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DEBT SWAPS

A new opportunity to finance
Trade Capacity-Building:
The Project UNIDO-Italy-Egypt

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Executive summary

The present paper aims to provide elements for discussion on the possibility of using **debt conversion mechanisms to finance trade-related technical assistance and capacity-building** (TRTA/CB). The analysis focuses on the assumption that linking debt relief initiatives to programmes aiming at higher participation of developing countries in the multilateral trading system and their increased access to export markets, would truly improve the socio-economic situation of beneficiaries. It is also suggested that funds that are made available for TRTA/CB could be more effective if they are matched with market access/trade capcity building and trade facilitation initiatives. Specifically, emerging problems related to sanitary and phyto-sanitary measures (SPS) and technical barriers to trade (TBT) of developing countries could be effectively funded in such a context. The analysis takes into account that **commitments to TRTA/CB equate to some 4.8 per cent of total aid commitments in 2001-2002**.

The paper provides a review of the relation between **trade and development**, assessing the complex **link between trade and debt** and addressing supply capacity, conformity with international standards and regulations and market connectivity. Debt swap mechanisms are also analysed in order to ascertain their applicability for TRTA/CB.

The experience of UNIDO in **linking debt swaps and TRTA/CB, and specifically in assistance to developing countries to overcome possible TBT/SPS**, is then presented. UNIDO's experience is based on the successful application of the concept in a project developed in Egypt with the **Ministry of Foreign Trade of Egypt** and Italy for which UNIDO has been selected as the implementing agency, entitled **"Traceability of agro-industrial products for the European market"**. The project shows how the concept presented in the present paper is feasible and could be replicated in other developing countries.

Different scenarios based on a preliminary **estimation of funds that could be made available through debt swaps for TRTA/CB** are analysed, based on recent levels of debt conversion. Specifically, if the equivalent of 20 per cent of debt converted in 2000 (i.e. US$ 4.2 billion, equivalent to 0.18 per cent of the total external debt of developing countries) was allocated to finance TRTA/CB, benefiting developing countries could mobilize US$ 1.05 billion.

The paper was prepared with a view to identifying issues related to the World Trade Organization (WTO) Fifth Ministerial Conference held in Cancun, Mexico, in September 2003 when UNIDO signed a Memorandum or Understanding (MoU) with the WTO.

I. Introduction

A. The trade and development context

The Doha Development Agenda[1] represents a new approach to trade, launching broad negotiations centred on development and supported by technical assistance and capacity-building to help all countries participate effectively in those negotiations. Moreover, the Ministerial Declaration adopted in Doha[2] confirmed the commitment of WTO members to "continue to make positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development". It went on to say that, in that context, "enhanced market access, balanced rules, and well targeted, sustainably financed technical assistance and capacity-building programmes" had "important roles to play".

A few months later, at the International Conference on Financing for Development in Monterrey, Mexico, in March 2002, consensus was reached on the need to remove supply-side constraints on trade and secure predictable financing of trade-related assistance and capacity-building.[3] At the same conference, the United Nations Industrial Development Organization (UNIDO) launched its trade capacity building initiative. In September of the same year, the World Summit on Sustainable Development in Johannesburg, South Africa, reaffirmed the importance of trade to sustainable development. It emphasized the need for further efforts in support of sustainable trade,

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[1] The Doha Development Agenda comprises several instruments: a Ministerial Declaration setting out the mandate for negotiations in a number of areas and a work programme for WTO members in other areas (WT/MIN (01)/DEC/1); a Decision on Implementation-related Issues and Concerns (WT/MIN (01)/17), which deals with some of the difficulties that developing country WTO members have encountered in implementing certain WTO Agreements; and a Declaration on the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) and Public Health (WT/MIN/01/DEC/2), which deals with the relationship between intellectual property rights and public health issues. The instruments are available on the Internet at http://docsonline.wto.org.

[2] WT/MIN (01)/17, para. 2.

[3] See *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

extending beyond the commitments entered into at Doha and Monterrey.[4]

Other attempts have also been made to address the specific trade-related needs of the least developed countries and Africa. In May 2001, the Programme of Action for the Least Developed Countries for the Decade 2001-2010[5] was adopted at the Third United Nations Conference on the Least Developed Countries and six months later the New Partnership for Africa's Development (NEPAD)[6] was launched. Analysis of both initiatives reveals a commonality of design.

From the Programme of Action for the LDCs and NEPAD, it emerges that the reasons for the failure of developing countries to benefit from the opportunities offered by the rapidly changing global markets clearly are not for want of reductions in tariffs and quotas; the reasons clearly lie elsewhere. **As the developing countries themselves recognize, they lack both an effective industrial productive capacity, which they need to ensure optimization of production and product diversification, and the ability to comply with international standards, which they need to exploit the opportunities offered by the liberalized global trading system**.

The importance of the role of manufacturing in improving the socio-economic situation in the LDCs has been borne out by recent events. Despite an adverse market environment owing to a contraction in world trade, falling commodity prices and a slowdown of demand in major developed regions, the LDC group nonetheless managed to expand both its exports and its imports. A marked growth in exports in terms of primary and manufactured goods more than offset the impact of weaker prices for many primary commodities. The eight LDCs that for the most part export manufactured goods, have increased their exports in monetary terms by nearly 10 per cent.[7] Moreover, this growth would not have occurred—or would have been much slower—without the steady opening of international markets and the reduction of trade barriers. The process should not stop there.

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4 See Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002 (United Nations publication, Sales No. E.03.II.A.1 and corrigendum.

5 United Nations document, A/CONF.191/11.

6 United Nations document, A/57/304, annex.

7 World Trade Developments in 2001 and Prospects for 2002. Available on the Internet at www.wto.org.

B. Relationship between trade and debt in developing countries

The Doha Ministerial Declaration introduced a binding mandate for members to examine the relationship between trade and debt and set up a Working Group on Trade, Debt and Finance.[8] A report of the WTO General Council on the Working Group will be before the Fifth Ministerial Conference, to be held in Cancun, Mexico (10-14 September 2003). The principal characteristics of the relationship between trade and debt are summarized below.[9]

- **Multifaceted relationship**

Developing countries and the international community are well aware of the complementarity between initiatives to reduce indebtedness and those aimed at improving market access for poor countries. The linkage between trade and debt is not simple and it is at the least less direct than that between trade and finance. The relationship between trade and debt in developing countries has many facets and the combination of international trade and foreign debt policies can be perceived as a paradoxical mix of the potential these policies offer to improve living standards. Attempts made to study this relationship by various economic research groups has not defined a stable correlation between the two factors.

- **Debt as a source of external financing**

Debt, along with foreign investment and portfolio equity investment, is one of several instruments of external financing. Foreign borrowing ought to be used for productive investment that generates returns and economic growth sufficient to cover the debt repayment. Nonetheless, a number of factors may constrain the ability of countries to repay their debt or to employ foreign capital for development. In addition, large amounts of debt overhang discourage private (foreign and domestic) investment, an important injection of funds for developing countries.

- **Liberalization and debt**

An important issue in this respect is balancing the advantages that can accrue from liberalizing trade in financial services with the need to

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8 WT/MIN (01)/DEC/1, para. 36.

9 See International Institute for Suitable Development Doha Round Briefing Series, Issue 10 of 13, February 2003. Available on the Internet at www.iisd.org.

ensure that liberalization is properly timed, sequenced and prudently managed so that it does not become a source of financial instability in its own right.

Trade liberalization, i.e. removing trade restrictions, may have a positive impact on external debt and debt servicing, as it is expected to enhance domestic growth, productivity and exports. The level of openness to trade has positive effects on the debt structure of countries, as it might attract foreign direct investment and hence foreign exchange reserves. This would enable countries to finance technology transfer and hence improve productivity and to shift towards production with higher income elasticity and better terms of trade.[10] Thus, developing countries should make use of the multilateral trading system as the proper framework within which they might reduce their public debt burden and, furthermore, contribute to improving their social and economic situation. However, there is some risk associated with such a process towards openness to trade, namely distortions in the balance of payments if the country is not capable of competing in a global market.

- **Spiral effect: the debt trap**

On the one hand, debt is an important constraint on the trade capacity of developing countries. In many of them, the debt burden is so heavy (Angola, for instance, held a ratio of debt over gross domestic product (GDP) in 2000 of 91.4 per cent, Cambodia a ratio of 71.8 per cent and Ethiopia a ratio of 86.7 per cent)[11] while at the same time their trading situation is not improving, that they seem to be condemned to a debt trap because export revenues determine the ability of a country to finance its external debt.

On the other hand, developing countries indebt themselves also as a means to increase their exports. To increase their productive capacity and their ability to market their products abroad (commodities, processed goods and services), the majority of developing countries import inputs, technology and know-how. These efforts are aimed at enhancing competitiveness, compliance with market requirements and connectivity with foreign markets, to enable a country to take better advantage of the opportunities offered by the liberalized global trading system.

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[10] Philip R. Lane and Gian Maria Milesi-Ferretti, "External capital structure: theory and evidence", IMF working paper WP/00/152 (Washington, D.C., 2000).

[11] Calculated based on data from WTO and World Bank web pages.

- **Ability to finance external debt**

The integration of developing countries in world trade is central to the mandate of WTO. Heavily indebted developing countries are more dependent on foreign trade in terms of its share in national income than less indebted countries. They have a high dependency on primary commodities for their welfare and consequently are vulnerable to price instability of such products and experience important variations in their export earnings, reducing their ability to finance the debt.

Foreign debt must be financed with foreign currency that is earned through trade. As debt service payments consume a large proportion of the earnings of developing countries, they divert foreign currency from purchase of essential imports, as mentioned above. For example, the percentage of exports of goods and services to total debt service in 2000 for three heavily indebted LDCs[12] was 3.7 per cent in Angola, 2.6 per cent in Burundi and 2.6 per cent in Guinea-Bissau, giving a good indication of the efforts needed to increase export capacity in order to service external debt. Again, this fact reduces the ability of a country to invest in the social and productive activities needed to take advantage of trade opportunities.

- **Trade and debt policies**

The multilateral trading system should provide the adequate structure within which developing countries might achieve sustained economic growth. Nevertheless, it is necessary to strengthen and harmonize trade and development policies, including those related to debt and supply-side issues. TRTA/CB should be provided based on such a perspective.

Addressing supply-side constraints (available marketable products), increasing productive capacity and value added and diversification of the production base of developing countries is crucial. This should be matched with action to increase market access for countries affected by external indebtedness problems, including LDCs. All these measures must be taken within a global structure of non-discriminatory reduction of trade barriers. For indebted countries, trade policy reform must be supported by pro-growth policies intended to reduce poverty and increase standards of living.
In conclusion, restrictions and barriers to trade imposed on developing countries (both tariff and non-tariff) can dramatically reduce their

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[12] For additional information, see annex II.

ability to earn the foreign exchange they need to service their external debt, forcing them to further unsustainable borrowing. Hence, trade facilitation and market access initiatives, as mentioned above, would directly increase the trade of developing countries and consequently improve their external debt situation.
Converting debt specifically to foster trade for developing countries therefore acts directly on both axes, maximizing the impact and addressing poverty in a pragmatic way.

C. Changes in trade and development policies and assistance

The outcome of the Doha Ministerial Conference and the subsequent global, regional and bilateral initiatives are welcome evidence of the constant evolution of development policy. Only with increased investment and trade can the developing countries achieve sustainable development. Protectionism and autarky have been tried and failed. The emphasis now lies on ensuring that the multilateral trading system integrates development concerns, such as those expressed in the Doha Development Agenda.

It is generally accepted that the developing countries need to be assured of greater trading opportunities and enabled to increase their capacity so as to take advantage of those opportunities. The international community is committed to providing trade-related technical assistance and capacity-building and the means to facilitate trade and enable greater access to their markets for the products of developing countries. For example, the Japan International Cooperation Agency (JICA) launched a training programme for trade promotion in countries of the Association of South-East Asian Nations and the United States Congress passed the African Growth and Opportunity Act in 2000, providing duty- and quota-free access to the United States market for 1,800 products from Africa. In addition to streamlining its generalized system of preferences, the European Union introduced its “Everything but arms” initiative for LDCs. Many countries, such as Canada, Italy,[13] Japan, New Zealand and Norway, have launched similar duty- and quota-free access initiatives and simplified custom procedures for LDCs. Much, however, remains to be done.

It would seem that the focus hitherto has been on improving capabilities related to trade negotiations, information dissemination,

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[13] A recent Italian trade facilitation initiative, called “green corridor” is providing a number of countries with a simplified system for imports and exports.

market access and trade facilitation (in the sense of reforming customs operations and simplifying import and export procedures). This also holds true for other initiatives, such as the Integrated Framework for Trade-related Technical Assistance to the Least Developed Countries and the Joint Integrated Technical Assistance Programme. Nonetheless, complementarities clearly exist with the supply-side concerns being addressed by UNIDO.

Insufficient attention has been paid to production capacities and the quality of infrastructure. These outstanding—and equally decisive—issues have to be addressed squarely if the developing countries are to enter the international arena as a force to be reckoned with. Instead of individual parts of the problem, the problem as a whole has to be addressed on as broad a front as possible.

It seems clear that trade, aid and finance communities need to develop more coherent strategies to help developing countries integrate into the global economy, strategies that have to be matched with efforts made by the recipient countries themselves. For developing countries in general, and LDCs in particular, globalization poses several major challenges. In order to participate in and benefit from globalization, they have to obtain improved market access for their products. While major progress has been made in terms of liberalization of trade, and tariffs and quotas for certain imports from developing countries have been reduced or eliminated by some major importers, it is clear that more remains to be done, as restrictive quotas and high tariffs still remain in place for important products. The next round of trade negotiations is expected to proceed with further opening of markets. However, even as markets continue to open, this is not resulting in rapid increases in exports from developing countries. There are two main reasons for this.

Firstly, the process of international trade liberalization is leading to a rapid increase in the application of standards and technical regulations by importing markets. At the same time, developing countries do not have the ability to ensure and prove that their exportable products comply with those standards and regulations. Secondly, many developing countries do not have competitive productive capacities that could rapidly respond to the opportunities through increased production and exports, even though in many countries several sectors could be sufficiently competitive to become successful exporters.

UNIDO has developed an initiative that addresses these problems. It aims at building up the necessary conformity assessment infrastructure

and related capacities. In addition, to ensure rapid results in terms of increased participation in world trade, it also includes structured support to strengthen productive capacities in key industrial and agro-industrial sectors with export potential, as well as a facility to assist developing countries by providing a technical analysis of export problems related to standards and technical regulations.

For developing countries in general, and LDCs in particular, the requirements described above pose a very important obstacle and burden. This was recognized during the Uruguay round of trade negotiations. In fact, article 12.7 of the Agreement on Technical Barriers to Trade[14] specifically states:

> "*Members shall ... provide technical assistance to developing country Members to ensure that the preparation and application of technical regulations, standards and conformity assessment procedures do not create unnecessary obstacles to the expansion and diversification of exports from developing country Members*."

A special reference to LDCs even strengthens this point. However, in spite of this commitment, so far only limited assistance has been provided, especially in terms of the technical infrastructure required.

This fact became a serious concern and cause for friction in the run up to the Doha Ministerial Conference, where it could have derailed the launch of a new multilateral round. As mentioned above, the final Doha Ministerial Declaration, in paragraph 41, therefore reiterates the importance of technical assistance, reaffirming "the important role of sustainably financed technical assistance and capacity-building programmes". However, while increasingly it is recognized that trade-related capacity-building is a high priority, the focus is unfortunately still mainly on the negotiating and trade information aspects and insufficiently on the need for technical infrastructure support.

Without a massive parallel initiative to help developing countries to build up their productive capacities and their standardization and conformity assessment infrastructure, the impact on actual trade will be disappointingly limited. As indicated also, for example, by the Organisation for Economic Cooperation and Development (OECD), putting in place an effective policy framework for trade is essential and all efforts should be guided by a vision to bring into the

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[14] United Nations, *Treaty Series*, vol. 1868, No. 31874.

mainstream a comprehensive trade development strategy in a broader national development and poverty reduction strategy. To support that process, donor countries need to coordinate trade capacity-building efforts better, foster local ownership and participation in all trade-related development cooperation activities, embrace approaches that strengthen the ability of partner countries to continue helping themselves once donors have left and even strengthen donors' own trade-related capacities. The need to commit significant financial and personnel resources to build trade policy frameworks in developing countries—with the prospect of substantial returns—is therefore widely accepted by the donor community.

D. Funding trade-related technical assistance and capacity-building

A formal database to record assistance provided has been established by OECD and WTO and a survey has been initiated to respond to the decisions made at Doha. According to the new report being finalized[15] for submission at the forthcoming WTO Ministerial Conference in Cancun, commitments to TRTA/CB equated to some 4.8 per cent of total aid commitments in 2001-2002. LDCs accounted for some 20 per cent of trade policy and regulations and 30 per cent of trade development activities by value. The latter figure is in line with their 30 per cent share of total aid, but the former figure suggests the need to provide more assistance to LDCs in terms of trade policy and regulations.

The report analyses trade-related aid under three headings: trade policy and regulations (to help countries reform and prepare for closer integration in the multilateral trading system; linked specifically to the Doha Development Agenda); trade development (to help develop the business climate and promote trade to business sectors); and infrastructure (to help countries build the physical infrastructure required to move goods and export successfully). The report shows that, on average, some 3,500 TRTA/CB activities per year were carried out in 2001 and 2002, almost equally distributed between trade policy and regulations and trade development. Moreover, some 1,900 other activities were carried out on average for infrastructure in 2000 and 2001. The value of these commitments amounted to US$ 686 million for trade policy and regulations; double that, at US$ 1,400 million, for trade development, and, though by no means all directed to trade, an average of US$ 8,144 million for infrastructure. Since 2001, 177

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[15] Available in draft only at the time of preparation of this paper.

developing countries received some assistance in trade policy and regulations and 163 in trade development. The number of activities by recipient ranges from 1 to 260. Five developing countries (China, Indonesia, Thailand, Uganda and Viet Nam) benefited from more than 150 activities and many other countries have benefited from 35-45 activities since 2001.

The number of activities aimed at trade policy and regulations increased from 1,410 to 1,844 between 2001 and 2002, whereas, in value, total commitments aimed at such activities slightly decreased from US$ 723 million to US$ 649 million, mainly due to the programming cycle of International Development Association (IDA) loans. In value, most of the commitments in trade policy and regulations went to trade facilitation (30 per cent of commitments in 2001, or US$ 214 million, and 25 per cent of commitments in 2002), assistance to regional trade agreements (only 8 per cent of total commitments in 2001, but 21 per cent, or US$ 133 million, in 2002, with, in particular, new programmes from the European Community, African, Caribbean and Pacific countries), assistance on technical standards and aid to integrate trade into development plans. For categories covering WTO multilateral negotiations, those related to the environment and competition received the most assistance from donors.

Trade development activities remained stable in value between 2001 and 2002 at US$ 1.4 billion, whereas the number of activities increased from some 1,730 to almost 2,000. Business support services (36 per cent of total commitments on average in 2001-2002) and trade finance activities (not numerous, just 9 per cent of the activities, but of high value, 27 per cent of total commitments) remained the main categories of aid to trade development, although commitments in those two categories decreased between 2001 and 2002, mainly owing to the programming cycles of the European Community and IDA. The other main categories, trade promotion and market development, increased in value in 2002, to reach respectively US$ 276 million and US$ 247 million.

Most of the amount dedicated to trade policy and regulations in 2001 went to mainstreaming and technical standards (US$ 153 million) and negotiations and implementation (US$ 202 million). Within the remaining amount, trade facilitation procedures absorbed US$ 81 million.

The 2003 WTO/OECD survey and review of the TRTA/CB database is ongoing and consolidated data is not yet available. With regard to UNIDO's inputs to the database for 2003, in the period from 2001 to May 2003, UNIDO TRTA/CB activities amounted to around US$ 35 million, with 174 activities. A total of 70 projects were classified as trade policy and regulations, amounting to US$ 19.8 million, while 104 projects with an amount of US$ 15.2 million were classified under trade development. Specifically, 64 activities were carried out under trade promotion strategy and implementation—industry amounting to US$ 9.9 million and 24 activities under market analysis and development—industry for a total amount of US$ 5.3 million. One project was related to trade promotion strategy and implementation in the mining sector.

With regard to the commitment by the bilateral and multilateral donors and organizations, the WTO Doha Development Agenda Global Trust Fund is one of the instruments to help countries participate in and benefit from ongoing WTO negotiations. WTO members created the Global Trust Fund immediately after the Doha meeting. At a pledging conference organized by WTO on 11 March 2002, members confirmed their contributions to the Fund. The European Community and member States have pledged contributions worth over SwF 19 million (almost euros 14 million), or some 63 per cent of total contributions.

Another example of the commitment of donors is the strategy of the European Community aimed at "more and better TRTA/CB" through increased funding for and improved quality of trade-related technical assistance and capacity-building.[16]
According to the European Community, TRTA/CB should consist of three elements: (a) in the immediate term, assistance for negotiations, helping countries to prepare for and participate actively in the ongoing WTO negotiations; (b) assistance to build regulatory capacity, helping countries implement the negotiation outcome; and (c) support for the elimination of supply-side constraints to help countries make use of the opportunities that trade liberalization offers.

E. Demand for trade-related technical assistance and capacity-building

All WTO members recognize that many developing countries, and LDCs in particular, need TRTA/CB to participate in trade negotiations,

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[16] The European Community and its 15 member States are already the largest provider of bilateral development assistance, including trade-related assistance.

to implement their outcome and to utilize the opportunities created. Members are therefore committed to providing TRTA/CB and are no longer focusing only on support for negotiation and implementation of trade rules, but towards enabling developing countries to trade and attract investment and to seize the opportunities offered by trade and investment liberalization.

To calibrate and focus funding, donors, recipient countries, international, regional and national institutions and research entities are making various attempts to assess the actual demand for TRTA/CB by developing countries. While the overall demand may be difficult to estimate, many are studying the demand for assistance with regard to TBT, SPS and trade facilitation and trade capacity building.

The survey to assist developing country members to identify and prioritize their specific needs in the TBT field, carried out by the WTO Committee on Technical Barriers to Trade, for example, focuses only on the Agreement on Technical Barriers to Trade and its related technical assistance, rather than on overall trade-related problems (such as SPS, supply capacity, market access, trade facilitation and trade promotion). It provides a good overview of the needs expressed by the developing countries themselves. Specifically, a summary of the survey prepared by the Committee[17] identified needs for technical assistance related to quality, standardization and conformity assessment as follows:

(a) Infrastructure and capacity-building in relation to conformity assessment bodies (62 per cent);
(b) Infrastructure and capacity-building in relation to standardizing bodies (35 per cent);
(c) Improved market access and other activities, for example, more accessible and cost-effective facilities in conformity assessment systems of developed country members, system certification services for small and medium-sized enterprises, training on how to negotiate and participate in mutual recognition agreements and provision of technical literature in various areas (35 per cent);
(d) Participation in the work of relevant bodies, such as international standardizing activities (29 per cent).

The priority needs identified in the WTO survey were as follows:
(a) Conformity assessment (23 countries);

[17] G/TBT/W/193. Available on the Internet at http://docsonline.wto.org.

(b) Upgrading metrology infrastructure and laboratories (14 countries);
(c) Strengthening national standard bodies (13 countries);
(d) Participation in international standardization and conformity assessment activities (9 countries);
(e) Training on preparation of technical regulations based on TBT principles (8 countries);
(f) Improved coordination among government institutions dealing with the Agreement on Technical Barriers to Trade (7 countries);
(g) Assistance in mutual recognition agreements (7 countries);
(h) Accreditation of testing and calibration laboratories (7 countries);
(i) Support system for exporters (5 countries);
(j) Awareness of TBT and quality infrastructure (2 countries);
(k) Legal assistance in challenging trade regulations (1 country);
(l) Assistance in environmentally related TBT problems (1 country);
(m) Improved national export capacity (1 country).

It is also important to note that in a recent workshop on TBT-related technical assistance for developing countries, held on 18 March 2003, the outcome focused on the need for increased coordination at the national, regional and multilateral levels and the need to improve transparency. As to the substance of technical assistance delivery, implementation of the Agreement on Technical Barriers to Trade was seen as an essential goal of technical assistance, in particular raising awareness and the political profile of the Agreement. Furthermore, the Workshop concluded that there was a need for the receiving countries to ensure the sustainability of technical assistance, by providing adequate human resources and effective institutions.

Based on the experience of UNIDO, the initial amount of funds required to set up a full-scale quality infrastructure in a developing country, which is a prerequisite to reduce TBT and SPS, is in the order of US$ 5-10 million.

To qualify and quantify specific TBT and SPS for enterprises in developing countries, UNIDO carried out in 2002 a first test survey[18]

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[18] A total of 25 enterprises responded out of 61 approached for the survey. Around 100 main manufacturing exporters exist in the country. The survey showed that the cost of complying with the different technical regulations in Europe, the United States and Japan were estimated to add up to 15 per cent of product cost. A significant proportion of that amount, however, was attributed to the poor economics of short production runs (economy of scale). The add-on-cost for products exported to other GCC countries was estimated to be

among enterprises in Bahrain as part of the latest activities of a project entitled Introduction of total quality management and ISO[19] 9000 standards (DP/BAH/96/003). The survey identified some of the problems faced by Bahraini exporters while trading regionally and internationally, as well as an estimate of the cost implication of such non-tariff barriers. The returned questionnaires showed that the enterprises responding exported mainly to the Gulf Cooperation Council (GCC) region and shared common problems related to customs procedures and certification in the region. Technical barriers, however, existed on exports to the European Union, the United States and Japan. Some examples were given by the interviewed entrepreneurs of exports being discontinued owing to changes in regulations that, if complied with, would have increased costs to uncompetitive levels. The most common issues mentioned were standards, technical regulations and conformity assessment and assistance was therefore requested to tackle those issues.

Taking into account that demand for TRTA/CB is increasing, the question before the international community is how to get the financial resources needed to provide developing countries with the TRTA/CB that has been offered to them on paper.

In view of a declining flow of bilateral and multilateral official development assistance (ODA),[20] an opportunity is provided by the possible utilization of debt swap mechanisms for TRTA/CB, with an expected impact on trade and development and therefore on poverty reduction.

II. Analysis of external debt and debt-conversion

A. Overview of external debt management

Developing countries use external debt as a mechanism to address the gap between domestic savings and desired investment and the export-import gap. Such borrowing adds to the total resources available in the

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between 5 and 10 per cent, while the costs of conformity assessment procedures were rarely allocated to product costs and tended to be treated as overheads. These can be very high (in one case US$ 50,000 was quoted), typically as high as 15-20 per cent of the value of the product, although the average is probably half of that. Some of the interviewed enterprises indicated problems with certifiers and the high costs charged, while pre-shipment inspection costs were calculated at less than 1 per cent of invoice value.

[19] International Organization for Standardization.

[20] See annex II.

economy and enables higher expenditure than could otherwise be possible. If properly utilized, the resources can benefit a low-income country and contribute to its economic growth and poverty reduction. Nevertheless, when inefficiently allocated, the cost of borrowed external resources can contribute to macroeconomic management problems in the form of high or even untenable levels of external debt-servicing obligations. The use of borrowed external funds ought to contribute not only to an increased supply of goods and services to meet domestic needs, but—by increasing the country's capacity to export—adequate real resources to service the liabilities incurred.

In practice, debt management involves coordinating several major aspects of economic decision-making that have a bearing on loan contracting, loan utilization and debt servicing needs and capabilities, taking into account the institutional structure needed for effective debt management.

Global economic activity is mainly affected by trends in industrial countries; however, aggregate growth of developing countries also plays an important role. Historically the effects of downturns in the global economy on developing countries have been fairly diverse and are related also to their financial and indebtedness conditions. In the early 1980s, the developing countries followed the industrial countries into recession when, after the second oil crisis, the industrial countries constricted monetary policy to bring inflation under control. Higher interest rates provoked severe debt-service problems for oil-importing developing countries that had accumulated foreign debts; furthermore growth opportunities in heavily indebted countries were limited for a longer period. In the beginning of the 1990s, growth in developing countries accelerated, in spite of recessions in Europe and the United States, as a result of monetary transmission. International capital diversified away from industrial country markets to developing countries, encouraged by important reforms including the opening up of capital markets. This enabled many low-income countries to grow considerably until the crisis in East Asia, which brought a sudden reversal in capital markets.

Net capital flows to developing countries have declined since 1997 (primarily from the side of the private sector) when net flows to developing countries peaked at about US$ 325 billion or 5.5 per cent of the GDP of developing countries. For 2002, the sum of total net capital flows was US$ 192 billion (3.2 per cent of GDP).[21]

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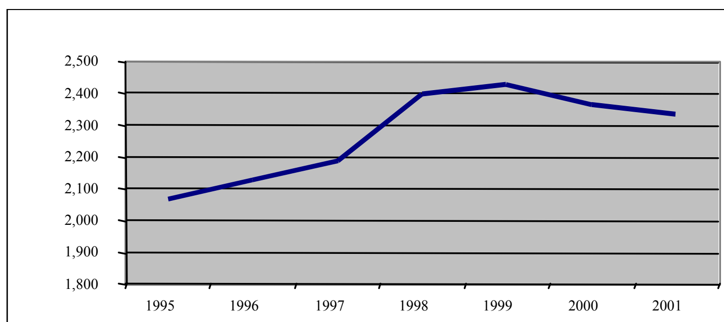
[21] Philip Suttle, "Financial flows to developing countries: recent trends and

The total external debt of developing countries in 2001 was US$ 2,332.1 billion,[22] down from US$ 2,363.6 and US$ 2,427 billion in 2000 and 1999 respectively (see figure 1 below).

Figure 1. Total external debt of developing countries, 1995-2001

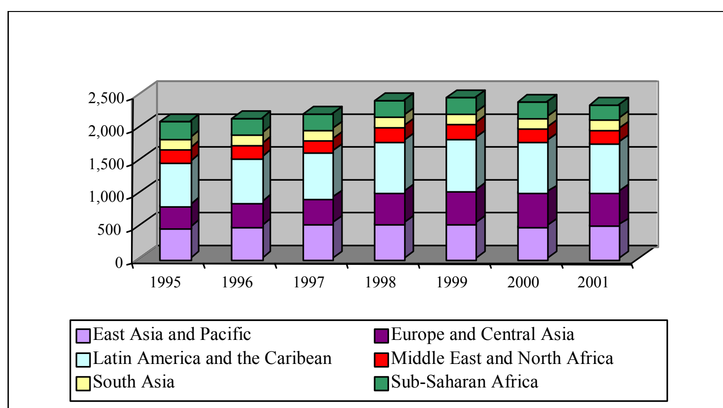
(*Billions of United States dollars*)



Source: World Bank, Global Development Finance 2003. Statistical appendix, External liabilities and assets (Washington, D.C., 2003)

Figure 2. Total external debt by region, 1995-2001

(*Billions of United States dollars*)



Source: World Bank, Global Development Finance 2003, Statistical appendix, External liabilities and assets (Washington, D.C., 2003).

The three largest regions of the developing world, East Asia and the Pacific, Europe and Central Asia and Latin America and the

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near-term prospects", *Global Development Finance 2003* (World Bank, 2003).

22 See annex I (country by country total external debt, actual basis).

Caribbean, account jointly for three thirds of the global external debt; Latin America alone holds an average of 32.33 per cent of the global external debt. The total external liabilities relative to GDP of these three developing regions are remarkably similar at about two thirds of GDP (see figure 2 above and table 1 below).

Table 1. External debt-equity ratios of developing countries, 1995 and 2001 (*Billions of United States dollars*)

Region	***1995***	***2001***	***External liabilities as percentage of GDP***
East Asia and the Pacific	461.9	504.1	65.0
Europe and Central Asia	349.5	497.8	66.8
Latin America and the Caribbean	649.6	764.9	67.7
Middle East and North Africa	211.8	200.6	42.5
South Asia	157.3	161.7	30.5
Sub–Saharan Africa	235.5	203.0	90.6
All developing countries	2,065.6	2,332.1	61.7

Source: World Bank, Global Development Finance 2003, Statistical Appendix: External liabilities and assets (Washington, D.C., 2003).

B. Types of long term debt

The debt owed by a country can be separated into different categories as set out below.

1. External debt versus domestic debt

External debt is defined in terms of a residency criterion; in this case it is debt owed by public and private entities resident in a country to non-residents. This type of debt has a direct impact on the balance of payments of the debtor country.

2. Classification by debtor: private and public debt

External debt may be owed by the public or by the private sector. In the first case it is called public debt and in the second case, private

debt. Debt owed by the private sector but guaranteed by the public sector is often included under public debt, and is often known as "public and publicly guaranteed debt".

3. Classification by creditor: commercial debt, bi- multi-lateral debt

Commercial debt is owed to private creditors such as commercial banks and suppliers. For some countries, commercial debt may be purchased on the secondary debt market at a discount from its original face value. The London Club[23] of commercial creditors negotiates commercial debt rescheduling agreements with debtor Governments.

Bilateral debt is owed to official bilateral creditors and includes both public and publicly guaranteed debt. It is possible to obtain two types of financing within bilateral debt: credits guaranteed by a Government or its institutions and direct loans from the Government or its institutions. Government loans may be classified under official development assistance (ODA) terms. ODA debt is concessional debt that is owed to bilateral Governments. Publicly guaranteed export credits are typically non-concessional debts owed to export credit agencies. Bilateral debt is often classified as Paris Club[24] or non-Paris Club debt, depending on whether the debt is covered by Paris Club rescheduling or not. The Paris Club is an ad hoc group of bilateral creditors (mostly OECD countries) that negotiates rescheduling agreements with debtor countries on a case-by-case basis.

Multilateral debt is owed to international financial institutions, such as the International Monetary Fund and the World Bank, or regional development banks. The Heavily Indebted Poor Countries (HIPC) Initiative was proposed by the International Monetary Fund (IMF) and the World Bank and agreed by Governments around the world in 1996. It provides a framework for action to resolve the external debt

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[23] The London Club is an ad hoc group of commercial banks exposed to third world debts. The name came into being since the "Club" sits in London, which is regarded as the financial nerve centre of transnational banks. In contrast with the Paris Club, there is no formal framework for restructuring commercial bank loans. The banks with the greatest exposure to a country seeking to reschedule its debts will form a committee to cater to the interest of all commercial banks with loans to that country.

[24] The Paris Club permanent members are Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russian Federation, Spain, Sweden, Switzerland, United Kingdom of Great Britain and Northern Ireland and United States of America. For more information see www.clubdeparis.org.

problems of HIPC countries,[25] envisaging action by the international financial community, including the multilateral institutions, to achieve debt sustainability. The Initiative allows a reduction of multilateral debt on a case-by-case basis, assuming that bilateral and commercial debt reduction have not enabled a debtor country to achieve debt sustainability.

C. Debt conversion

The international debt crisis of the 1980s led to the introduction of the debt swap mechanism for conversion of debt owed by developing countries that were unable to service their external debt.

A debt swap (or conversion) is a bilateral transaction between the creditor and the debtor that reduces the external liabilities of the debtor. In exchange for a reduction of external debt, the debtor country transfers to the creditor some of its assets or spends the equivalent amount, or an established portion of it, on the agreed conditions in the country, in local currency. Therefore it involves the voluntary exchange of debt for cash, another asset or a new obligation with different repayment terms.

Chile was the first country to establish an institutional debt-for-equity swap programme, in 1985. With this financial instrument, commercial debt owed by a developing country Government to a private sector creditor is purchased by an investor in the secondary debt market and then converted into an equity investment in the debtor country.

The debt swap mechanism was implemented in the non-profit sector with the first debt-for-environment swap in Bolivia in 1987, which led to the introduction of debt-for-development swaps in other sectors, such as child development, education and health.

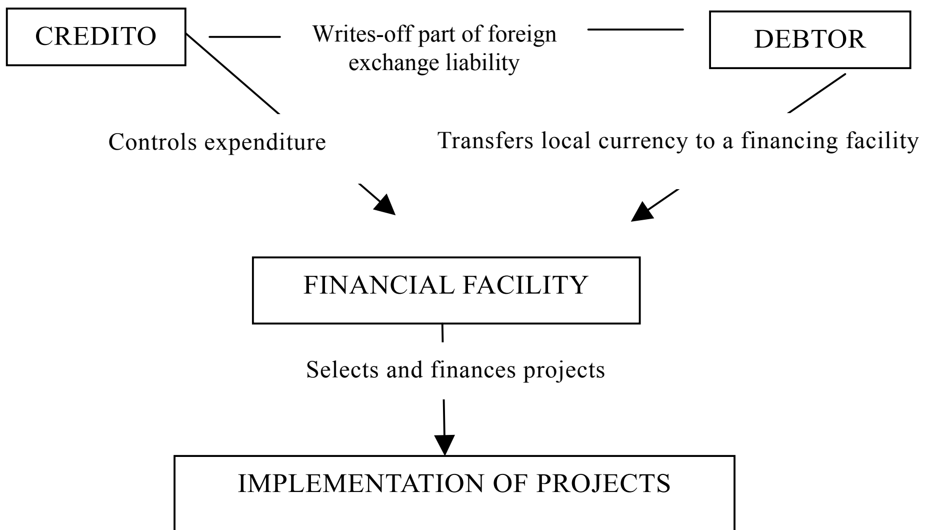
[25] At April 2003, the following countries were classified as being Heavily Indebted Poor Countries: Angola, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Kenya, Lao People's Democratic Republic, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Rwanda, Sâo Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda, United Republic of Tanzania, Viet Nam and Zambia. Debt sustainability analysis suggests that Angola, Kenya, Viet Nam and Yemen would have sustainable debt burdens after the application of traditional debt relief mechanisms, without special help from the HIPC Initiative.

Over 50 countries have implemented swaps in one form or another since 1985. In their first decade, the focus was on three-party debt swaps (through an intermediary) involving conversion of commercial debt or export credits. With the introduction of the Paris Club debt swap clause in 1990, bilateral debt also became eligible for swaps. The clause enables creditor countries to undertake additional debt swaps on a bilateral and voluntary basis.

1. Bilateral debt swaps

Applied mainly in official (Government to Government) debt, in bilateral debt swaps the debtor country enters into a transaction with its creditor directly. The creditor country agrees to forgive a portion of the foreign currency debt it holds, while the debtor country spends an agreed amount in domestic currency (see figure 3 below).

Figure 3. Bilateral debt swaps



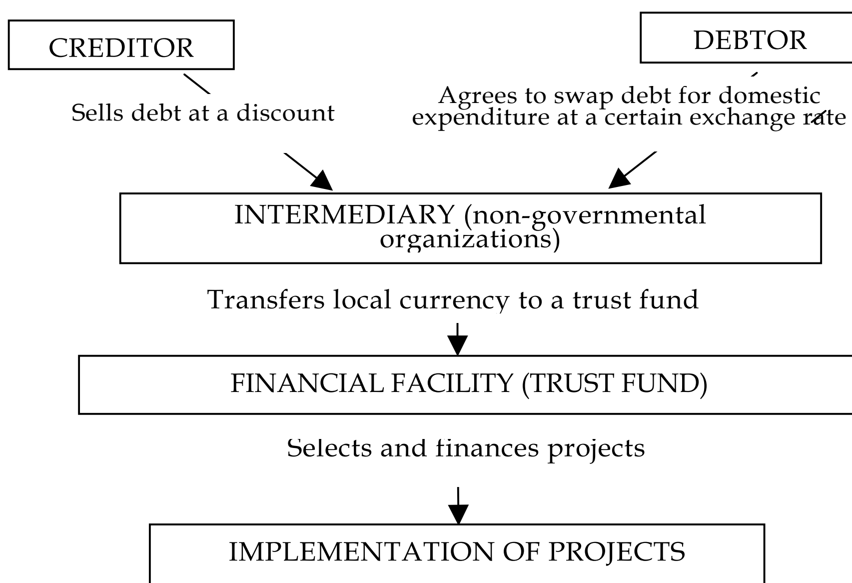
2. Multilateral swaps through intermediaries

In a multilateral swap through an intermediary, a third party buys the country's bad debts on the secondary market at a discount and retires them if the debtor makes a commitment to finance agreed projects.

The third parties in these transactions are usually non-governmental organizations (see figure IV below).

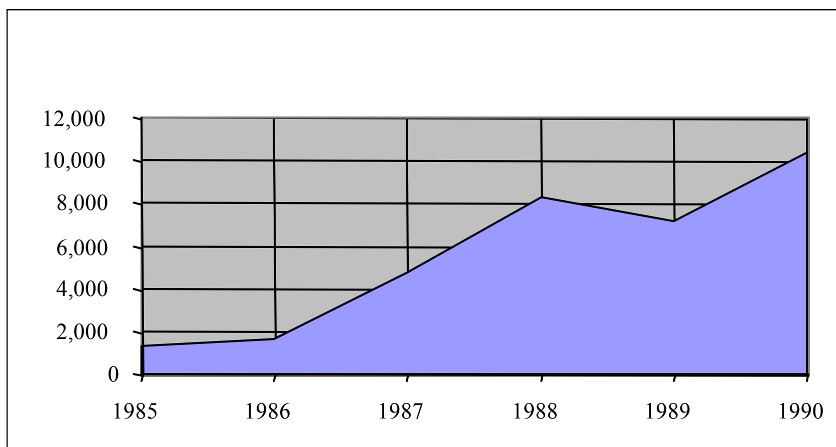
Debt owed to multilateral creditors has been excluded from swap transactions because of the preferred creditor status of multilateral institutions. The HIPC Initiative can be seen as an example of the conversion of multilateral debt. The Initiative offers the potential for substantial debt relief for eligible countries; debtor countries may postpone considering debt swap operations until the parameters for HIPC debt relief are established.

Figure 4. Multilateral debt swaps



Trading in sovereign debt increased significantly in the period 1986-1988 after several debtor countries, most of them Latin American, introduced debt-for-equity swap programmes. In addition, the Brady Plan, initiated in 1989, stimulated a further growth in the market. The amount of debt extinguished through official debt conversion programmes rose to US$ 10.3 billion in 1990, largely reflecting privatizations in Latin America (see figure 5 below).

Figure 5. Volume of debt conversions, 1985-1990
(Millions of United States dollars)



Source: World Bank, 1992.[26]

During the 1990s, the conversion market continued to be dominated by trading in debt owed by Latin American countries, with Argentina, Brazil, Chile and Mexico accounting for 70 per cent of all debt conversions between 1985 and 1994.[27] In 2001, 26 debt restructuring agreements (including debt buy-backs and exchanges) between debtor countries and their commercial creditors were completed, restructuring about US$ 104.9 billion of outstanding debt.[28]

In 2000, according to the Paris Club secretariat, an estimated US$ 4.2 billion of official debt has been swapped for local currency. Of this amount, US$ 2.2 billion was in the form of debt-for-equity swaps, US$ 1.6 billion was for debt-for-nature and debt-for-development swaps, while other swap arrangements accounted for the remaining US$ 0.4 billion (see figure 6 below).[29]

In the same period, Egypt's debt swaps accounted for some 40 per cent of the total value of all conversions (US$ 1.7 billion), while Morocco

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26 Woonki Sung and Rosaria Troia, "Developments in debt conversion programs and conversion activities", World Bank technical paper No. 170 (Washington, D.C., 1992).

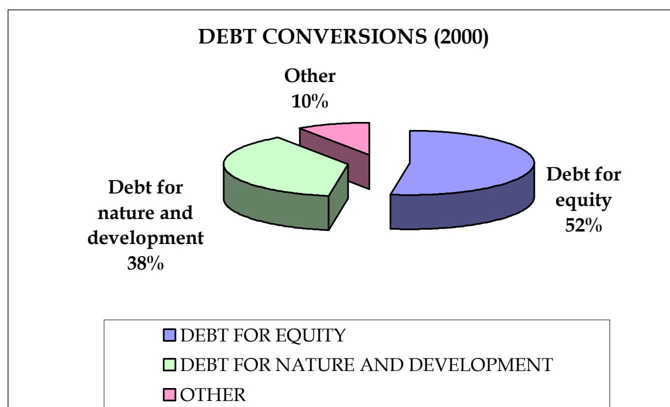
27 *World Debt Tables 1996, vol. I, Analysis and summary tables* (World Bank publication, 1996).

28 World Bank, Global Development Finance 2001, Appendix 2, Commercial debt restructuring.

29 World Bank, Global Development Finance 2001, Appendix 3, Official debt restructuring.

and Peru have both swapped approximately US$ 0.5 billion. Among the HIPC, Bolivia, Côte d'Ivoire and the United Republic of Tanzania have undertaken swaps accounting to more than US$ 100 million. France made the largest amount of exchanges (US$ 1.4 billion) followed by Switzerland (US$ 0.9 billion), Spain (US$ 0.4 billion) and Belgium and Germany (US$ 0.3 billion each).

Figure 6. Debt conversions by type, 2000



Source: World Bank, Global Economic Prospects 2003, Appendix 3.

D. Types of debt swaps

1. Debt-for-equity swaps

In debt-for-equity swaps, external debt is exchanged into local currency funding for equity investment in the developing country. Normally, the investor buys the debt at a discount from face value on the secondary market or from a bilateral export agency. The debtor Government then redeems the debt at a negotiated value in local currency instruments (e.g. bonds) that are used to invest in equity.

Trading in sovereign debt augmented considerably in 1986-1987 after several countries, mainly in Latin America, introduced debt-for-equity swap programmes as part of their London Club debt restructuring packages. The Brady Plan, introduced in 1989, stimulated further growth in the market as less liquid bank loans were exchanged for marketable securities called Brady bonds.

The peak in debt–for-equity swap activity in 1990 was linked to privatization programmes. From 1985 to 1996, debt-for-equity swaps

totalled US$ 38.6 billion, but their level declined in 1994.[30] One of the main differences between debt-for-equity and other types of debt conversion is that private investors are likely to transfer funds out of the country in the form of dividends or capital repatriation.

2. Debt-for-development swaps[31]

In this kind of conversion, a development organization (non-governmental organization or United Nations entity) purchases sovereign debt at a discount. The development organization negotiates with the debtor Government to exchange the debt at par or at an agreed discount for local currency funding for a development project approved by the country and implemented by the organization. Debt-for-development includes debt-for-child development, debt-for-education and debt-for-health swaps.

There are no comprehensive statistics on the amount of debt cancellation through these swaps. Finance for Development Incorporated and New York Bay International arranged swaps that collectively retired a total of US$ 739 million of developing country debt from 1991 to mid 2000.[32] UNICEF was the single largest non-profit investor in debt-for-development swaps, from 1989 to 1995 carrying out 21 debt swap transactions covering a total of US$ 199 million face value of debt into local currency funding of US$ 52 million for programmes in support of child and maternal development.[33]

3. Debt-for-environment swaps[34]

A debt-for-environment swap involves the cancellation of external debt of a developing country in exchange for local currency funding for nature conservation and environmental protection in that country.

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30 Global Development Finance 1998, vol. I, Analysis and summary tables (World Bank publication, 1998).

31 The terms debt-for-development and debt-for-aid are used interchangeably.

32 Global Development Finance 1999 (World Bank publication, 1999) and New York Bay International statistics for 1999-2000.

33 Melissa Moye, "Overview of debt conversion", Debt Relief International, 2000. Available on the Internet at www.dri.org.

34 Debt-for-environment is known also as debt-for-nature.

Typically, a conservation organization purchases sovereign debt at a discount in the secondary debt market or from a bilateral export credit agency and then negotiates with the debtor country Government for cancellation of the debt in exchange for payment in local currency or bonds, which is used to implement environmental protection programmes.

Since the first debt-for-nature swap in 1987, it is estimated that close to 30 countries have benefited from such programmes, which have generated over US$ 1 billion in funding for the environment.[35] The best known and advanced case of a bilateral debt-for-environment swap is the conversion agreed between Poland and its Paris Club creditors (France, Italy, Norway, Sweden, Switzerland and United States) in the years 1990-2000. EcoFund established in Poland has mobilized resources equivalent to US$ 571 million through swaps with its creditors and grants from donor countries, an amount that is approximately equal to the value of all other debt-for-environment conversions worldwide so far.

E. Advantages and disadvantages of debt swaps

1. Advantages

From the debtor perspective the main advantages of debt conversion are as follows:

(a) **Debt reduction**, which occurs as the conversion retires debt at a discount from face value, also expressed as the redemption price or rate of conversion. The lower the redemption price paid (or the higher the discount), the more debt reduction that is achieved through the conversion. In Chile, the debt swap programme helped to reduce the debt overhang, thus hastening a return to international capital markets. Through its debt-for-development programme, Mexico was able to retire costly Brady bonds with "Value Recovery Rights" paying additional dividends in the event that revenues from oil exports exceeded certain levels. Nevertheless, in most countries, although debt swaps have made a contribution to debt reduction, their

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[35] Introductory guide for implementing debt-for-environment swaps for national desertification funds, chap. I, Introduction to debt-for-environment swaps (United Nations Development Programme). Available on the Internet at www.undp.org/seed/unso/concepts&programs/pub-htm/swap-eng.htm.

quantitative influence has remained limited owing to the large volume of debt;

(b) **Positive impact on the balance of payments**, by reducing debt service payments in foreign currency. The use of swaps to encourage exports may also improve the trade balance. In the case of debt-for-equity swaps, this impact can be reduced by future demand for foreign exchange for the repatriation of dividends, profit and capital;

(c) **Investment promotion**, by being designated to priority sectors. In Argentina, debt-for-equity swaps were permitted provided the local currency was invested in export-oriented investments. Debt conversion can also be used as an incentive to promote privatizations;

(d) **Increasing funding for development programmes**, when countries such as Madagascar and Mexico have favoured debt-for-development and debt-for-nature swaps by offering attractive redemption rates for not-for-profit investors. It can also stimulate the creation of local currency environmental or social funds. For instance, in Mexico the Global Environment Facility made a major contribution to a fund for protected areas after the Government had agreed to fund a multi-million dollar debt-for-nature swap.

2. Disadvantages

There are also potential disadvantages of debt swaps, such as:

(a) **The fiscal cost of prepayment of debt**, since debt usually requires payment in local currency, which might result in a lack of fiscal resources. Debt conversion is therefore unattractive for countries with elevated burdens of domestic debt since it transforms external into domestic debt;

(b) **A risk of inflation** as a result of excessive injections of local currency into the economy, which is one reason why some debt programmes in Latin America were suspended. Such a negative effect can be mitigated by placing a ceiling on the amount of local currency paid through debt swaps. It ought to be noted that debt-for-equity swaps for the privatization of public assets does not have an inflationary impact;

(c) **Transaction costs** in debt swap transactions are complex and Governments may need to dedicate significant resources to negotiating, documenting and monitoring transactions. In some cases, debtor Governments have contracted foreign financial advisers;

(d) **The risk of corruption by investors**, meaning that the debtor country should supervise the use of debt conversion proceeds in order to prevent "round-tripping", whereby investors transfer local currency generated out of the debtor county for illegal gain;

(e) **Policy conditionality**, which occurs when swaps result in the transfer of local assets to foreign ownership or control, particularly in the case of debt-for-equity swaps for privatization of public enterprises;

(f) **Subsidization of investment**, which occurs when the debtor Government is subsidizing an investment that would have occurred anyway.

F. Future prospects for debt swaps

Some critics have contended that debt swaps have been failures because their contribution to debt reduction has not been very significant. Nevertheless, experience over the years has shown that debt-for-equity and debt-for-development swaps have been most effective when they have been perceived as a tool to accomplish specific objectives rather than as an instrument to solve a country's debt problem. It is, therefore, important to take into account some basic principles for implementing debt swaps:

(a) Debt swaps are best designed as part of a country's overall debt management strategy;

(b) Debt swaps are most effective when they support a country's investment priorities and are used to attract additional investment to the country;

(c) Debt swaps require coordination among debtor country government agencies;

(d) Debt swaps can be designed to promote participation by civil society in funding and administrating development or environmental programmes.

III. A proposal: debt swaps for financing TRTA/CB

A. Debt swaps and trade

<u>Debt conversion mechanisms can be applied to finance TRTA/CB.</u> However, making funds available needs to be matched with ongoing and new market access and trade facilitation mechanisms in order to have a catalytic effect on debt conversion creating practical and

effective ways to facilitate trade. Specifically, in view of the growing problems of TBT and SPS faced by developing countries, the debt swap mechanism could provide a good source of funding and transform a formal commitment into concrete action. It is also important to stress that debt swaps are usually more effective when used as a tool to accomplish specific, concrete and measurable objectives, rather than as an instrument to solve a country's debt problem. In the concept developed here, debt swaps could help economic and social development in practical terms by increasing the participation of beneficiaries in the multilateral trading system and access to export markets.

It was analysed above that, as a result of the Doha Ministerial Conference and the Doha Development Agenda, the international community is making an effort to assess the needs for TRTA/CB and to allocate resources actually to help developing countries to overcome the constraints they face to integrate into the world trading system, facilitate trade, increase transparency and enhance governance. It is obvious that both donors and recipients would need to invest appreciable institutional and personnel resources, not to speak of funds.

While needs are being identified, funds allocated and programmes of assistance developed and implemented, there is still a substantial gap between the needs and the available resources.

B. Estimate of funds available through debt swaps

The present section attempts to develop different scenarios that will help to show how the debt swap mechanism might contribute to alleviating debt and, at the same time, induce countries to tackle problems related to TRTA/CB (see figure 7 below).

Figure 7. Potential release of funds for trade-related technical assistance and capacity-building as percentage of overall external debt (*United States dollars*)

		Allocated percentage		
	Total	***0.5***	***1***	***20***
Debt of developing countries, 2001	2,332 billion	11.7 billion	23.3 billion	
Debt converted, 2000	4.2 billion	21 million	42 million	1.05 billion

Based on $2,332 billion as the amount of external debt owed by developing countries at the end of 2001, the worst-case scenario of conversion of only 0.5 per cent of the total external debt would generate an amount of US$ 11.7 billion to finance TRTA/CB. In the best-case scenario of 1 per cent of total debt swapped, the amount directed to finance TRTA/CB would be US$ 23.3 billion.

Using the figures of debt converted during the year 2000, without any hypothesis of increase or decrease of the amount, a different perception of the funds that could be made available is obtained. In 2000, US$ 4.2 billion were converted (0.18 per cent of the total external debt), while if 0.5 per cent of that amount had been converted to finance TRTA/CB, some US$ 21 million would have been dedicated to that aim. If 1 per cent of the debt converted had been dedicated to TRTA/CB, it would have amounted to US$ 42 million. In the best-case scenario of 1 per cent, the amount transferred to finance TRTA/CB would have amounted to US$ 1.05 billion, representing an optimal and optimistic way to help developing countries to solve their trade-related problems.

These simple calculations show that the amounts generated by debt conversions could provide substantial funding for TRTA/CB. Such funds could be an extremely important way to obtain at least part of the funds needed by developing countries to integrate into the multilateral trading system, implement a trade strategy within a general national development and poverty reduction strategy and, specifically, to overcome emerging trade-related constraints such as problems related to SPS and TBT.

IV. Experience of UNIDO: debt swaps for TBT and SPS - the case of Italy and Egypt

In 2003, UNIDO developed a TRTA/CB project entitled Egypt: traceability of agro-industrial products for the European market.[36] The project is linked to a debt swap agreed between Italy and Egypt (see annex III) and to the Italian initiative for trade facilitation called the "green corridor". The project and the financing have been formally approved and implementation will commence in the third quarter of 2003 upon completion of the necessary administrative action.

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[36] The project was developed and negotiated under the leadership of P. Beltrami of the UNIDO Investment and Technology Promotion Office, Bologna, Italy.

A. Project description

1. Project summary

The main outline of the traceability project in Egypt is as follows:

Problem addressed: Conformity with European Community regulation 178/2002 on food safety, which requires that all countries exporting food products to Europe must have a traceability system in place by 1 January 2005.

Project concept: UNIDO and the Ministry of Foreign Trade of Egypt,[37] in cooperation with the Italian Embassy in Cairo, prepared a project entitled Egypt: traceability of agro-industrial products for the European market. The project, its budget and UNIDO as implementing agency have been approved by the counterpart fund.

Funding: The project has a technical assistance component implemented by UNIDO (approximately US$ 2.6 million) and a financial assistance facility (approximately US$ 4.6 million) to be used for co-financing the acquisition of know-how and technology for implementing the traceability system.

Expected results: Enterprises will be able to continue exporting in compliance with the European Community regulation. Conformity infrastructure and staff skills will be strengthened. Egyptian exporters will be more connected with European producers and the commercial chain, as traceability is to be assured along the whole chain involving in the project enterprises in Egypt and the European Union.[38] National capability to deal with

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[37] The Ministry of Foreign Trade is responsible for improving trade relations worldwide, protecting the rights of exporters and promoting Egyptian access to foreign markets, including testing of export and import products.

[38] Italy is the main importer of Egyptian food products. The project would cover assistance to Egyptian companies, while Italian importers will have access to Italian funds for implementing the traceability system in Italy. This would facilitate joint implementation of a compatible system along

technical regulations will be upgraded. UNIDO will convert support costs and fees for international experts from Egyptian pounds to dollars or euros.

The project is meant to support Egyptian producers and exporters of agricultural and agro-industrial products to Europe to comply with the technical regulations and standards and specifically with the European Council regulation on food safety (regulation (EC) No. 178/2002). The project was developed with the support of the Italian Embassy in Cairo. Companies and public institutions will be assisted in their efforts to meet the requirements set by the European legislation through technical and financial assistance. The initiative will prevent legislation meant to protect consumers from becoming a technical barrier to trade and so an obstacle to the development of Egyptian exports and access to foreign markets. The project includes a technical assistance component together with a funding facility for acquisition of know-how and technology.

Exporters and importers and distributors, that is, all those involved along the whole production and distribution chain across the borders, will be assisted through upgrading and jointly establishing traceability schemes. Building the traceability schemes will require transfer of technology and investment between Egyptian and European enterprises and support institutions that are involved in trade between Italy and Egypt, as Italy is Egypt's main commercial partner in the sector.

The project has been requested and sponsored by the Egyptian Ministry of Foreign Trade, which works to improve trade relations worldwide, to protect the rights of exporters and to sustain future access for Egyptian exports to foreign markets, with the overall objective to increase exports substantially.

The Ministry comprises the following sections:

(i) the Egyptian Commercial Service, which represents the Ministry abroad and deals with the needs of the international market;

(ii) the Egyptian International Trade Point, which publishes information on Egypt on its web site and prepares guides to electronic commerce and other transactions;

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the entire cross-border distribution chain.

(iii) the General Organization for Export and Import Control, which is responsible for monitoring samples of export and import products and is experiencing major development of its laboratories and standards of supervision;

(iv) the Foreign Trade Sector, which is involved in policy-making and review of agreements and international markets as potential areas for trade;

(v) the General Organization for International Exhibitions and Fairs, which is involved in the organizational structure, human resources, legal provisions and technology relating to trade fairs; and

(vi) the Egyptian Export Promotion Center, which is the regional training centre for foreign trade, working in collaboration with the Japan International Cooperation Agency to train exporters and university graduates in foreign trade issues.

The various sectors of the Ministry are thus responsible for the bulk of trade-related policy-making. The Ministry needs to be familiar with the continuously changing standards and conformity assessment procedures. Moreover, it is responsible for liaising with the various governmental and other entities through its commodity councils, the Foreign Trade Council and the ministerial forum to lay out its visions and receive feedback in trade promotion. The Ministry is also responsible for representing Egypt in WTO and for making sure that Egypt works in conformity with WTO. In addition, the Ministry is responsible for conducting regional and other bilateral trade agreements that would further enhance its trade and investment environment.

2. Purpose of the project

Quality in the post harvest sector has always been one of the major issues of concern for the agro-industrial sector in Egypt. Requirements for the cold chain, product processing, quality control and certification and accreditation of certification bodies and laboratories for export products are currently the most important challenges the country and its companies are facing to maintain and expand their role as an international food supplier.

UNIDO, through its headquarters in Vienna, its regional office based in Cairo, its Investment and Technology Promotion Office based in Italy and its Investment Promotion Unit based in Cairo, has already established a close collaboration with the key Egyptian institutions and companies operating in the sector. UNIDO’s experience in the country

and worldwide and its capability to integrate technical and financial assistance are considered important assets for the initiative.

UNIDO was therefore chosen as implementing agency by the Egyptian Ministry of Foreign Trade. Within UNIDO, the Investment and Technology Promotion Office in Italy coordinated the activities and provided the necessary technical assistance, in cooperation with the UNIDO staff and branches competent in trade capacity building, market access and development of agro-industries.

3. Immediate objective and expected outputs

The main objective of the project is to support Egyptian producers and exporters of agro and agro-industrial products and the country's conformity assessment institutions to comply with the new European Community regulation on food safety. During a pilot phase, the procedures, methodology and rules to be adopted will be developed and disseminated to national experts in the private and public sector. Data will be gathered on the quality, origin and destination of products and stored and managed in a national database, which will be made available to national and international stakeholders. Internationally accredited certification bodies and laboratories will certify the procedures adopted by the companies. The development of national certification bodies and laboratories and their international accreditation will also be strongly supported.

Training will be provided, focusing on the European Community regulation and other international technical regulations, as well as on traceability schemes and technologies and certification and accreditation. UNIDO will also provide advice on the implementation protocol of the investment fund (financial assistance facility) managed by the Egyptian counterpart.

Expected results can be summarized as follows:

(a) **Traceability**. European stakeholders will be able to describe and verify all steps undertaken by the product at producer and distributor level. This information is the basic element required by the traceability scheme. Once ready, the information can be made available to consumers, consumer associations or simply European buyers and distributors that, when approaching Egyptian producers, will need guarantees on product quality and origin;

(b) **Database development**. One database and software tested on the selected products will be made available to European stakeholders. The database should contain all the information on origin and destination of the product and is the tool to make information available to inspection and control authorities and foreign stakeholders;

(c) **Training**. At least 40 national experts will be trained on traceability and thus will be able to assist producers in their efforts for certification. Experts will be trained and coordinated to provide technical assistance to producers, processors and exporters spread across the country in their effort to meet the requirements of the international legislation. Ideally, this group of experts is expected to contribute to the development of the consulting sector by establishing themselves or cooperating with consulting and certification firms;

(d) **Certification**. At least two certification bodies will be internationally accredited for traceability in Egypt. The possibility to certify traceability of products through national certification bodies would demonstrate a national capability to deal with this as well as similar issues. Today, strong exporters are already tapping into the international market for experts on quality and certification. The process, although positive by itself, is very expensive because of international fees and does not allow the development of national expertise. Indeed, the know-how in most instances remains abroad. Local certification bodies could lower the costs and guarantee a broader number of companies assisted;

(e) **Financial assistance facility**. The operation of a financial assistance facility in Egyptian pounds (LE) to support adoption of traceability schemes, including investment in technology, certification and accreditation. Financial support will be crucial in order to guarantee to producers and exporters, as well as support institutions, the technology and human and technical resources that will be necessary to enable them to comply with international regulations. It is expected that at least 50 per cent of the funds will be utilized before the end of the project, indicating that the project has achieved the preliminary targets and that Egyptian enterprises are implementing traceability schemes;

(f) **Network**. At least one national institution will be connected to the network of the European Food Safety Authority, which would prove that a strong connection between Egyptian and European authorities had been established and guarantee a prompt sharing of

information on rules and requirements in terms of food safety and, consequently, on market demand;

(g) **Integration**. Integration of the project with other initiatives in the field of quality improvement and product labelling will be sought. While the operational activities will focus specifically on traceability, connection with other initiatives in the sector of quality control and certification will be rigorously sought.
Through the assistance provided to the agro-industrial sector, the project has an indirect effect on rural development, poverty alleviation and job creation. The project addresses the eighth Millennium Development Goal of developing a global partnership for development, calling for an "open, rule-based, predictable, non-discriminatory trading and financial system".

B. Project funding

The overall budget of the initiative amounts to LE 45,672,060 (equivalent to US$ 7.25 million). Egyptian authorities have officially approved the project concept, the budget allocation and the selection of UNIDO as implementing agency. The budget covers (a) technical assistance in an amount of LE 15,897,200 (approximately US$ 2.65 million), including UNIDO support costs; and (b) a financial assistance fund in an amount of LE 27,600,000 (approximately US$ 4.6 million). The financial assistance fund will be managed by the Egyptian counterpart with technical assistance provided by UNIDO.

The evaluation process for the project was defined by a management committee under a debt-for-swap fund, named the counterpart fund and the project concept, budget, implementing agency and project document have been approved by the management committee. The last action before starting the implementation is the signature of the project implementation agreement, which is expected to take place in the third quarter of 2003.

The project is innovative as the funds are provided by Egypt under a debt-for-development swap agreement between the Governments of Italy and Egypt.

The project has been funded through an agreement on a debt-for-development swap between Italy and Egypt, signed on 19 February 2001. The debt-swap has the following features:

a. The debt swap was placed in a counterpart fund in Egyptian Pounds and debt payment instalments due to Italy will be cancelled upon evidence of disbursement by Egypt;
b. The counterpart fund allows financing of “jointly agreed development projects”;
c. Such projects are to aim at promoting socio-economic development and/or environmental protection and priority will be accorded to projects aimed at rural development, poverty alleviation and food security in a context of sustainable resource use;
d. The counterpart fund also allows projects to be implemented by United Nations entities (with emphasis on the Rome-based organizations (Food and Agriculture Organization of the United Nations, International Fund for Agricultural Development and World Food Programme)) for which there is an annex to the agreement, owing to their technical know-how and their capability to mobilize hard currencies as needed;
e. A management committee was set up to select projects, monitor implementation and verify achievements.

C. Matching Italian Trade Facilitation Scheme: Green Corridor

The project is connected to a trade facilitation initiative, to “green corridor agreement”, signed in February 2002 by Italian Agriculture Minister, Gianni Alemanno, and his Egyptian counterpart, Youssef Waly. The agreement creates an opening for the exchange of fresh produce, technologies and farm labour between Italy and Egypt. In brief, the agreement covers the following points:

a. Phyto-sanitary questions. How to put in place every possible form of cooperation between the respective phyto-sanitary authorities in order to eliminate unnecessary regulatory procedures and ensure the rapid approval of the quality of agricultural and food products;
b. “Green corridor”. The Ministers agreed to facilitate the reciprocal exports of agricultural and food products within the framework of the rules established by the European Community;
c. Communication. In order to establish a preferential line, the Ministers agreed that communication would be handled by the Egyptian Agricultural Affairs Office in Rome and the Italian Embassy in Cairo.

Following the signature of the agreement, many contacts and positive developments between the two countries have taken place, even if some implementing issues are still open. Together with phyto-sanitary aspects, due attention will be given to quality, origin, handling and distribution of agro-industrial products. The issue has assumed relevance since the launch of European Council regulation 178/2002, which requires mandatory adoption of a traceability scheme for all feed and ingredients traded within the European Union. In brief, all edible products, irrespective of their origin, must be accompanied by detailed information on source, production system and processing procedures to allow consumers and sanitary and inspection institutions to trace backwards and forwards the distribution stream of the product. As far as quality is concerned, buyers and big distribution chains will be required to identify and present to Egyptian producers the features that the European market and consumers require.

V. Concluding remarks

Based on the successful experience of UNIDO in the TRTA/CB project for Egypt, which utilized as a source of funding a debt converted into trade-related development assistance, the present paper assessed the entire relationship between trade and development, the needs for assistance and debt swap mechanisms.

Trade is an important means to achieve economic growth and poverty reduction. Based on trends for debt conversion over the last years, there is clearly an opportunity to direct conversion mechanisms towards financing TRTA/CB, enabling recipient countries to mobilize resources for improving productive capacity and thus benefit from trade opportunities and improve their indebtedness conditions. This is to be seen as a way concretely to help integration of developing countries into the multilateral trading system and the global economy.

The paper was also prepared taking into account the issues to be addressed at the WTO Ministerial Conference, in Cancun. It showes a path that could be pursued to apply a concept and a model that proved to be feasible: cooperation between a donor (Italy) and recipient country (Egypt) and an international specialized agency (UNIDO) to overcome TBT and SPS and to foster countries'economic and social development.

VI. Annexes

Annex I: Total external debt of developing countries as at December 2001

Present value basis (millions of United States dollars)

Country	*Total external debt (nominal terms)*	*Present value of total external debt*	*Present value of total external debt (percentage)*
Albania	1,094	762	69.7
Algeria	22,503	21,694	96.4
Angola	9,600	9,348	97.4
Argentina	136,709	148,847	108.9
Armenia	1,001	654	65.4
Azerbaijan	1,219	994	81.6
Bangladesh	15,215	9,712	63.8
Barbados	701	739	105.5
Belarus	869	819	94.3
Belize	708	765	108.0
Benin	1,665	840	50.5
Bhutan	265	245	92.4
Bolivia	4,682	1,995	42.6
Bosnia and Herzegovina	2,226	1,591	71.5
Botswana	370	307	83.1
Brazil	226,362	237,596	105.0
Bulgaria	9,615	8,355	86.9
Burkina Faso*	1,490	716	48.1
Burundi	1,065	648	60.9
Cambodia	2,704	2,301	85.1
Cameroon	8,338	4,928	59.1
Cape Verde	360	231	64.3
Central African Republic	822	536	65.2
Chad	1,104	628	56.9
Chile	38,360	37,30	98.4
China	170,110	164,068	96.4
Colombia	36,699	37,554	102.3
Comoros	246	177	72.0
Congo	4,496	4,232	94.1
Costa Rica	4,586	4,799	104.7
Côte d'Ivoire	11,582	10,647	91.9
Croatia	10,582	10,708	99.7
Czech Republic	21,691	21,343	98.4

Country	*Total external debt (nominal terms)*	*Present value of total external debt*	*Present value of total external debt (percentage)*
Democratic Republic of the Congo	11,392	10,610	93.1
Djibouti	262	177	67.4
Dominica	206	181	87.8
Dominican Republic	5,093	4,836	95.0
Ecuador	13,910	14,505	104.3
Egypt	29,234	25,075	85.8
El Salvador	4,683	4,593	98.1
Equatorial Guinea	239	193	80.8
Eritrea	410	235	57.3
Estonia	2,852	2,942	103.1
Ethiopia	5,697	2,915	51.2
Fiji	188	175	93.0
Gabon	3,409	3,335	97.8
Gambia	489	265	54.2
Georgia	1,714	1,066	62.2
Ghana	6,759	3,945	58.4
Grenada	215	190	88.5
Guatemala	4,526	4,333	95.7
Guinea	3,254	1,732	53.2
Guinea-Bissau	668	424	63.4
Guyana	1,406	882	62.7
Haiti	1,250	817	65.4
Honduras	5,051	3,157	62.5
Hungary	30,289	28,427	93.9
India	97,320	67,760	69.6
Indonesia	135,704	131,357	96.8
Iran (Islamic Republic of)	7,483	6,725	89.9
Jamaica	4,956	5,361	108.2
Jordan	7,480	6,894	92.2
Kazakhstan	14,372	14,265	99.3
Kenya	5,833	4,412	75.6
Kyrgyz Republic	1,717	1,326	77.3
Lao People's Democratic Republic	2,495	1,295	51.9
Latvia	5,710	5,548	97.2
Lebanon	12,450	13,451	108.0
Lesotho	593	406	68.5

Country	*Total external debt (nominal terms)*	*Present value of total external debt*	*Present value of total external debt (percentage)*
Liberia	1,978	1,928	97.0
Lithuania	5,248	5,185	98.8
Madagascar	4,160	2,045	49.2
Malawi	2,602	1,486	57.1
Malaysia	43,351	46,030	106.2
Maldives	235	177	75.4
Mali	2,890	1,407	48.7
Malta	1,531	1,357	88.6
Mauritania*	2,164	1,407	65.0
Mauritius	1,724	1,658	96.1
Mexico	158,290	172,899	109.2
Moldova	1,214	1,126	92.7
Mongolia	885	606	68.5
Morocco	16,962	14,694	86.6
Mozambique	4,466	916	20.5
Myanmar	5,670	4,032	71.1
Nepal	2,700	1,567	58.0
Nicaragua	6,391	4,309	67.4
Niger	1,555	1,025	65.9
Nigeria	31,119	30,882	99.2
Oman	6,025	5,816	96.5
Pakistan	32,020	25,457	79.5
Panama	8,245	9,020	109.4
Papua New Guinea	2,521	2,188	86.8
Paraguay	2,817	2,666	94.6
Peru	27,512	28,114	102.2
Philippines	52,356	55,262	105.6
Poland	62,393	59,268	95.0
Romania	11,653	11,067	95.0
Russian Federation	152,649	146,725	96.1
Rwanda	1,283	670	52.2
Samoa	204	142	69.5
Sậo Tomé and Príncipe	313	100	32.0
Senegal	3,461	2,406	69.5
Serbia and Montenegro	11,740	11,711	99.7
Seychelles	215	212	98.7
Sierra Leone	1,188	834	70.2
Slovak Republic	11,121	10,879	97.8
Solomon Islands	163	112	68.7

Country	*Total external debt (nominal terms)*	*Present value of total external debt*	*Present value of total external debt (percentage)*
Somalia	2,531	2,277	89.9
South Africa	24,050	23,379	97.2
Sri Lanka	8,529	6,909	81.0
Saint Kitts and Nevis	189	170	90.1
Saint Lucia	238	229	96.3
Saint Vincent and the Grenadines	194	156	80.2
Sudan	15,348	14,547	94.8
Swaziland	308	297	96.6
Syrian Arab Republic	21,305	20,837	97.8
Tajikistan	1,086	853	78.6
Thailand	67,384	66,760	99.1
The former Yugoslav Republic of Macedonia	1,423	1,170	82.2
Togo	1,406	999	71.1
Tonga	63	42	66.9
Trinidad and Tobago	2,422	2,609	107.7
Tunisia	10,884	10,829	99.5
Turkey	115,118	116,685	101.4
Turkmenistan	-	-	-
Uganda	3,733	1,151	30.8
Ukraine	12,811	11,483	89.6
United Republic of Tanzania	6,676	1,342	20.1
Uruguay	9,706	9,872	101.7
Uzbekistan	4 ,627	4,444	96.0
Vanuatu	66	37	55.6
Venezuela	34,660	37,467	108.1
Viet Nam	12,578	10,933	86.9
Yemen	4,954	3,558	71.8
Zambia	5,671	4,036	71.2
Zimbabwe	3,780	3,493	92.4
Total	**2 ,233,102**	**2 ,144,268**	

Source: *Global Economic Prospects 2003, Statistical Appendix*, table A.43: Total external debt of developing countries as at December 2001, present value basis (World Bank, 2003).

- Not available.

* Enhanced HIPC assistance will be accounted for in global development.

Annex II: The least developed country indebtedness ratios and country classification*

Country	*Classification** of countries by level of external debt and income*	*Export of goods and services (as percentage of total debt service) (average 1999-2001)*
Angola	Severely indebted, low income	3.70
Bangladesh	Less indebted low income	12.50
Benin	Severely indebted, low income	7.14
Bhutan	Moderately indebted, low income	25.00
Burkina Faso	Severely indebted, low income	7.14
Burundi	Severely indebted, low income	2.56
Cape Verde	Less indebted, middle income	16.67
Central African Republic	Severely indebted, low income	8.33
Chad	Severely indebted, low income	10.00
Comoros	Severely indebted, low income	25.00
Eritrea	Moderately indebted, low income	50.00
Ethiopia	Severely indebted, low income	5.26
Gambia	Severely indebted, low income	11.11
Guinea	Severely indebted, low income	7.14
Guinea-Bissau	Severely indebted, low income	2.63
Haiti	Moderately indebted, low income	20.00
Lesotho	Less indebted, low income	7.69
Madagascar	Severely indebted, low income	11.11
Malawi	Severely indebted, low income	12.50
Mali	Moderately indebted, low income	9.09
Mauritania	Severely indebted, low income	4.35
Mozambique	Less indebted, low income	9.09
Nepal	Less indebted, low income	20.00
Niger	Severely indebted, low income	11.11
Rwanda	Severely indebted, low income	7.69
Sâo Tomé and Príncipe	Severely indebted, low income	4.35
Solomon Islands	Less indebted, low income	25.00
Sudan	Severely indebted, low income	33.33
Togo	Moderately indebted, low income	14.29
United Republic of Tanzania	Moderately indebted, low income	9.09
Uganda	Moderately indebted, low income	14.29
Yemen	Less indebted, low income	20.00
Zambia	Severely indebted, low income	7.14

Source: World Trade Organization web page and World Bank, *Global Economic Prospects 2003*, Statistical appendix: Key debt ratios and country classifications, 2003.

* Countries with available data. Other least developed countries: Afghanistan, Cambodia, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Kiribati, Lao People's Democratic Republic, Liberia, Maldives, Myanmar, Senegal, Sierra Leone, Somalia, Tuvalu and Vanuatu, according to UNCTAD, *The Least Developed Countries Report, 2002*.

** Income and indebtedness World Bank classification.

World Bank classification of income and indebtedness

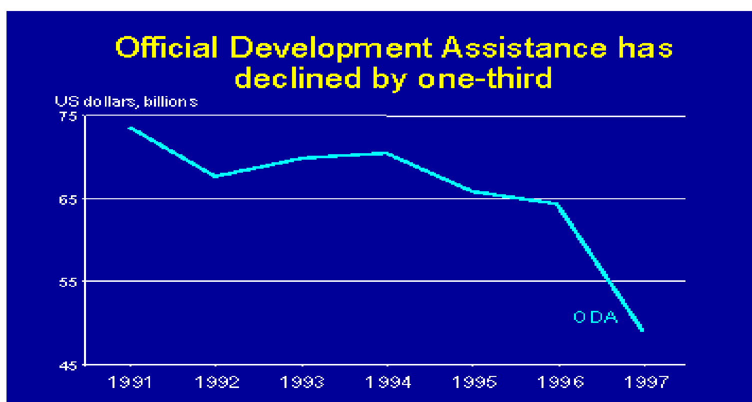
Income classification	**Indebtedness classification***		
	PV/XGS > 220% or PV/GNI > 80%	PV/XGS < 220% but > 132% or PV/GNI < 80% but > 48%	PV/XGS < 132% and PV/GNI < 48%
Low income: GNI per capita < $745	Severely indebted low-income countries	Moderately indebted low-income countries	Less indebted low-income countries
Middle income: GNI per capita between $746 and $9,205	Severely indebted middle-income countries	Moderately indebted middle-income countries	Less indebted middle-income countries

Source: World Bank, Global Economic Prospects 2003, Statistical appendix: Key debt ratios and country classifications, 2003.

* PV/XGS: Present value of debt service to exports of goods and services.
PV/GNI: Present value of gross national income.

Annex III: Official development assistance

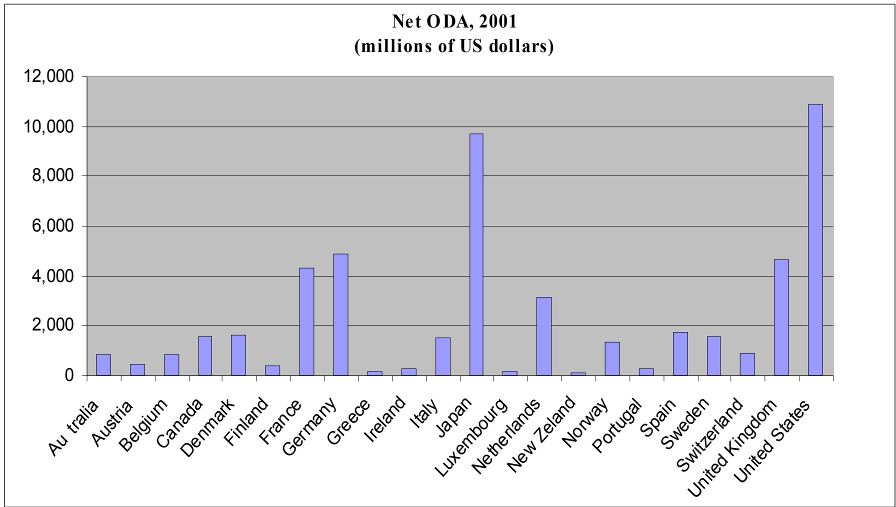
Official development assistance (ODA) declined by one third in real terms in the 1990s.



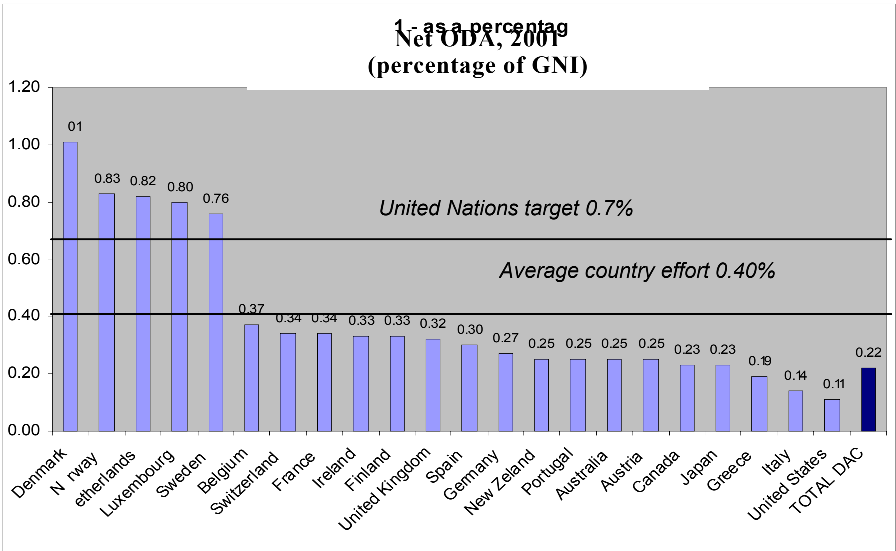
Source: Assessing Aid. World Bank's Development Research Group, Washington, D.C.

Net official development assistance flows from DAC member countries

The Development Assistance Committee (DAC) is the principal body through which the Organisation for Economic Cooperation and Development (OECD) deals with issues related to cooperation with developing countries. Net ODA remained stable in 2001, in both constant dollars and as a share of gross national income (GNI), as increases in the United States and many European Union member States compensated for a decline in Japan's ODA. As a proportion of DAC members' combined GNI, the ratio remained unchanged, at 0.22 per cent, as compared to 0.33 per cent in 1990-1992. In current dollars, ODA from DAC member countries to developing countries was US$ 51.4 billion in 2001.



Source: OECD.



Source: OECD.

OFFICIAL DEVELOPMENT ASSISTANCE FLOWS, 2001 (OECD)

Country	*2001* ODA	ODA/GNI	*2000* ODA	ODA/GNI	*Percentage change 2000-01*
	US$m current	*(%)*	*US$m current*	*(%)*	*Real terms**
Australia	852	0.25	987	0.27	-6.3
Austria	457	0.25	423	0.23	9.2
Belgium	866	0.37	820	0.36	6.7
Canada	1,572	0.23	1, 744	0.25	-7.1
Denmark	1,599	1.01	1, 664	1.06	-3.7
Finland	389	0.33	371	0.31	5.7
France	4,293	0.34	4,105	0.32	5.9
Germany	4,879	0.27	5, 030	0.27	-1.5
Greece	194	0.19	226	0.20	-13.4
Ireland	285	0.33	235	0.30	20.0
Italy	1,493	0.14	1, 376	0.13	8.8
Japan	9,678	0.23	13,508	0.28	-18.1
Luxembourg	142	0.80	123	0.72	17.3
Netherlands	3,155	0.82	3,135	0.84	-1.1
New Zealand	111	0.25	113	0.25	1.1
Norway	1,346	0.83	1,264	0.80	6.8
Portugal	267	0.25	271	0.26	-2.9
Spain	1,748	0.30	1,195	0.22	44.8
Sweden	1,576	0.76	1,799	0.80	-3.1
Switzerland	908	0.34	890	0.34	0.1
United Kingdom	4,659	0.32	4,501	0.32	6.2
United States	10,884	0.11	9,955	0.10	7.0
TOTAL DAC	**51,354**	**0.22**	**53, 734**	**0.22**	**-1.4**
Average country effort		**0.40**		**0.39**	

By groups	*2001* ODA	ODA/GNI	*2000* ODA	ODA/GNI	*Percentage change 2000-01* Real terms*
European Community	5915	0.33	4912		21.1
European Union countries combined	26004	0.18	25273	0.32	4.4
Group of 7 countries	37457	0.46	40219	0.19	-3.2
Non-Group of 7 countries	13897	0.06	13515	0.45	4.1
Others (Republic of Korea)	266		212	0.05	41.3

* Taking account of both inflation and exchange rate movements.

Source: OECD.

Annex IV: Recent debt cancellation agreements signed by the Government of Italy

11 March 2003	Agreement between Italy and Burkina Faso on the cancellation of debt
11 March 2003	Agreement between Italy and Sierra Leone on the cancellation of debt
13 December 2002	Agreement between Italy and Ghana on the cancellation of debt
11 June 2002	Agreement between Italy and Mozambique on the cancellation of debt
3 June 2002	Agreement between Italy and Bolivia on the cancellation of debt
17 April 2002	Agreement between Italy and Uganda on the cancellation of the debt
10 January 2002	Agreement between Italy and the United Republic of Tanzania on the cancellation of debt
22 October 2001	Agreement between Italy and Guinea on the cancellation of debt
10 October 2001	Agreement on debt-for-development swap between Italy and Peru
19 February 2001	Agreement on debt-for-development swap between Italy and Egypt
22 June 2000	Arrangement on debt-for-development swap between Italy and Jordan
12 April 2000	Agreement between Italy and Morocco on debt conversion

According to the Italian Ministry of Foreign Affairs, Italy signed 11 agreements for the cancellation of debt in the period 2002-2003 for an amount of approximately 1.1 billion euros. New agreements and negotiations are being finalized with Côte d'Ivoire, the Democratic Republic of the Congo, Ethiopia and Guinea Bissau for an additional 593 million euros.

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