make it important to coordinate activities so as to avoid duplications and increase aid effectiveness according to the principles of the Paris Declaration (see Appendix 6).

The region receives high levels of external aid per capita, even relative to sub-Saharan Africa and South Asia. Aid resources supplement domestic revenues and borrowings in capital markets, but the approaches used to deliver aid tend to lag behind those in other parts of the world in terms of effectiveness and consistency with Paris Declaration principles. There is a prevalence of stand-alone aid projects, many of which are more appropriate for larger governments with greater capacity. Other projects tend to be too narrowly targeted, leading to a plethora of weakly coordinated interventions. There is little donor integration behind priorities identified and articulated by countries (IDB, 2002, 2005 and 2007).

The report of the Regional Consultation of Latin America and the Caribbean in preparation for the Third High Level Forum on Aid Effectiveness noted that donors are still not making sufficient use of country systems. Different actors may not share the Paris Declaration harmonisation principles and prefer to pursue other objectives in bilateral negotiations. Middle-income countries in the region have the advantage of stronger planning systems that allow more coordinated approaches in line with Paris Declaration principles (World Bank et al., 2008).

There are a large number of international organisations involved in the region, including the European Commission, IDB, World Bank, International Monetary Fund and the United Nations. The major bilateral donors are Canada, USA and UK, with Japan and Taiwan significant in the Windward Islands. As the region moves towards closer integration, many donor partners are moving towards regional or sub-regional strategies and programmes. This creates the additional challenge of effective coordination between national and regional institutions, recognising that donors operate out of geographically scattered regional headquarters.

Making aid to the region more effective will require partner countries to exercise strong leadership and donors to give centrality to country development plans. There is much that donors can do to improve harmonisation of aid delivery to reduce transaction costs imposed on governments.

In fact, donor coordination is a critical factor for aid effectiveness. Fortunately there are opportunities to coordinate assistance among the entire donor community along sectoral lines. Moreover, single countries in the region, such as Barbados, have created thematic government–donor groups which coordinate donors and line ministries and help develop project pipelines in ways that minimise duplication (IDB, 2005).

4.1 Barbados

Several international and bilateral agencies maintain a presence in Barbados, though their activities are mainly focused on the smaller Eastern Caribbean states. By virtue of the size of its portfolio and its strategic dialogue with the country, the IDB is an especially important player in Barbados. Other major players include the European Investment Bank and the People's Republic of China, which has recently begun to provide concessional financing.

External assistance in the form of loan financing and technical assistance has a continuing role in helping to raise the capacity of the private sector to compete by strengthening human and

physical capital and improving management practices in line with international norms. External assistance also has a role in helping address a wide range of public sector institutional weaknesses, such as programme management and implementation, tax administration and sector policy frame-works. Building up the tripartite agreements between business, labour and government is crucial to improving the investment climate.

Box 4. Aid procurement in Barbados

The procurement process can take as long as two years to complete. A central authority takes decisions relating to tenders and contracting and every contract signed by any Ministry must first be reviewed by the Office of the Solicitor General. To avoid delays, many government agencies sign so-called 'letters of intent' with consultants until the definitive contracts are ready, but enforcement of these informal letters is problematic and they are not sufficient for Bank disbursement requirements. In addition, staff of the Project Execution Units (PEUs) and Ministries are often relatively inexperienced and uninformed about the procurement procedures of the Bank and their own government. PEUs are usually constituted within relevant ministries where staff may have competing responsibilities and there is a high turnover of staff that move on to other jobs once they have been trained.

Source: IDB, 2005.

Experience of past development assistance to Barbados points to the importance of long-term commitments, good understanding of country context and strong relationships with the government. Despite the country's advanced state of development by regional standards, there are difficulties with project implementation – as illustrated in Box 4. To be effective projects in Barbados need be of moderate size and of short duration, and have narrow and well-defined objectives. Where issues to be tackled are longer-term in nature, phased approaches offer a better route than blueprint project designs. Development agencies also need to be more conscious of the impact of government policies and ready to provide relevant technical advice and support on policy issues before launching into new programmes.

There is a growing body of experience with harmonised ways of working, which improves the prospects for donor coordination. Sector approaches have become more dominant, as have reimbursable technical cooperation and performance-driven policy-based lending. The EU was the first donor to attempt a sector-wide

approach (SWAp), with a €10 million grant for the health sector. A key success factor for SWAps is ample prior consultation and development of sector strategies involving government and a broad range of local stakeholders (IDB, 2005).

Box 5. IDB experience in addressing weaknesses in project implementation capacity

The 2002 IDB assessment showed that public sector institutions in Guyana responsible for project cycle management had capacity problems, such as to staff execution units and to provide sufficient support to line Ministries. A Bank assessment of the Ministry of Works and related PEUs revealed that PEUs operated independently and with little oversight. To improve efficiency, reduce costs and avoid the duplication of activities the IDB has supported the merging of these PEUs into a single Works Services Group (WSG) under an integrated incentive framework (salaries). Similar WSGs are planned for the education sector and other public services in which the IDB is involved.

The Bank will focus on institutional strengthening on a project-by-project basis until comprehensive public service reforms have been undertaken.

Sources: IDB, 2002 and 2009.

4.2 Guyana

Guyana has very limited fiscal space for expanding poverty reducing programmes. A high level of concessional financing, especially grant assistance, is therefore required. The government’s development strategy also requires technical and managerial capacity support (EIU, 2009). To be effective aid to Guyana must address the policy and institutional reforms and support expenditure programmes set out in its PRSP. However, converting additional financing into effective programmes and outputs also requires improvements in Guyana’s absorptive capacity (see Box 5).

4.3 Suriname

In August 2006 the Council of Ministers approved a new five-year development plan for the period up to 2011 which provides the organising framework for donor assistance. The plan proposes four development pillars:

- ◆ good governance;
- ◆ economic development;
- ◆ social and human development;
- ◆ equal opportunities for all.

Despite some improvements in the political and economic environment in recent years, the capacity of the country to absorb aid is still constrained. Strategies are needed to overcome institutional capacity weaknesses (see Box 6). More fundamentally there is a need for deeper institutional analysis, and for projects that are more streamlined in their approach. New forms of parallel financing from donors in housing and community development have demonstrated scope for greater harmonisation. Opportunities for greater donor coordination have been demonstrated in the support being provided for Suriname's road map for public sector reform (IDB, 2007).

Development agencies are working with the authorities to help develop a basis for programmatic approaches. Efforts are being made to improve fiduciary systems in the area of procurement, through a wider programme of support for public sector management, and in the area of public financial management. As the quality of public expenditure management improves donors should be in a stronger position to provide resources through government systems. External agencies can also have a role to play in advising the government on sector policy thinking. Experience shows that progress depends critically on the extent of political consensus within government, and that building trust over a long period should be the major priority (IDB, 2007).

Box 6. IDB experience with project implementation

Despite mitigation efforts, IDB project implementation remains a singular challenge in Suriname. Execution experience suggests that start-up requirements for project implementation units are often underestimated. Adapting to IDB procedures for procurement and oversight of project finances, which differ from current practices within the public sector, has been time-intensive for executing agencies. The IDB has made efforts to circumvent institutional weaknesses through alternate executing mechanisms. The executing entities for the Comprehensive Development Framework decentralisation projects and low-income shelters projects were envisaged to be freestanding institutions that would continue to exist beyond the life of the project. The Bank has set up Project Coordination Units that oversee and coordinate the work of ministry staff who serve as Task Managers for project components. The projects are consequently embedded into the Ministries.
Source: IDB, 2007.

4.4 Coordination of EPA-related funds and Cariforum development priorities

As for the implementation of the EPA, the European Commission and Cariforum have started to prepare for the challenge of coordinating funds by establishing the RPTF, which makes the linkage between EPA implementation at the regional level, available resources (from both the Commission and EU Member States) and the authorising offices of national governments. The job of the RPTF is to identify the resources and activities required for the implementation of the EPA and accompanying measures.

The RPTF is currently working on the oversight of a comprehensive set of studies in 20 specific areas related to the EPA. By means of these studies the region aims to alert the European Commission and other donors in detail about EPA-related needs.

In March 2009, studies in the following six areas had been completed:

- ◆ competitiveness and innovation;
- ◆ customs and trade facilitation;
- ◆ competition policy;
- ◆ public procurement,
- ◆ technical barriers to trade; and
- ◆ sanitary and phytosanitary measures for fisheries access to the EU market ⁽²⁸⁾.

Based on the outcome of the studies, members are expected to define the legislative and policy actions required at the regional and national levels. It is expected that Cariforum will agree on an 'EPA Implementation Roadmap' which will quantify the financial needs.

In addition several Cariforum Member States are in the process of establishing national EPA implementation units and to identify immediate EPA tasks.

- ◆ Jamaica is one of the countries where an EPA implementation unit has already been established, linked to the country's regional and multilateral trade obligations and mirroring its national development plans. A technical working group chaired by the Ministry of Foreign Affairs and Foreign Trade was established in March 2008. Its objectives are to oversee the implementation of the EPA and to ensure that dialogue is taking place with the private sector, civil society, and other relevant agencies to identify and develop capacity building projects and technical support needs. The working group is further responsible for synchronising national implementation programmes with regional capacity building activities. It currently identifies Jamaica's commitments under the EPA; audits all of Jamaica's trade-related projects so as to avoid the duplication of activities and to identify gaps, and establishes a technical assistance audit on EPA-related needs. A study to identify immediate EPA priorities and to advise on necessary legislative reforms is under way (financed by the NIP of the 10th EDF: €11.25 million) (Prendergast, 2009)
- ◆ The Eastern Caribbean states are looking at the possibility of developing a joint OECS matrix, but the process is yet to be advanced. St Lucia presented its national implementation unit in February 2009. It identifies immediate tasks (such as introducing a common external tariff based on the HS 2007 nomenclature), responsible institutions, capacity considerations and budgetary requirements. However, neither the capacity considerations nor the budgetary requirements have yet been specified, so that to date the matrix is more a summary of St Lucia's EPA obligations as outlined in the EPA text ⁽²⁹⁾. So far, St Lucia's financial needs have been quantified in respect of only very few of the EPA implementation areas, such as improving its agricultural and fisheries competitiveness (€4 million) and improving the development of traditional agricultural products (€2 million). In fact, St Lucia's 69-page implementation matrix demonstrates well the complexity of implementing the EPA, the difficulties of estimating the costs of implementing the single obligations and the

²⁸ The RPTF has either already finalised or is currently developing the terms of reference for the other areas – namely agriculture, fisheries, investment and business facilitation, trade in services, regional investment promotion, information society, cultural industries, innovation and renewable energy, intellectual property, environment, social aspects, protection of personal data, science and technology, and good governance.

²⁹ See http://www.eclac.cl/portofspain/noticias/paginas/3/35183/pdf_EPA_Implementation_Matrix_for_Saint_Lucia.pdf, accessed 16/03/09.

challenge of coordinating the actions necessary by different national and regional actors.

To date, the financial requirements for the regional studies are unclear. The Caricom Secretariat expects costs of €401.4 million to build capacity in fiscal reform, create a private sector development fund, establish an infrastructure facility, and promote regional integration/cooperation outside the EPA ⁽³⁰⁾. However, the basis on which this estimation has been made is not clear. The studies done so far by the RPTF estimate implementation costs of around €121–125 million but they account for a little less than half of the studies to be commissioned ⁽³¹⁾.

This example demonstrates once again that neither part of the equation is yet clear. It is not yet known what the costs of the Cariforum EPA for single countries and the region will be (with only few of the needs assessments having yet been completed) and neither is it known whether the funds ‘destined for EPAs’ (which currently add up to about €580 million) will address countries’ needs adequately – and, most important, whether they will be made available in time. To finalise the needs assessments as quickly and precisely as possible and to ensure that the required aid is delivered promptly are therefore of paramount importance.

Within the Caricom Secretariat, an EPA implementation unit has been set up to coordinate the regional implementation of the EPA and to provide in-country assistance in meeting the obligations of the EPA (Caricom, 18/02/09). However, DR, which is not part of Caricom, objects to a Caricom institution being in charge of the regional EPA implementation. It has also expressed reservations concerning the appointment of the Cariforum Secretary General (who is also the Secretary General of Caricom) as a regional EPA coordinator. Discussions on a regional Cariforum EPA implementation unit and a regional coordinator are therefore continuing (CRNM, 2009; Caricom, 14/03/09).

Box 7. The Caribbean Development Fund

The Agreement Establishing the CDF was signed at the Caricom Summit in July 2008. The creation of the fund is based on Article 158 of the Revised Treaty of Chaguaramas establishing Caricom. It has the objective of providing financial or technical assistance to disadvantaged countries, regions and sectors to compensate them for loss experienced as a consequence of moving to deeper integration under Caricom.

General policy direction of the CDF is given by the Caricom Community Council, which is advised by the Council for Finance and Planning (COFAP) and the Council for Trade and Economic Development. A Board of Directors appointed by the COFAP oversees the CDF, while management of operations is expected to lie with a Chief Executive Officer appointed by the Board of Directors.

The first Chief Executive Officer took office on 1 November 2008, after the first Board meeting had taken place on 30 September–1 October 2008.

The initial size of the fund will be US\$250 million, of which US\$120 million will be contributed by Caricom member countries and the rest is to be sought from development partners, from the private sector and from other sources. The contribution formula for Caricom member states takes

³⁰ The figures were quoted by a representative from St Lucia when presenting the country’s EPA implementation matrix. The presentation and the estimated costs of EPA implementation are available at http://www.eclac.cl/portofspain/noticias/paginas/3/35183/pdf_EPA_Implementation_Matrix_for_Saint_Lucia.pdf, pp. 70-78.

³¹ Email from the Caribbean Regional Negotiating Machinery (CRNM), 18/03/2009.

into account size of the country, per capita income and other minor indices. In June 2008 contributions totalled US\$44 million.

DFID has pledged £10 million to the CDF, provided that it is operational by March 2009. As delays are anticipated, £5 million of this, which needs to be programmed for the year 2009, may be reallocated to another regional institution.

Source: ECDPM, forthcoming.

The European Commission financial framework has been put in place by agreeing on the RIP in November 2008, with further resources currently being programmed by EU Member States. The funding is to be channelled through a regional fund and the CDF is currently undertaking an assessment to inform its role and ability to carry out its task (see Box 7). As only less developed Caricom countries are eligible for support under the CDF in its original form, the creation of a 'special window' for EPA support is being considered. This could be an option to separate clearly funding going to Caricom less developed countries in the context of the CSME from that targeted at all Cariforum countries for EPA implementation. Any solution would also need to ensure that the needs of DR are adequately addressed.

Section 5. Adequacy of the development chapter and other provisions of the Cariforum–EC EPA

5.1 The development chapter

The overarching objectives of the EPA are to alleviate poverty in Cariforum, to promote regional integration and economic cooperation and to foster the gradual integration of the Cariforum states into the world economy by improving their trade capacity and creating an investment-conducive environment (Part 1). The development provisions of the EPA focus strongly on financial and technical support to cope with the challenges the EPA poses for Cariforum’s public and private sectors, and on support to reform public institutions and administrations and to upgrade and diversify products and services of private actors.

The parties agree on a number of development cooperation priorities, with a strong focus on trade capacity building and private sector promotion, which are reiterated in the single Chapters of the EPA (see Table 11).

Table 11. EU-Cariforum EPA development cooperation priorities

Priorities
Technical assistance to build human, legal and institutional capacities to comply with the EPA
Support for fiscal adjustment and reform.
Promoting private sector and enterprise development <ul style="list-style-type: none"> • diversification by new investment and development of new sectors; • enhancing technological and research capabilities (e.g. with respect to sanitary and phytosanitary standards/technical barriers to trade) • support trade infrastructure
Implementation of EPA (trade in goods and services): legislative, institutional, administrative and technical support
Upgrading productive capacities
Implementation of trade-related rules
Business support and diversification
Research development and innovation transfer
Business climate / competitiveness enhancement
Investment support
Promotion of regional integration
Creation of regional development financing mechanism within 2 years

As discussed in Section 4, the creation of a regional development financing mechanism is ongoing and options are being explored to create a ‘special window’ within the CDF.

The EPA foresees further the creation of a Joint Trade and Development Committee comprised of senior officials to assist and report to the Joint Council. The tasks of the Joint Trade and Development Committee shall include supervising the proper application and implementation of the EPA; to evaluate its results; to undertake actions to avoid disputes; to monitor the development of regional integration and trade relations; and to review and discuss EU-Cariforum cooperation. To date, the EC-Cariforum Trade and Development Committee has not been established.

Furthermore, the Cariforum EPA is the one that foresees the creation of a Joint Parliamentary Committee, which will exchange views with and may make recommendations to the Joint Council and the Trade and Development Committee. European and Cariforum Parliamentarians will therefore have an important role to play in order to ensure that the intended provisions on development cooperation materialise.

5.2 Selected provisions on trade in goods

The EPA aims to reform Cariforum countries' trade and trade-related regimes comprehensively, which can have considerable implications for Cariforum countries' economic development. As discussed, the effects of the EPA on Cariforum countries' legislations, administrative and institutional capacities will only become apparent over time. For this purpose, the Cariforum EPA contains several clauses that foresee the review of certain chapters (such as trade facilitation, investment, competition, government procurement, development cooperation) as well as a comprehensive review of the EPA the Cotonou Agreement has expired. The objective is to adapt the provisions so that the EPA's development impact is maximised. However, it needs to be borne in mind that any decision to revise certain provisions of the EPA has to be made jointly by the EU–Cariforum Council.

The following summary of the provisions of the trade in goods chapter of the EPA shows, for instance, that the Cariforum countries achieved greater flexibility with respect to tariff liberalisation than did other ACP regions, but that they also face more export restrictions. Appendix 7 summarises the main provisions of the Cariforum–EC EPA ⁽³²⁾.

5.2.1 Flexibility of tariff liberalisation

The Cariforum EPA has the longest transition period of all ACP regions with the process of tariff liberalisation having to be completed by 1 January 2033. Additional flexibility is given by the review of 'tariff concessions in case of serious difficulties' (Title 1, Article 16.6). This allows a country during the 25-year implementation period unilaterally to raise its tariff up to the applied MFN rate if the Joint Trade and Development Committee does not decide to the contrary within 30 days. This measure can stay in place for up to one year.

Lesser developed Cariforum countries can further 'modify the level of customs duties stipulated in Annex III' up to the maximum applied MFN rate without the one-year time limit. Like the standard provision, the Joint Committee must approve applications (Art. 17).

Furthermore, the parties 'may also decide to simultaneously adjust customs duty commitments'. Any such modification has to be approved by the Joint Trade and Development Committee.

5.2.2 Export restrictions

Title 1, Chapter 1, Article 14.2 provides that 'Notwithstanding paragraph 1 [elimination of customs duties], the Signatory Cariforum States included in Annex I shall eliminate the customs duties on exports set down in that Annex within three years of signature of this Agreement.' Annex I of the Cariforum–EC EPA lists for each country existing export duties that have to be abolished within three years (i.e. by the beginning of 2011). None of the other EPAs has this provision: they only have clauses specifying that no new export duties shall be introduced or existing export duties raised.

Cariforum countries have stated as a 'goal' that customs duties are levied only once when goods first enter the region. This is more generous than in all African EPAs where this provision is a mandatory requirement.

³² The information in the rest of this sub-section is taken from Stevens, Kennan and Meyn (2009).

5.2.3 *Multilateral and bilateral safeguards*

The Cariforum EPA includes a clause that exempts Caribbean countries from any measures taken by the EU in Article XIV of the GATT, the Agreement on Safeguards, and Article 5 of the Agreement on Agriculture for a period of five years. The operation of the provision will be reviewed and may be extended.

Bilateral safeguards can be applied in the form of tariff increases or tariff quotas (TQs). In contrast to previous EU free trade agreements (FTAs) (such as the ones with South Africa and Mexico) the time period for applying bilateral safeguards is not limited. What is limited, however, is the time period within which pre-emptive safeguards may be applied (200 days).

In addition Cariforum has a further pre-emptive safeguard linked to food security. If the 'availability or access to foodstuff is endangered' countries can take immediate action.

The bilateral safeguards apply equally to both parties. This raises the risk that the EU could block Caribbean exports in case of 'market disturbance' (e.g. in the case of sugar). It might also be used to restrict Cariforum exports to Martinique and Guadeloupe which as 'the outermost regions' form part of the EU.

5.2.4 *Non-tariff barriers and subsidies*

All the EPAs forbid any import or export restrictions other than customs duties and taxes (except when associated with countervailing measures and safeguards). What is allowed, however, is the maintenance of subsidies paid to domestic producers in accordance with WTO provisions.

The Cariforum EPA text foresees further the gradual phasing out of agricultural export subsidies by the EU. However, since the EU has already made this commitment at a multilateral level (to be implemented by 2013) there appears to be no extra value in this provision.

5.2.5 *Customs and trade facilitation*

The chapter on customs and trade facilitation is a central one in the EPA text. Enhanced cooperation and EU technical support will help to improve, simplify and standardise customs procedures and to increase transparency. The parties aim to introduce a single administrative document. A joint review of its successful implementation within Cariforum is envisaged within three years. The Cariforum states have agreed to work towards standardising their customs legislations, procedures and requirements on a regional level. The creation of a Special Committee on Customs Cooperation and Trade Facilitation is foreseen to monitor the implementation of the chapter and to provide a forum for discussion.

5.2.6 *Agriculture and fisheries*

The chapter on agriculture and fisheries refers to cooperation and technical assistance but does not include any binding financial commitments. Existing fishery agreements between the EU and Cariforum countries are not affected by the EPA.

5.3 **Summary of the development chapter and other trade in goods provisions**

Compared to other EPA texts, the Cariforum EPA has one of the longest transition periods (up to 2033), it is the only EPA that foresees special and differential treatment for its lesser developed

members and it shows pre-emptive safeguards that are linked to food security (which is not the case in all other EPAs). Moreover, the EPA foresees extensive reviews of multiple chapters of the EPA, which potentially offers the chance to adjust their provisions (though this is subject to the joint decision of the Council).

Taking into account that the effects of the EPA on Cariforum countries' legislations, administrative and institutional capacities will only become apparent over time, the Cariforum EPA contains several clauses that foresee the review of various chapters as well as a comprehensive review once the Cotonou Agreement has expired. The objective is to adapt the provisions in a way that maximises the development impact of the EPA. While this is a laudable objective, it needs to be borne in mind that any decision to revise certain provisions of the EPA must be made jointly by the EU–Cariforum Council.

The 'development chapter' of the EPA mirrors the parties' intention to modernise and reform Cariforum countries' trade regimes and to provide the support needed. The development priorities focus strongly on financial and technical support to cope with the challenges the EPA poses for Cariforum's public and private sectors. The need to reform public institutions and administrations and to upgrade and diversify products and services of private actors is mirrored in the development priorities. However, since the EPA neither specifies the financial and technical support needed nor the financial means that will be made available, these 'fine words' need to be matched with action as to ensure that the 'development component' of the Cariforum EPA develops as foreseen by its negotiators.

Section 6. Conclusions and policy recommendations

6.1 Conclusions

6.1.1 The funds

The EPA itself contains no financial commitments either to provide new funds or to earmark existing pledges. However, for the coming years (until 2013) our analysis shows that at least €580 million are earmarked to support the Cariforum EPA. This amount is expected to be complemented by other EU Member States (such as Spain and France). Furthermore, EU Member States have stated, as part of the commitment to provide 'regional packages' under their 2007 EU AfT strategy, that they will provide additional resources once the EPA needs have been specified.

€580 million would be sufficient to deal with the identified high-priority areas of revenue losses and the funding of market research and sectoral needs assessments as identified by the region. However, it remains uncertain whether the funds will be used for the high-priority areas of the EPA. As the analysis of the NIPs of the three case-study countries shows, the types of project that are considered as EPA support are not always in line with the high-priority areas identified by the Consultants. A readjustment of the programming towards EPA priority areas may be difficult and will impose an opportunity cost in terms of redirection of funds away from other projects.

It is too soon to say whether aid beyond 2013 will be adequate. The EDF is expected to continue for the period 2014–20 but neither the size of the next RIP and NIPs nor the share of EPA-related support is yet decided. There is also the worry that part of the EC and EU member state commitment that *could potentially* be available is the pledge to provide €2 billion annually to aid for trade by 2010 – yet the definition of aid for trade remains disputed. There is a risk that existing aid activities, such as infrastructure projects will simply be re-labelled and count as 'EPA-related activity'.

6.1.2 The needs

The multiple effects of the EPA can be grouped into four broad categories – each of which has development implications and its own timetable, and each of which will need aid to ensure a positive outcome. We call these the revenue, implementation, adjustment, and export effects – and they will begin to 'bite' in the order that we have listed them.

The scale of the **revenue effect** will be determined by the tax currently collected on imports from the EU and the extent to which the EPA produces 'trade diversion' (resulting in a fall in the share of imports sourced from non-EU sources on which full tariffs continue to be imposed). Bearing in mind these uncertainties, we calculate that there will be an immediate 'spike' of revenue loss (as some medium tariffs are removed in the months preceding and immediately after EPA signature) together with continuing annual falls. By 2013, the losses in annual revenue will have reached between €2 and €6 million for Barbados, some €3 million for Suriname and between €0.5 and €2 million for Guyana. These figures do not include the elimination of additional taxes levied on imports, such as customs charges and environmental duties which have to be removed within ten years.

Another early 'cost' arises from the need to **implement the many new obligations** that the EPA imposes. This will require technical and financial assistance but needs will vary between each

country and accurate assessment requires very detailed technical studies of each and every area the EPA deals with, such as customs administration, competition law, or compliance with export standards. The Joint RPTF of the Cariforum–EC EPA is currently undertaking 20 studies in each of the 14 signatory Cariforum states to assess national and regional needs to implement the EPA and to cope with its effects.

Moreover, Cariforum countries have to **adjust to increased imports** from the EU. Reducing tariffs may make some producers more competitive (especially if the imports are production inputs) but others will face increased competition. They will need assistance to become more competitive or, if this is not possible, to shift into alternative activities. Now that the details of the EPA are known, it is a high priority to identify accurately the socio–economic groups that will be most affected – a task that has not been possible until now. As a first step we identify as the sectors most likely to experience substantial *early* adjustment effects from increased European imports fruit and vegetables, vegetables fats/oils, processed food products, and garments.

The sectors which may gain most from enhanced export opportunities, and which require increased investment and medium-term development support, are rice and, possibly, citrus. If the rules of origin are amended, processed foods (especially those containing sugar) could be added to the list.

6.1.3 Delivering the aid

Making EPA-related AfT to the region effective will require Cariforum countries to exercise strong leadership and donors to give centrality to the region’s development plan. A single regional development fund that serves all Cariforum countries is foreseen in the EPA text and widely regarded as the best delivery mechanism since it offers the chance to speed up funding disbursement and to improve transparency. There are considerations that the CDF, which is responsible for channelling funds to Caricom disadvantaged countries and sectors, should establish a ‘special window’ which would allow the Fund to become also the responsible Cariforum manager for European Commission and EU Member State funds allocated for the EPA. This would, however, require close auditing and monitoring so as to ensure that the funds allocated for Cariforum are strictly separated from those destined for Caricom disadvantaged countries/sectors.

6.1.4 Adequacy of development provisions of the EPA

The ‘development chapter’ of the EPA mirrors parties’ intention to modernise and reform Cariforum countries trade regimes and to provide the supported needed. The development priorities focus strongly on financial and technical support to cope with the challenges that the EPA poses for Cariforum’s public and private sectors. The need to reform public institutions and administrations and to upgrade and diversify products and services of private actors is mirrored in the development priorities. However, since the EPA neither specifies the financial and technical support needed nor the financial means that will be made available, these ‘fine words’ need to be matched with action so as to ensure that the ‘development component’ of the Cariforum EPA develops as foreseen by its negotiators.

6.2 Policy recommendations

The EPA contains a bewildering array of new legal, procedural and administrative requirements, the implications of which will take some time fully to assess. Laws will need to be changed and

regulations amended. Details of the new rules on services and investment vary substantially between the countries and will require extensive country- and sector-specific analysis. Needs assessments are currently on-going, led by the RPTF. Countries are reflecting on the coherent strategies needed to implement AFT and will follow this by the identification of concrete projects. In addition, optimal delivery mechanisms are being explored which are intended to contribute to making funds more accessible and may find better ways to target actors in the private sector.

Our analysis showed that sufficient funds are available in theory to cover first-round needs while the following rounds that will emerge over time still need to be quantified. What is needed is to tighten up the framework for aid to ensure that it is given in adequate amounts, in an appropriate and timely way and to deal with the actual, new costs that will be created by the EPA. It is necessary to commit the European Commission and EU Member States to supply immediately available resources according to countries' high-priority needs, to specify medium-term needs as soon as possible, and to monitor the delivery and effectiveness of aid.

One way to achieve this would be for the European Parliament to establish a timeline and deadlines for the most important stages in the identification, design and implementation of EPA-related support. In this way European and Cariforum parliamentarians could play an important role in ensuring that adequate and timely resources are made available to support the Cariforum EPA, both now and in the future.

It is recommended that the European Parliament emphasise to the European Commission (and Cariforum policy makers) the need to:

- ◆ speed up the needs assessment exercises being carried out by the RPTF and define the actions required at national and regional levels in the most precise way possible;
- ◆ involve European and Cariforum private sector and civil society actors in identifying support needs;
- ◆ assure effective cooperation and information exchange between national EPA implementation units and the regional coordinator;
- ◆ create effective regional institutions representing all Cariforum countries, in particular with respect to the regional funding mechanism;
- ◆ explore innovative delivery mechanisms targeting the private sector (and learn from current experiences such as DFID's 'Private Sector Challenge Fund');
- ◆ set up the Joint Trade and Development Committee;
- ◆ ensure that the mandate of the Joint Trade and Development Committee to supervise the proper application and implementation of the agreement is clearly defined.

It is recommended that the European Parliament uses for this purpose the Joint Parliamentary Committee that it will form with Cariforum parliamentarians to advise the Joint Council and the Trade and Development Committee of the EPA.

In particular, it is recommended that the Joint Parliamentary Committee consider setting an advisory timeline for the highest-priority needs to be assessed (which will require inputs by the Cariforum governments) as identified in this report. These are:

- ◆ the EPA revenue effect: countries must determine how far they need support (to offset shortfalls in revenue collection and to establish new systems);

- ◆ implementation needs given country circumstances;
- ◆ which domestic producers will face direct competition from imports in the light of the tariffs that are being reduced and the supply capacity of the EU.

It is recommended that the Joint Parliamentary Committee is also used:

- ◆ to ensure that the current EPA funds of the RIP and NIP of the 10th EDF are provided according to countries' immediate EPA needs: coping with early revenue effects and identifying adjustment and implementation needs;
- ◆ to ensure that the regional development fund channelling EDF and EU Member State resources to the region becomes functional, so as to ensure immediate disbursement of funds.
- ◆ to monitor that the European Commission and EU Member States provide first tranches of aid according to countries' immediate EPA needs now, because if they arrive too late they will be useless.
- ◆ to monitor the implementation of the Agreement in order to ensure that technical and financial assistance is providing the intended results.
- ◆ to continue to apply political pressure over the next two decades in order to make sure that the EPA delivers the development impact it promises

This last point is very important. Supporting the EPA adequately over its full, 25-year implementation period requires a better understanding of Cariforum's medium-term objectives and the challenges/opportunities that the EPA will create. This report focuses on the early impact of the EPA, since this is the initial point of reference for development support: the first phase has already begun and if development support is not already organised or in the pipeline it may arrive too late to be of help. But over the full implementation period of the EPA all countries in the region will need substantial assistance in many areas. Since this will last for 25 years there is sufficient time to agree the details of what is needed in the middle and end phases. But unless a start is made soon on this process, agreement may not be reached in time.

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Appendix 1. Summary of highest-tariff liberalisations for which the EU is not a significant exporter

Aggregation to HS4 of highest-tariff items^a being liberalised^b in which EU27 exports to the world in 2006 totalled less than €100 million

HS4	Description	# items at HS6 within aggregate	Focus countries affected ^c
0104	live sheep and goats	1	All
0105	live poultry, 'fowls of the species gallus domesticus, ducks, geese, turkeys and guinea fowls'	3	Barbados
0106	live animals (excl. horses, asses, mules, hinnies, bovine animals, swine, sheep, goats, poultry, fish, crustaceans, molluscs and other aquatic invertebrates, and microorganic cultures etc.)	7	All
0208	meat and edible offal of rabbits, hares, pigeons and other animals, fresh, chilled or frozen (excl. of bovine animals, swine, sheep, goats, horses, asses, mules, hinnies, poultry 'fowls of the species gallus domesticus', ducks, geese, turkeys and guinea fowls)	4	All
0301	live fish	5	All
0302	fish, fresh or chilled (excl. fish fillets and other fish meat of heading 0304)	6	Barbados
0303	frozen fish (excl. fish fillets and other fish meat of heading 0304)	8	All
0306	crustaceans, whether in shell or not, live, fresh, chilled, frozen, dried, salted or in brine, incl. crustaceans in shell, cooked by steaming or by boiling in water	3	Barbados, Suriname
0307	molluscs, whether in shell or not, and other aquatic invertebrates, live, fresh, chilled, frozen, dried, salted or in brine (excl. crustaceans)	7	All
0410	turtles' eggs, birds' nests and other edible products of animal origin, n.e.s.	1	All
0603	cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared	1	All
0604	foliage, branches and other parts of plants, without flowers or flower buds, and grasses, mosses and lichens, of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared	2	All
0704	cabbages, cauliflowers, kohlrabi, kale and similar edible brassicas, fresh or chilled	1	All
0705	lettuce 'lactuca sativa' and chicory 'cichorium spp.', fresh or chilled	1	All
0709	other vegetables, fresh or chilled (excl. potatoes, tomatoes, alliaceous vegetables, edible brassicas, lettuce 'lactuca sativa' and chicory 'cichorium spp.', carrots, turnips, salad beetroot, salsify, celeriac, radishes and similar edible roots, cucumbers and gherkins, and leguminous vegetables)	3	All
0710	vegetables, uncooked or cooked by steaming or boiling in water, frozen	3	All
0713	dried leguminous vegetables, shelled, whether or not skinned or split	1	Barbados
0801	coconuts, brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled	4	All
0802	other nuts, fresh or dried, whether or not shelled or peeled (excl. coconuts, brazil nuts and cashew nuts)	5	All
0804	dates, figs, pineapples, avocados, guavas, mangoes and mangosteens, fresh or dried	2	All
0810	fresh strawberries, raspberries, blackberries, black, white or red currants, gooseberries and other edible fruits (excl. nuts, bananas, dates, figs, pineapples, avocados, guavas, mangoes, mangosteens, papaws 'papayas', citrus fruit, grapes, melons, apples, pears, quinces, apricots, cherries, peaches, plums and sloes)	3	All
0906	cinnamon and cinnamon-tree flowers	2	All
0907	cloves, whole fruit, cloves and stems	1	All
0908	nutmeg, mace and cardamoms	2	All

HS4	Description	# items at HS6 within aggregate	Focus countries affected ^c
0910	ginger, saffron, turmeric 'curcuma', thyme, bay leaves, curry and other spices (excl. pepper of the genus piper, fruit of the genus capsicum or of the genus pimenta, vanilla, cinnamon, cinnamontree flowers, cloves [wholefruit], clove stems, nutmeg, mace, cardamoms, seeds of anise, badian, fennel, coriander, cumin and caraway, and juniper berries)	3	All
1007	grain sorghum	1	Barbados
1102	cereal flours (excl. wheat or meslin)	1	All
1106	flour, meal and powder of peas, beans, lentils and other dried leguminous vegetables of heading 0713, of sago and manioc, arrowroot and salep, jerusalem artichoke, sweet potatoes and similar roots and tubers with high starch or inulin content of heading 0714, produce of chapter 8 'edible fruit and nuts; peel of citrus fruits or melons'	2	All
1108	starches; inulin	1	All
1202	groundnuts, whether or not shelled or broken (excl. roasted or otherwise cooked)	1	Barbados
1203	copra	1	All
1503	lard stearin, lard oil, oleostearin, oleo-oil and tallow oil (excl. emulsified, mixed or otherwise prepared)	1	Barbados, Guyana
1508	groundnut oil and its fractions, whether or not refined, but not chemically modified	2	All
1512	sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, but not chemically modified	2	All
1513	coconut 'copra', palm kernel or babassu oil and fractions thereof, whether or not refined, but not chemically modified	3	All
1514	rape, colza or mustard oil and fractions thereof, whether or not refined, but not chemically modified	2	All
1515	fixed vegetable fats and oils, incl. jojoba oil, and their fractions, whether or not refined, but not chemically modified (excl. soya-bean, groundnut, olive, palm, sunflower-seed, safflower, cotton-seed, coconut, palm kernel, babassu, rape, colza and mustard oil)	4	All
1516	animal or vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised, whether or not refined, but not further prepared	1	All
1602	prepared or preserved meat, offal or blood (excl. sausages and similar products, and meat extracts and juices)	1	Barbados
2009	fruit juices, incl. grape must, and vegetable juices, unfermented, not containing added spirit, whether or not containing added sugar or other sweetening matter	4	Barbados
2204	wine of fresh grapes, incl. fortified wines; grape must, partly fermented and of an actual alcoholic strength of > 0,5% vol or grape must with added alcohol of an actual alcoholic strength of > 0,5% vol	1	All
2523	cement, incl. cement clinkers, whether or not coloured	1	Barbados
4202	trunks, suit, vanity, executive, brief, spectacle, binocular, camera, musical instrument, gun cases, holsters and similar; travelling, toilet bags, rucksacks, handbags, school satchels, shopping-bags, wallets, purses, map, cigarette cases, tobacco-pouches, tool, sports bags, bottle, jewellery, powder-boxes, cutlery cases and similar, of leather, plastics, textile materials, vulcanized fibre or paperboard	1	Barbados
6103	men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excl. wind-jackets and similar articles, separate waistcoats, tracksuits, ski suits and swimwear)	13	Barbados
6104	women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts, knitted or crocheted (excl. wind-jackets and similar articles, slips, petticoats and panties, tracksuits, ski suits and swimwear)	16	Barbados
6105	men's or boys' shirts, knitted or crocheted (excl. nightshirts, t-shirts, singlets and other vests)	1	Barbados

HS4	Description	# items at HS6 within aggregate	Focus countries affected ^c
6108	women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligées, bathrobes, dressing gowns, housecoats and similar articles, knitted or crocheted (excl. t-shirts, vests, brassieres, girdles, corsets and similar articles)	1	Barbados
6112	track-suits, ski-suits and swimwear, knitted or crocheted	3	Barbados
6203	men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (excl. knitted or crocheted, wind-jackets and similar articles, separate waistcoats, tracksuits, ski suits and swimwear)	1	Barbados
6204	women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (excl. knitted or crocheted, wind-jackets and similar articles, slips, petticoats and panties, tracksuits, ski suits and swimwear)	6	Barbados
6205	men's or boys' shirts (excl. knitted or crocheted, nightshirts, singlets and other vests)	1	Barbados
6206	women's or girls' blouses, shirts and shirt-blouses (excl. knitted or crocheted and vests)	1	Barbados
6207	men's or boys' singlets and other vests, underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles (excl. knitted or crocheted)	3	Barbados
6208	women's or girls' singlets and other vests, slips, petticoats, briefs, panties, nightdresses, pyjamas, négligées, bathrobes, dressing gowns, housecoats and similar articles (excl. knitted or crocheted, brassières, girdles, corsets and similar articles)	6	Barbados
6211	tracksuits, ski suits, swimwear and other garments, n.e.s. (excl. knitted or crocheted)	2	Barbados
6302	bedlinen, table linen, toilet linen and kitchen linen of all types of textile materials (excl. floorcloths, polishing cloths, dishcloths and dusters)	4	Barbados
6907	unglazed ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing (excl. of siliceous fossil meals or similar siliceous earths, refractory ceramic goods, tiles made into stands, ornamental articles and tiles specifically manufactured for stoves)	1	Barbados
7101	pearls, natural or cultured, whether or not worked or graded, but not strung, mounted or set, pearls, natural or cultured, temporarily strung for convenience of transport (excl. imitations of natural pearls and mother-of-pearl)	3	All
7102	diamonds, whether or not worked, but not mounted or set (excl. unmounted stones for pick-up styluses, worked stones, suitable for use as parts of meters, measuring instruments or other articles of chapter 90)	2	All
7103	precious stones and semi-precious stones, whether or not worked or graded, but not strung, mounted or set, ungraded precious stones and semi-precious stones, temporarily strung for convenience of transport (excl. diamonds and imitation precious stones and semi-precious stones)	1	All
7104	precious and semi-precious stones, synthetic or reconstructed, whether or not worked or graded but not strung, mounted or set; ungraded synthetic or reconstructed precious or semi-precious stones, temporarily strung for convenience of transport	3	All
7113	articles of jewellery and parts thereof, of precious metal or of metal clad with precious metal (excl. articles > 100 years old)	1	All
7114	articles of goldsmiths' or silversmiths' wares and parts thereof, of precious metal or of metal clad with precious metal (excl. jewellery, clocks, watches and parts thereof, musical instruments, arms, perfume atomizers and their atomizing heads, original sculptures, collectors' pieces and antiques)	2	All
7116	articles of natural or cultured pearls, precious or semi-precious stones 'natural, synthetic or reconstructed', n.e.s.	2	All
7117	imitation jewellery	1	All
7313	barbed wire of iron or steel; twisted hoop or single flat wire, barbed or not, and loosely twisted double wire, of a kind used for fencing, of iron or steel	1	Barbados
8519	turntables 'record-decks', record-players, cassette players and other sound-reproducing apparatus, not incorporating a sound recording device (excl. those combined with radio-broadcast receivers or television receivers)	1	Barbados, Guyana

HS4	Description	# items at HS6 within aggregate	Focus countries affected ^c
8539	electric filament or discharge lamps, incl. sealed beam lamp units and ultraviolet or infra-red lamps; arc lamps; parts thereof	1	Barbados, Guyana
9101	wrist-watches, pocket-watches and other watches, incl. stop-watches, with case of precious metal or of metal clad with precious metal (excl. with backs made of steel)	4	All
9102	wrist-watches, pocket-watches and other watches, incl. stop-watches (excl. of precious metal or of metal clad with precious metal)	4	Barbados, Guyana
9103	clocks with watch movements (excl. wrist-watches, pocket-watches and other watches of heading 9101 or 9102, and instrument panel clocks and the like of heading 9104)	2	Barbados, Guyana
9104	instrument panel clocks and clocks of a similar type for vehicles, aircraft, vessels and other vehicles	1	Barbados, Guyana
9105	clocks (excl. wrist-watches, pocket-watches and other watches of heading 9101 or 9102, clocks with watch movements of heading 9103, and instrument panel clocks and the like of heading 9104)	6	Barbados, Guyana
9108	watch movements, complete and assembled	5	Barbados, Guyana
9110	complete, unassembled or partly assembled watch or clock movements or movement sets; incomplete watch or clock movements, assembled; rough watch or clock movements	3	Guyana
9113	watch straps, watch bands and watch bracelets, and parts thereof, n.e.s.	1	All
9603	brooms, brushes, incl. brushes constituting parts of machines, appliances or vehicles, hand-operated mechanical floor sweepers, not motorised, mops and leather dusters; prepared knots and tufts for broom or brush making; paint pads and rollers; squeegees of rubber or similar flexible materials	2	Barbados
Notes:			
(a) i.e. a maximum tariff applicable to any item within the HS6 subhead of 40% or more ad valorem or a specific duty.			
(b) In some cases some items within the HS6 subhead are being liberalised and others not.			
(c) i.e. applying a 40% or more tariff to at least one of the HS6 subheads included in the HS4 aggregate.			

Appendix 2. Highly protected goods for which significant EU supply capacity exists and which might compete with domestic production

Domestic manufactures	Country high-tariff liberalisation for which the EU is a global supplier	Some product lines of this product excluded from the EPA
Barbados:		
cement	Yes	No
garments	Yes	Yes
paper products	Yes	Yes
poultry	Yes (live for breeding)	Yes (live not for breeding/meat)
electronic components	Yes	Yes
chemicals	Yes (insecticides for agricultural use)	Yes (carbon dioxide, insecticides, disinfectants)
edible oils	Yes	Yes
soap	Yes	Yes
food products	Yes	Yes
jewellery	Yes	Yes
Guyana: none		
Suriname:		
fruits	Yes	Yes
vegetables	Yes	Yes
vegetable fats/oils	Yes	Yes (12 in total)

Appendix 3. Past resources programmed for Cariforum Aid for Trade, 2000–06

In terms of total net official development assistance (ODA) from all donors, Table A3.1 shows an increase for Caricom countries as a whole, and for Guyana and Suriname specifically, over the years 2002–6. For Barbados, a decline in already low ODA inflows was registered.

Table A3.1. Net ODA receipts (US\$ million)

	Net ODA Receipts (US\$ million)					Net ODA / GNI		
	2002	2003	2004	2005	2006	2004	2005	2006
Cariforum countries ^a	438	427	614	858	984	-	-	-
Barbados	3	20	29	-2	-1	1.1%	-0.1%	n/a
Guyana	65	87	134	138	173	19.8%	18.5%	20.1%
Suriname	12	11	24	44	64	2.4%	3.8%	4.1%

Note:
 (a) Excluding Cuba, which is not party to the Cariforum–EC EPA. Cariforum EPA countries comprise: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, DR, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.
 Source: OECD Development Assistance Committee (DAC) database.

The European Commission figures amongst the main donors in all three countries. EU Member States that play an important role are the Netherlands (in Suriname) and, to a lesser extent, Italy, Belgium, UK and France.

Different sources of funding are available from the European Commission to provide Aft for Cariforum. Three are financed by the EDF: the RIP, country-specific NIPs and all-ACP facilities. Furthermore, some specific programmes are financed by the general budget of the Commission.

RIP

Under the 9th EDF (2000–07) €57 million were available for Cariforum under the RIP, which was a sharp decline compared to the previous allocation (see Table A3.2). The overall objective of the regional support programme under the 9th EDF was the beneficial integration of the Caribbean region into the world economy through a global repositioning aimed at achieving sustainable economic growth, regional cohesion, stability and continued improvements in living conditions. The focal sector identified in the support programme, ‘intensification of regional integration’, was trade related and covered from 75% to 90% of the total RIP. This included trade-related capacity building focused on regional institutions (mainly the CRNM) as well as support to promote business collaboration, and activities to promote competitiveness and diversification.

Table A3.2. Cariforum RIP in EDF 8 and EDF 9

	EDF8		EDF9	
Total Allocation	€90m		€57m	
Focal Sector	Regional Economic Integration and Cooperation	Total of €90m	Intensification of Regional Integration	€45m
Non Focal Sectors	Human Development and Capacity Building		Major Vulnerabilities (drugs, disasters), Policy Dialogue	€12m

Sources: RSP/RIP 2003-7.

It is worth noting that given the time lags that have often been involved with implementation of programmes projects have spanned EDF periods. A mid-term review of the RIP of the 9th EDF conducted in 2005 found that allocations for regional economic integration reached €89 million

when including unspent resources from previous EDFs. In light of this, the review concluded that allocation for the RIP under the 9th EDF should remain pegged at €57 million.

The RIP has its own set of procedures, which are laid down in Annex 4 of the Cotonou Agreement (European Commission, 2000). A Regional Authorising Officer (RAO) oversees all transactions – in the case of the Caribbean region the RAO is the Secretary-General of the Cariforum Secretariat. As in other ACP regions, there have been problems in the past in terms of the level of commitments and disbursements – characterised by a rush to commit funds late on in the project cycle. Despite efforts to correct previous mistakes, performance under the 9th EDF seems to have been equally dogged by problems: in April 2008 only 35% of the total 9th EDF committed was paid. However there is now a new disbursement mechanism, in the form of a Contribution Agreement, which is expected to speed up the process of committing and disbursing funds in future.

NIPs

Further AfT was committed through the NIPs. For **Barbados** €650,000 of the funds of the 9th EDF were spent on studies, audits and technical support in the area of regional integration (NIP Barbados 2002–7). In **Guyana** the 9th EDF strategy focused on macro-economic support (poverty reduction) and sea defences. Supporting trade was not identified as an objective of the projects and programmes (NIP Guyana 2002–7). In **Suriname** the 9th EDF focal sector was transport, through which the European Commission aimed to support the country in improving competitiveness and facilitating trade through institutional strengthening. Funds for this focal sector under the 9th EDF were €8.1 million, but as Suriname had been slow to absorb previous funds a total amount of €33.5 million was programmed. Furthermore, a non-focal programme had a clear link with trade: ‘reinforcement and capacity building of economic actors’. The programme aimed among others to improve private and public sector responsiveness to regional market opportunities (NIP Suriname 2002–7).

EDF all-ACP funds and resources from the EU budget

Different sectoral support programmes in the region were financed under the EDF all-ACP facility. This includes the €70 million programme of support to the region’s rum industry since 2002. The rice sectors in Guyana and Suriname have received €23.5 million since 2004.

Other sectoral support programmes were financed from the EU budget. The sugar sector in Barbados and Guyana received €2.3 million and €5.66 million respectively in 2006. The European Commission has also supported the Caribbean banana sector under the SFA since 1997 (Council of the EU, 1999). In 2006, €0.37 million was disbursed to Suriname for this purpose. Other Caricom countries that have profited are Belize, Dominica, Grenada, Jamaica, St Lucia and St Vincent and the Grenadines⁽³³⁾.

Another programme available for all ACP countries that received €50 million from intra-ACP funds set up under the 9th EDF is TradeCom, which was established with the aim of supporting ACP countries in formulating trade policies, effectively participating in trade negotiations and implementing trade policies and international trade agreements.

³³ Appendix 4 provides further information on the EDF sectoral support programmes.

Further AfT allocation from the European Commission and EU Member States

Apart from the aid managed by the European Commission, EU Member States provided AfT as part of their bilateral cooperation activities. TRA to Cariforum from the European Commission and bilateral cooperation of EU Member States amounted to €183 million in the period 2001–6, with most of this (€177 million) being spent for trade development (European Commission, 2008).

Taking the wider definition of AfT, the European Commission and EU Member States spent €650.1 million over the period 2001–6, with the largest share being allocated to building productive capacities (see Table A3.3).

Table A3.3. AfT assistance by the European Commission and Member States to Cariforum 2001–6

	€ million						Total
	2001	2002	2003	2004	2005	2006	
Trade policy & regulations and trade related adjustment	0.3	0.0	0.0	0.0	1.2	5.0	6.5
Trade-related infrastructure	60.5	11.0	45.8	61.7	37.2	14.1	230.4
Building productive capacities (including trade development)	91.8	77.1	23.6	92.2	69.8	58.7	413.2
Total	152.6	88.1	69.4	153.9	108.2	77.8	650.1

Source: European Commission, 2008.

Focusing on Barbados, Guyana and Suriname, we see that Suriname received by far the largest amount of AfT assistance, accounting 86% of the total for the three countries (see Table A3.4).

Table A3.4. AfT assistance by the European Commission and Member States to Barbados, Guyana and Suriname

	US\$ million					Total
	2002	2003	2004	2005	2006	
Barbados	0	0	0	0	3.33	3.33
Guyana	0.25	0.09	1.35	0	7.11	8.8
Suriname	2.71	38.88	2.89	25.1	5.24	74.82

Source: OECD CRS.

When interpreting this overall figure, however, it needs to be emphasised that data on AfT have to be read with great caution. Different sources, such as the OECD CRS and the WTO Doha Development Agenda Trade Capacity Building Database (TCBDB), show mutual discrepancies⁽³⁴⁾. Thus, not all donors are captured in the databases, and it is disputed which aid is labelled as AfT.

³⁴ The data from the 'Aid for Trade monitoring report 2008' are deducted from the CRS, the TCBDB and Monterrey questionnaires filled in by Member States.

Appendix 4. Sectoral support programmes financed from the EU budget

SFA for traditional ACP suppliers of bananas

Between 1999 and 2008 several Caribbean countries (Belize, Dominica, Grenada, Jamaica, St Lucia, St Vincent and the Grenadines and Suriname) were eligible for support to the competitiveness of their banana sector under the SFA for traditional ACP banana suppliers (Council of the EU, 1999). The SFA ended in 2008 and no allocations have been made so far. However, several ongoing programmes are expected to continue in the coming years and the European Commission indicated in February 2009 ⁽³⁵⁾ that it was working on a scheme renewing support to the banana sector beyond 2011.

Of the three focus countries for this study, only Suriname has been a beneficiary of the SFA – receiving about €20 million under the 10th EDF. It has received support for the privatisation of the state-owned banana company SBSS. The objectives of the restructuring of the banana sector are higher foreign exchange earnings and increased productivity to ensure rural employment and income. Due to its relatively low costs of production, Suriname is expected to benefit from increased market access opportunities under an EPA.

Accompanying measures for Sugar Protocol countries

Six Caribbean countries (Barbados, Belize, Guyana, Jamaica, St Kitts and Nevis, Trinidad and Tobago) are eligible for support under the accompanying measures for ACP Sugar Protocol countries. As in the case of banana producers, these measures are intended to support ACP countries to adjust to changes in the EU sugar market affecting their export revenues.

Caribbean countries receive almost 50% of the total funds available for the ACP. For Barbados and Guyana, the allocations for the period 2007–10 amount to €34.6 million and €85.0 million respectively and are delivered through sector budget support (European Parliament/European Council, 2006).

Resources available under accompanying measures for Sugar Protocol countries for 2007–10

	Indicative allocations 2007–10 (€000)
Barbados	34,667
Belize	45,147
Guyana	85,043
Jamaica	78,351
St Kitts	42,286
Trinidad	41,643
Total Caricom	327,137
Total ACP	670,338
Caricom share of total	48.8%
Source: European Commission, 2007.	

³⁵ As announced at the Caribbean Regional Meeting of the Joint Parliamentary Assembly held in Georgetown, Guyana, 24–27 February 2009

Appendix 5. EU Member States' allocation for AfT in the Caribbean

The DFID Private Sector Challenge Fund for the Caribbean

After a lack of entrepreneurship and innovation was seen as a key constraint to growth in the Caribbean in a growth-scoping study carried out by DFID in June 2008, DFID is currently setting up a new Challenge Fund to address this issue. It aims at promoting sustainable export-led growth based on increased productivity and competitiveness of the Caribbean private sector.

Under the Challenge Fund, grants will be given to the private sector in order to support the development of innovative products and services. This should enable enterprises to take advantage of export opportunities, e.g. in the context of the EPA with the EU and the FTA with Canada. Grants are allocated on a competitive basis and have to be matched by applicants with own funding. In parallel, the DFID programme belonging to the Challenge Fund foresees support to an enabling business environment.

Key elements of the Challenge Fund Programme are:

1. Matching grants on a competitive basis to private sector businesses and organisations to assist them in developing innovative products and services.
2. Technical Assistance funds to private sector and civil society stakeholders to undertake evidence based dialogue and advocacy for improved economic policy and governance at national and regional level.
3. Policy and institutional support to governments and regional organisations to design and implement CSME and EPA consistent policies (DFID, 2008a).

DFID has announced an initial contribution of £10 million over five years. In addition, CIDA is expected to contribute to the fund. Further, opportunities for collaboration are being explored with the IDB.

Work on the detailed design of the fund is still going on, with a view to finalisation in the first quarter of 2009 for the fund to be operational by March 2009.

Source: DFID, 2008a.

German bilateral cooperation: ongoing/planned projects on EPA support in the Caribbean

Beneficiary	Agency	Programme objective	Amount	Period
Caricom Regional Organisation for Standards and Quality (CROSQ)	Physikalisch Technische Bundesanstalt (PTB)	Harmonised regional quality infrastructure for improving market access and competitiveness (together with IDB and CROSQ)	€0.2 million (total project amount €1.6 million)	2006–9
Caribbean Regional Negotiating Machinery (CRNM)	Gesellschaft für Technische Zusammenarbeit (GTZ)	Support to negotiating capacity, in particular in the area of intellectual property rights	€0.62 million	2005–11 (increased in 2008)
CROSQ	PTB	Strengthening of basic metrology infrastructure in the Caribbean to take advantage of trade opportunities	€1.0 million	2008–11
CROSQ	PTB	Building needs-specific regionally harmonised quality infrastructure in the Caribbean, Central America and the Andean region	ca. €1.0 million (Caribbean-Component)	2009–12
Caricom	GTZ	Support to the regional institutions in implementing the EPA in the Caribbean	ca. €4.0 million	2009–11

Source: Data provided by the Federal Ministry for Economic Cooperation and Development (BMZ), Germany.

Appendix 6. Aid effectiveness principles

The 2005 Paris Declaration on Aid Effectiveness provides the main basis of concerted international effort to tackle a general lack of effectiveness in the aid system. It built upon a progressive international response to the problem in recent years that included:

- ◆ the 2000 MDGs, which provided the first basic agreement on the purpose of providing assistance to developing countries;
- ◆ the 2002 Monterrey Consensus, in which agreement was made to mobilise additional finance to help meet the MDGs; and
- ◆ the 2003 Rome Declaration, which set out steps to make aid less donor driven and more aligned to national development objectives.

The Paris Declaration contains an evidence-based set of 56 commitments and 12 quantifiable targets for improving aid effectiveness, the main underlying principles for which are as follows.

Country ownership. The cornerstone of the Paris Declaration is that aid alone cannot deliver poverty reduction. The task of providing a stable environment for growth and increased incomes ultimately rests with governments and civil society. Experience shows that aid works best when recipient countries set the agenda and donors follow – and fails when donors seek to impose their own agendas.

Alignment. Unless donors base their support on – or align it to – national development strategies, institutions and procedures, aid tends to be ineffective because it fails to work with the grain of recipient objectives and priorities and complement countries' own efforts.

Predictability. In practice donor aid tends to be unpredictable and volatile, making it difficult for partner countries to plan spending in ways that support long-term development. During surges aid-dependent countries often use additional external resources to pay off domestic debt, in preference to scaling up and improving services. During downturns they tend to interrupt or abandon capital expenditure programmes, resulting in waste. According to recent estimates (H. Kharas, Brookings Institution 2008) the unpredictability of aid reduces its usefulness by at least 20%.

Project implementation or execution units (PIUs/PEUs). Many donors create parallel PIUs/PEUs to avoid having to use weak government systems. Doing so exacerbates the problem by draining governments of their best staff, leading to a vicious cycle of weak capacity and further loss of confidence. Experience shows that working with systems, instead of around them, is key to effective and sustained capacity building.

Harmonisation. Aid works best when donors adopt common, simple procedures and closely coordinate their efforts. Too often government staff and ministers have to respond to multiple donor requirements, such as different reporting requirements and separate donor missions, dragging them away from essential business. The importance of harmonisation has been growing as new players have entered the aid system, which now consists of more than 50 bilateral donors and over 230 international organisations, funds and programmes.

Results. It is vital for partners to know what is being achieved on the ground through aid, to learn from experience and to feed this into the design of better projects and programmes. In practice

recipient governments, parliaments and civil society organisations often experience difficulty in finding out where aid funds are spent, let alone what it is being achieved. Investing in a country's own statistical and monitoring system can often be more helpful, for example, than establishing separate donor reporting systems.

Mutual accountability. The relationship between donors and recipients is inherently unequal. Recipients are often required to explain their performance to donors in return for funds received, and spend more time and effort doing so than justifying their policies and performance to their citizens. There are virtually no systems that require donors to explain their performance to partner governments and few incentives to ensure that aid is effective. There is however increasing evidence that mutual accountability arrangements can lead to tangible improvements in aid quality.

At the Accra High Level Forum in September 2008 donors agreed on a number of further actions to improve aid effectiveness. These include specific commitments to:

- ◆ engage in open and inclusive dialogue on development policies, acknowledging the critical role and responsibility of parliaments in ensuring country ownership of development processes;
- ◆ strengthen and increase the use of country systems, by using these as the first option for all aid programmes supporting activities managed by the public sector;
- ◆ improve the complementarity of efforts and division of labour between donors to reduce fragmentation and duplication at country level.

It can be noted that these principles apply equally to TRA and to other forms of aid provided to support growth, social sector programmes and environmental protection. The only significant area of development cooperation in which a separate set of criteria has been developed is emergency and humanitarian work, where a set of good donorship principles has been developed.

Signatories to the Paris Declaration and further commitments at the Accra High Level Forum include all members of the Development Assistance Committee (DAC). The DAC does not include a number of emerging new donors and private foundations. It includes all major multilateral institutions as well as traditional bilateral donors.

Appendix 7. Summary of key provisions in the Cariforum–EC EPA text

Status quo	Initialled Cariforum EPA
I Trade in goods	
1. Customs duties	
Approach and time frame	Tariff liberalisation takes place over 25 years in total. Start: 2011. Internal Caribbean taxes and charges can be maintained for 10 years (phase-out starts in year 7) but are not allowed to be increased. Lesser developed countries can modify tariff commitments up to applied MFN rate subject to approval of Joint Trade and Development Committee
Regional liberalisation	Countries move from individual tariff liberalisation commitments gradually towards a CET (fully implemented by 2033). CF will exercise its best endeavour to achieve the objective to levy customs duties only once. European Commission will provide technical support.
Review of tariff concession	Yes. In the event of 'serious difficulties' the tariff liberalisation schedule can be revised by the Joint Trade and Development Committee for a maximum period of 1 year (but not beyond the maximum transition period).
Export duties	Export duties outlined in Annex I have to be abolished within 3 years
Standstill provision	Yes (built-in the tariff liberalisation schedules)
Rules of origin	Interim rules of origin to be reviewed within 5 years.
MFN clause	Yes (but CF may deny more favourable treatment if the parties jointly agree).
Sanctions in case of failure to provide administrative cooperation	Yes: temporary suspension (6 months, renewable) of preferences in cases of repeated failure and if the Joint EPA Committee could not come to a mutually accepted solution within 3 months.
2. Trade defence and infant industry protection	
ACP exclusion from GATT/ Agreement on Agriculture safeguards	Yes (limited to 5 years with option of extension).
Safeguard instruments	Suspension of tariff reduction or increase of customs duties to applied MFN rate or TQs
Maximum safeguard protection	No time or quantitative limit but application shall not exceed what is necessary to remedy or prevent serious injury.
Pre-emptive safeguards	Yes (max. 200 days)
Safeguards related to food security	In case of food insecurity pre-emptive safeguards can be applied.
Asymmetry in safeguard application	No. EU can equally apply safeguards in case of 'market disturbance'
Maximum period for infant industry protection	8 years but only within in the first 10 years. Limited to safeguards. No new safeguards for a product that has been previously subject to infant industry protection for one year.
3. Non-tariff barriers	
Abolition of non-tariff barriers and quantitative measures	Prohibition of any import or export restrictions other than customs duties and taxes – notwithstanding anti-dumping/countervailing measures and safeguards.
Subsidies	Phase out of agricultural export subsidies; national subsidies remain unaffected.
4. Customs and trade facilitation	
Scope	Protocol on Mutual Administrative Assistance in Customs Matters: Objective to implement a single administrative document (to be reviewed after 3 years)
Development of common regional standards	Yes (development of regional customs legislation, procedures and requirements is envisaged and monitored by Special Committee).
Common institutions	Yes (Special Committee on Customs Cooperation and Trade Facilitation)
5. Technical barriers to trade and sanitary and phytosanitary standards	
Scope	WTO obligations and cooperation. Cooperation areas (improved competitiveness, support to comply with quality standards, and developing export marketing capabilities) were defined.
Institutions	No common institutions. Parties need to inform each other about their competent authorities.
Regional approach	Yes. Objective to create harmonised sanitary and phytosanitary measures, standards and procedures; collaboration between competent authorities as well as exchange of information through regional contact points.

Status quo	Initialled Cariforum EPA
II. Investment, trade in services and e-commerce	
1. Services	
Scope	Commercial presence; cross border supply of services; and temporary presence of persons and businesses. E-commerce, courier, tourism, telecommunication, financial services, and maritime transport. Mode-4 is linked to the liberalisation of according sectors. Commitment to enter into further negotiations on investment and trade in services within 5 years. Haiti and Bahamas are excluded from the service and investment chapters.
MFN clause	Yes, in principle. But CF may deny more favourable treatment if the parties jointly agree. Internal market agreements (Caricom Single Market Economy and FTA with DR) are excluded from MFN.
Standstill provision	No
2. Investment	
Progressive liberalisation of investment	Yes. The implications shall be reviewed after 3 years and in regular intervals thereafter.
Investment behaviour	Investor shall act in accordance to ILO and basic environmental standards and held liable in case of fraud.
III. Current payments and capital movements	
Scope	Free movement of capital
Safeguards	Yes in case of 'serious difficulties' but not exceeding six months.
IV. Trade related issues	
1. Competition	
Implementation of national competition bills	Yes, within 5 years.
Regional approach	No, only cooperation among competition authorities.
Public enterprise provisions	No discrimination allowed after 5 years except if necessary for the existence of public enterprise. Sectoral rules might exclude public enterprises from non-discrimination principle (Trade and Development Committee needs to be informed.)
2. Innovation and intellectual property rights	
Scope and enforcement	Extensive: copyrights, trademarks, geographical indications, industrial design, patents, plant varieties, genetic resources etc. Regional management and enforcement of intellectual property rights is envisaged. Penalty payments in case of infringement. Haiti has to implement the chapter until 2021; all other countries by 2014. Negotiations on protection of geographical indications shall commence not later than 2014.
3. Public procurement	
Scope	Positive-list approach (Annex I): several exemptions from non-discrimination (like limited-tendering); linked to technical assistance. Implementation period: 2-3 years and 5 years for eight lesser developed CF states and for others if no sufficient capacities have been built. Review of chapter every 3 years.
4. Environmental standards	
Scope	Parties shall seek to adopt and implement international standards if no national/regional environmental standards exist.
5. Social standards	
Scope/Institutions	International standards if no national/regional standards exist. Prohibition on enhancing trade by lowering social/labour standards. Consultative Committee monitors the implementation; a Committee of Experts may examine compliance with ILO standards
6. Personal data protection	
Scope	Establish legal and regulatory administrative capacities with respect to the quality, transparency, security, right of access, restriction and sensitivity of data in accordance to international commitments. European Commission provides according assistance and training.
Time frame for implementation	7 years
Sanctions in case of non-compliance possible	No
7. Good governance in the tax and financial area	
Scope	Parties will foster dialogue and transparency in the area of tax policy and administration and will fight against according illegal practices.

Status quo	Initialled Cariforum EPA
Part III. Dispute avoidance and settlement	
Scope/status quo	3 arbitrators decide how to settle dispute; decision is binding. Joint Trade and Development Committee establish rules of procedures and might review and amend provisions; binding procedures. List of 15 arbitrators and 5 chairpersons will be presented by Joint Trade and Development Committee within 3 months.
Temporary remedies in case of non-compliance	Yes.
Scope/status quo	Appoint coordinator to ensure effective implementation; collaboration in the fight against illegal financial activities; regional preference (1 year for more developed members, 2 years for lesser developed members and 5 years for Haiti); balance of payment restrictions, relations with Cotonou/WTO, entry into force.
Part IV. General exceptions	
Scope	Implementation of EPA shall not negatively affect public security and moral; human, animal and plant lives or countries' compliance with international laws or regulations
Part V. Institutional provisions	
Scope	Joint Council Joint Trade and Development Committee Joint Parliamentary Committee Joint Consultative Committee Special Committee on Customs Cooperation and Trade Facilitation
Part VI. General and final provisions	
Scope	Definition of parties, coordination and exchange of information, transparent application of EPA, continued dialogue on financial issues, joint fight against illegal financial activities, regional preferences, relation to outermost regions, safeguards in case of balance of payments difficulties, relation with Cotonou and WTO, entry into force, duration, territorial application, revision clause, accession of new EU and Caribbean members, Annexes.
Review clauses in the EPA	Application of single administrative customs document: after 3 years; Cumulation rules: after 3 years (with a view to reducing the products listed in Annex X). Investment framework: after 3 years and in regular intervals thereafter; Competition chapter: after 6 years; Rules on government procurement: every 3 years; Progress made in mutual recognition of the application of regulatory framework: every 2 years Development cooperation: ongoing
Development Cooperation in the different chapters of the Cariforum EPA	
Scope/attempt	a) Building of human, legal and institutional capacities to comply with the commitment of the EPA; b) fiscal reform and improved customs collections; c) promoting private sector; d) investment promotion and diversification; e) enhancing technological capabilities, research and innovation; f) infrastructure
Institutions/Funds	European Commission: EDF and Commission/EU Member State multilateral commitments. Regional Development Fund shall be created within 2 years.

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