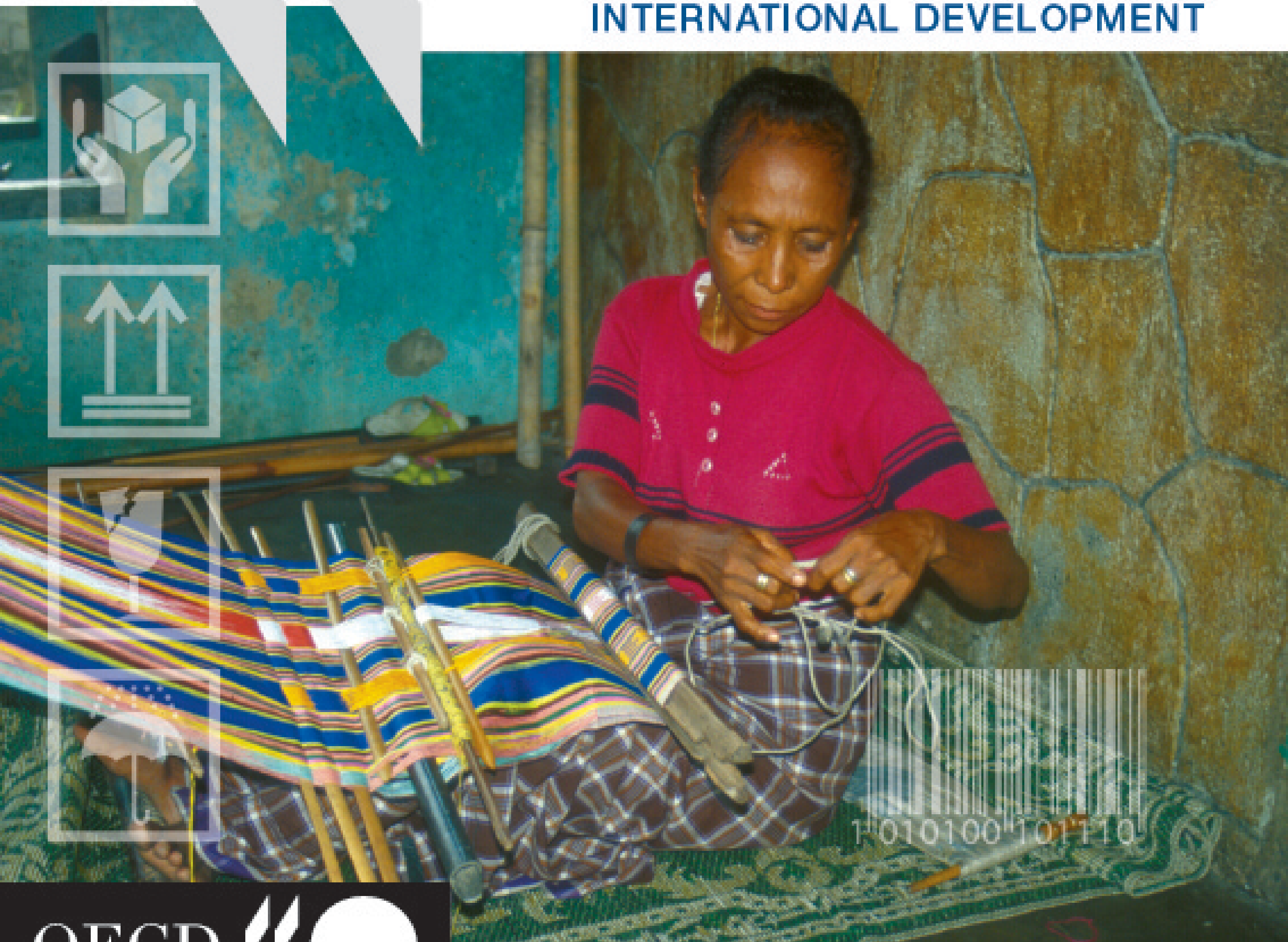
The DAC Guidelines

Strengthening Trade Capacity for Development

INTERNATIONAL DEVELOPMENT



OECD

The DAC Guidelines
Strengthening Trade Capacity for Development

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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– to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

– to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and

– to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee, whose Members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, Members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

The Members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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RENFORCER LES CAPACITÉS COMMERCIALES AU SERVICE DU DÉVELOPPEMENT

Preface

The guidelines have been prepared by the DAC Secretariat in close collaboration with a range of stakeholders, including representatives of developing country governments and enterprise organisations. In addition, an informal steering group was set up at the start of the project and met several times to guide the work. It included representatives of multilateral organisations, including the World Trade Organisation (WTO), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC), the United Nations Development Programme (UNDP) and the World Bank; independent research organisations, including the Overseas Development Institute, the European Centre for Development Policy Management, the International Centre for Trade and Sustainable Development and the Overseas Development Council; and bilateral aid agencies, including those of Canada, the European Commission (EC), Japan, the Netherlands, the United Kingdom and the United States. The report also draws extensively on four country case studies of trade capacity building efforts, commissioned for this project. They include El Salvador, Ghana, Senegal and Vietnam. A further case study was prepared on the African Enterprise Networks.

These case studies are available on the OECD Online Bookshop along with a companion document, *Building Trade Policy Capacity in Developing Countries and Transition Economies – A Practical Guide to the Design of Trade Policy-Related Technical Co-operation*. This guide, prepared by the UK Department for International Development (DFID), is aimed specifically at donor agency officials responsible for designing, implementing or improving trade capacity building programmes in the field.

Table of Contents

BOXES

FIGURES

TABLE

TRADE AND DEVELOPMENT IN THE NEW GLOBAL CONTEXT: A PARTNERSHIP FOR BUILDING TRADE CAPACITY

Statement by the DAC High Level Meeting upon endorsement of the DAC Guidelines on Capacity Development for Trade in the New Global Context

Paris, 25-26 April 2001

Trade makes an essential contribution to development. Trade and trade liberalisation are not ends in themselves. When supported by appropriate policies, including, *inter alia*, macroeconomic stability, sound environmental practices and good governance, they make an essential contribution to pro-poor growth and sustainable development. They enhance a country's access to goods, services, technologies and knowledge. And by stimulating the entrepreneurial activities of the private sector, they create jobs, foster learning processes, attract private capital flows, increase foreign exchange earnings and generate resources for sustainable development and poverty reduction.

A growing number of emerging market economies have already benefited greatly from globalisation. To join them in ways which are consistent with sustainable human development, less advanced developing countries need to take further the process of policy reform and institutional and infrastructure development, and be able to participate effectively in the processes that shape global economic rules, institutions and markets. Governments and private sectors of many countries still lack the institutional and human resource capacities to deal with the complexity of the multilateral trading system and the multiple demands of regional, bilateral and multilateral trade agreements.

OECD countries have a major stake in strengthening the trade-related capacities of these countries. It is in their mutual interest to help developing countries overcome trade capacity gaps, negotiate effectively and credibly, implement trade agreements and meet their obligations under them. If these challenges are not met, many developing countries may lose faith in the benefits of openness, have less capacity to sustain imports and remain dependent on foreign aid.

To promote developing countries' integration into the world trading system, we agree to:

Work with partner countries to help them build trade capacities, enhance their trade performance and participate effectively in the rule-making and institutional mechanisms that shape the global economy. Trade capacity building complements vital domestic reform efforts and action by industrial countries to open their markets to developing country goods and services.

Support partner countries' efforts to mainstream trade as part of their national development and poverty reduction strategies. In this context we recognise the links between trade capacity building activities and mainstreaming trade as part of the poverty reduction strategy processes. We will work closely with the World Bank and IMF as well as other associated agencies towards this objective.

Assist developing countries to establish effective and sustainable trade policy frameworks and processes. Local ownership and participation are defining features of such a process. We will help to facilitate the consultations among stakeholders, with the private sector and civil society, within governments and across regions that will ensure that development co-operation activities are locally-owned and demand-driven.

Place the private sector at the centre of efforts to build a trade policy process. All trade capacity constraints need to be viewed through the eyes of the private sector actors. Development co-operation can also help to strengthen private sector associations to voice their aspirations and constraints and make an active contribution to the trade policy-making process.

Foster commitment among country level aid managers for trade development and provide them with sufficient institutional support in terms of resources, incentives and knowledge of trade issues to undertake trade capacity building activities. A regular dialogue between the aid and trade communities can facilitate this process.

Help strengthen partner countries' ability to assume a leadership role in their development process and to sustain that process. We should reach out as much as possible to local experts, institutions and consultants to help partner countries make better use of existing capacities and to build new and sustainable capacities. This requires a long-term commitment, but will be more effective than an ad hoc approach that fails to create self-sustaining trade policy processes.

Ensure that trade capacity building activities are comprehensive in scope and integrated in execution. Building viable trade policy frameworks will require action in multiple areas, involving multiple stakeholders. Comprehensive approaches will ensure that initiatives in one area do not fail because of a lack of complementary action elsewhere. The Joint Integrated Technical Assistance Programme (JITAP), involving a coalition of bilateral and multilateral donors and eight developing countries, helps to show us how this can be done.

Ensure, in collaboration with the core agencies of the Integrated Framework for Trade Related Technical Assistance, that trade capacity building activities are implemented and co-ordinated effectively in accordance with partnership principles. This will mean working more proactively with these agencies. It will also mean expanding financial resources allocated to trade-related activities, either through the Integrated Framework Trust Fund or bilateral and other multilateral activities. We recognise that bilateral agencies can and should have a more prominent role in co-ordinating donor responses in those countries where they have a strong field presence and interest in trade capacity building.

Work actively with the trade community to help integrate development perspectives into trade policy formulation and implementation. Efforts to strengthen processes such as the Trade Policy Review Mechanism of the WTO and the Investment Policy Review of UNCTAD might be supported in this regard. They are potentially useful mechanisms to raise awareness of constraints to trade and investment in developing countries. They can help to ensure coherence between trade policies and regulatory regimes on the one hand, and overall development goals on the other. *The DAC Guidelines on Poverty Reduction* also provide useful guidance on mainstreaming development generally and promoting policy coherence.

Improve information-sharing and co-ordination among bilateral and multilateral donors in this area. The challenges of trade capacity in any given country are beyond the means of any single donor. Better co-ordination and a sharper division of labour will help prevent duplication, make best use of resources and avoid overloading partner country capacities. The poverty reduction strategy processes and the Integrated Framework are important instruments for enhancing co-ordination.

Ensure that our bilateral activities support partner countries' outward-oriented regional co-operation strategies. Regional strategies can help lower transaction costs and provide export production and marketing experience in familiar regional markets before entry into more competitive international ones. Such strategies should be consistent with broader multilateral trade and development initiatives.

At the Ministerial Meeting in Marrakesh establishing the WTO, Ministers recognised "that the globalisation of the world economy has led to ever-growing interactions between the economic policies pursued by individual countries, including interactions between the structural, macroeconomic, trade, financial and development aspects of economic policy-making. The task of achieving harmony between these policies falls primarily on governments at the national level, but their coherence internationally is an important and valuable element in increasing the effectiveness of these policies at national level." [Declaration on the contribution of the WTO to achieving greater coherence in global economic policy-making.]

At the Second WTO Ministerial Conference in Singapore, Ministers further committed themselves "to address the problem of marginalisation and continue to work for greater coherence in international economic policy-making and for improved co-ordination between the WTO and other agencies in providing technical assistance" [WT/MIN(96)/DEC Ministerial Conference, Singapore – Singapore Ministerial Declaration – Adopted on 13 December 1996].

At the G-8 Summit Communiqué in Okinawa, Ministers noted that "Trade and investment are critical to promoting sustainable economic growth and reducing poverty. We commit ourselves to put a higher priority on trade-related capacity building activities."

At the meeting of African Trade Ministers in Libreville in November 2000, Ministers reaffirmed "Africa's commitment to working in the framework of the Multilateral Trading System within the WTO". Ministers also emphasized "the need to make trade a priority in the national development policies of African countries".

Executive Summary

The trade, aid and finance communities are developing more coherent strategies to help developing countries integrate with the global economy. These guidelines provide a common reference point for these efforts. They also show how donors can help developing countries build their capacity for trade.

Trade capacity building enhances the ability of partner country policy-makers, enterprises and civil society actors to:

- Collaborate in formulating and implementing a trade development strategy that is embedded in a broader national development strategy.
- Strengthen trade policy and institutions – as the basis for reforming import regimes, increasing the volume and value-added of exports, diversifying export products and markets and increasing foreign investment to generate jobs and exports.
- Participate in – and benefit from – the institutions, negotiations and processes that shape national trade policy and the rules and practices of international commerce.

Five premises

One: *Trade and its liberalisation can contribute to development.* Trade and trade liberalisation are not ends in themselves. Nor are they sufficient to generate dynamic and sustainable development on their own. But they can enhance a country's access to a wider range of goods, services, technologies and knowledge. And by stimulating the entrepreneurial activities of the private sector, they can create jobs, foster vital "learning" processes, attract private capital flows, increase foreign exchange earnings and generate resources for sustainable development and the alleviation of poverty.

Two: *Developing countries want to integrate with the global economy*. Beneficial integration with the global economy requires a major and comprehensive effort at further reforms – and more effective participation in the rule-making and institutional mechanisms that shape the global economy. Ensuring that this integration is consistent with sustainable human development is a key challenge for partner countries and for donors.

Three: *The new global economic context offers promising opportunities but poses daunting challenges*. The increasing complexity of global markets, the new challenges of the multilateral trading system and the competing demands of regional, bilateral and multilateral trade agreements confront developing countries with an expanding array of competitiveness and policy challenges. Yet, they frequently lack the institutional and human resource capacity to meet these challenges.

Four: *Trade policy-makers have a major stake in strengthening the trade-related capacities of developing countries.* It is in the interest of OECD countries that developing countries overcome trade capacity gaps, negotiate effectively, implement trade agreements and meet continuing obligations under those agreements. Trade-related capacity building offers a valuable tool for meeting the challenge to the MTS posed by the ongoing concerns and disputes over trade and labour – and trade and the environment.

Five: *Donor support can strengthen the multilateral trading system by addressing the trade challenges facing developing countries.* Governments have pledged in recent months to strengthen the Integrated Framework, and heads of state at the last two G-8 Summits called for enhanced capacity building for trade and improvements in its delivery.

Putting in place an effective policy framework for trade

One of the main objectives of trade capacity building is to help developing countries put in place sustainable trade policy frameworks and processes. Indeed, the record suggests that no country has achieved substantial gains in trade without an effective trade policy framework. Any such framework will be constructed, of course, from discrete institutions and arrangements, each needing attention from developing countries and donors. But all efforts should be guided by a vision to mainstream a comprehensive trade development strategy in a broader national development and poverty reduction strategy.

A sound trade policy framework and process will: help developing countries address a wide range of trade-related challenges and opportunities over an extended period; facilitate genuine local "ownership" of trade development efforts; reduce the risk that the trade policy priorities of donors will influence developing country trade policies; and enable developing countries to sustain and upgrade trade-related capacities after donors have departed.

Elements of an effective trade policy process

Although it is not possible to recommend a single policy framework that is ideally suited to promoting trade, recent capacity-building efforts point to several features or arrangements that have tended to promote success. Donors and developing countries should seek to construct trade policy frameworks with the following elements:

- A coherent trade strategy that is closely integrated with a country's overall development strategy.
- Effective mechanisms for consultation among three key sets of stakeholders: government, the enterprise sector, and civil society.
- Effective mechanisms for intra-governmental policy co-ordination.
- A strategy for the enhanced collection, dissemination, and analysis of trade-related information.
- Trade policy networks, supported by indigenous research institutions.
- Networks of trade support institutions.
- Private sector linkages.
- A commitment by all key trade stakeholders to outward-oriented regional and global strategies.

What this means for donors

- *Co-ordinate trade capacity building efforts much more closely.* The institution-building to leave behind a sustainable trade policy framework is beyond the means of any single multilateral or bilateral donor. Such a policy framework cannot operate effectively if the institutions and arrangements constituting it are assembled (or strengthened) independently. The complexity of this development co-operation agenda demands a significant measure of donor agreement on the objectives, a sequencing of activities and a division of labour. And by co-financing a trade policy framework, donors will also conserve funds, share risks and leverage their investments.

- *Ensure that trade capacity building activities are comprehensive in scope and integrated in execution.* Assembling viable trade policy frameworks will require action in many areas by many stakeholders, and efforts in one area must be implemented jointly with efforts in others. That will help partner countries to assess priority needs – and donors to identify and co-ordinate priority interventions.

- *Foster local ownership and participation in all trade-related development co-operation activities.* Local participation and consultation – among stakeholders, within governments, across regions – define an effective trade policy process. By helping developing countries build such a process, donors will take a major step toward ensuring that development co-operation initiatives are locally-owned and driven by demand. An effective trade policy process will also minimise the long-term risk that the trade or commercial interests of donors will conflict with those of their partner countries.

- *Embrace approaches that strengthen the ability of partner countries to continue helping themselves once donors have left.* When the focus of development co-operation is on the construction of a trade policy framework, the necessity that donors find ways to build sustainable capacities becomes self-evident. "One-off" initiatives – in which foreign technical experts spend weeks or even months in a country but leave little expertise behind – should be avoided. And in staffing projects, donors should rely on local talent as much as possible.

- *Strengthen donors' own trade-related capacities.* Donors need to enhance their range of skills and knowledge. Expertise in building institutions (public, private and hybrid) and consultative mechanisms will be especially important. So will that for nurturing policy and support networks. In addition, strengthening stakeholder consultation and policy co-ordination will require better facilitation skills, especially in the field – and greater understanding of multilateral and regional trade issues. Donors would also benefit from more systematic exchanges of information on each other's programmes and experiences, perhaps using a dedicated Internet Website.

- *Commit significant financial and personnel resources to build trade policy frameworks in developing countries – with the prospect of substantial returns.* Helping to build a trade policy framework in a country where none has existed before will require long-term donor commitments and sustained effort by many talented officials. The long-term cost effectiveness of such an effort will be much higher than that of an ad hoc approach that fails to create self-sustaining trade policy processes. But as enduring capacities are built, donors can gradually recede.

1 Introduction

These guidelines provide overall policy guidance and a common reference point for the trade, aid, and finance communities on capacity development for trade, putting trade capacity building in the context of comprehensive approaches to development and poverty reduction. They also review and analyse the strategic importance of trade capacity development. And they identify key principles and processes that shape the design and delivery of trade capacity building activities.

… start with appropriate policies at home – social, economic and political policies

Any dynamic process of economic growth and integration in the world economy starts with appropriate policies at home – social, economic and political policies that can allow trade to contribute to development. Trade is not an end in itself. Nor is it sufficient on its own to generate dynamic and sustainable development. But trade can enhance a country's access to a wider range of goods, services, technologies and knowledge. It stimulates the entrepreneurial activities of the private sector. It creates jobs. It fosters vital "learning" processes. It attracts private capital. It increases foreign exchange earnings. Above all, it generates the resources for sustainable development and the alleviation of poverty.

Without the gains from trade, developing countries have less ability to sustain imports, less faith in the benefits of openness and continued dependence on foreign aid. That can undermine the capacity of governments to develop the economic and social infrastructure for a sustained reduction in poverty. It can also lead to a vicious circle of political instability, environmental degradation and detachment from regional and global initiatives. So, it is clearly in the interest of all countries to help developing countries enhance their capacities to capture and exploit the benefits of trade for sustainable development.

The multilateral trading system (MTS) and international markets have become highly complex. And far more than "stroke of a pen" efforts to cut tariffs, the new elements of the MTS require major investments in institutional and human capacity – and a multidimensional strategy for integrating into the global economy. Developing countries need to frame a broad set of trade initiatives within an appropriate macroeconomic environment and a comprehensive approach to development. They also need to be active in exercising their rights and obligations in the multilateral trading system. But they cannot achieve these objectives without substantial support from the international community.

Many OECD countries are committed in their assistance programmes to helping developing countries integrate themselves more fully into the world economy. This commitment reflects the widely held view that expanded trade and investment can be critical engines of growth – and that development co-operation can spur the private sector development on which trade and investment depend. Many donors, of course, have devoted substantial resources to private sector development initiatives over the past few decades, some helping also to generate exports and investment. But the marginalisation of the LDCs, the growing complexity of the multilateral trade system, and the competing demands of regional and bilateral trade initiatives suggest that more is needed. The equitable integration of developing countries into the global economy may require new forms of trade-related development co-operation.

Development co-operation must take a holistic approach

Experience has demonstrated that to be effective in this area, development co-operation must take a holistic approach which links macroeconomic and structural reforms which foster strong private sector growth, with human and institutional capacity development in a targeted, coherent and comprehensive manner. Individual measures to create the right policy framework or to build productive capacities or enhance developing country participation in trade fairs are not in themselves sufficient if taken in isolation. Moreover, the government, the private sector, and civil society each have a role to play both in improving trade performance and strengthening participation in trade policymaking. Translating these principles into action has, however, proven to be much more difficult than anticipated.

Trade-related capacity building involves a range of interconnected activities of donors and partner countries to enhance the ability of the partner country's policymakers, enterprises and civil society actors in three areas. First is collaborating on the development and implementation of a trade development strategy that is embedded in a broader national development strategy. Second is strengthening policies and institutions as the basis for increasing the volume and value-added of export production, diversifying export products and markets, reforming import regimes and increasing export- and employment-generating foreign investment. Third is participating in – and benefiting from – the institutions, negotiations and processes that shape national trade policy and the rules and practices of international commerce.

Bilateral donors can add significant value to the implementation of integrated approaches. They have the benefit of decades of experience in project implementation and evaluation, a strong field presence and well-established dialogues with the private sector and civil society in many partner countries. Suggestions for ways to improve partnership approaches to capacity development for trade will be a key part of these guidelines.

The guidelines are organised as follows: Section 2 sets out the rationale and strategic importance of trade capacity building in light of the new global economic context. It explains what trade capacity building is and situates it in the context of comprehensive approaches to development and poverty reduction. Section 3 identifies the key competitiveness and policy challenges faced by developing countries in their efforts to improve trade performance. Section 4 seeks to identify the elements necessary for putting in place an effective framework for trade policy processes. Finally, Section 5 considers the principles and approaches to help ensure effective development co-operation in this area.

2 Why Develop the Capacity for Trade?

Many of the poorest countries have not yet been able to integrate

The impressive record of the developing world as a whole in the past couple of decades obscures a wide diversity between the more and less advanced developing countries in trade performance and participation in the WTO, regional institutions and global economic policy discussions. Despite major efforts at reform, many of the poorest countries, especially in Sub-Saharan Africa, have not yet been able to integrate successfully into global markets, and hence to participate in the growth-inducing and poverty-reducing benefits of trade.

They frequently lack institutional and human capacity

The reversal of this trend towards marginalisation and helping the less advanced developing countries reap full benefits from the multilateral trading system have become important policy objectives for both developing countries and the wider global community. Developing countries want to join in the globalisation process. They want to enhance the conditions for faster investment and economic growth, expanding and diversifying their exports – and ultimately reducing poverty. They know that integration in the global economy requires a major effort at further reforms and more effective participation in the rule-making and institutional mechanisms that shape the global economy. But their governments confront an expanding array of policy challenges, frequently with limited institutional and human capacity. And their firms face the challenges of competition.

The New Global Economic Context

Increasingly complex and elaborate web of linkages in markets

The globalising world is characterised by an increasingly complex and elaborate web of linkages in markets for goods, services, investment and finance in which developing countries are assuming a more important role. A rapidly expanding group of developing countries have taken deliberate steps to open their economies wider to the outside world through a combination of unilateral, regional and multilateral liberalisation initiatives. This has led to an increase in their trade to GDP ratios and greater stakes in a well-functioning world economy. Globalisation has been driven partly by technological innovations that have shortened economic time and space. This implies new possibilities for upgrading all economic activities, not just the high technology sectors. Information and communication technology are lowering transaction costs for a very broad range of actors and allowing for world-wide sourcing strategies, which offer new scope for developing country firms to participate in global markets. Moreover, along with regulatory innovations, new technologies have made it possible to supply many services on a competitive basis and have opened up possibilities for developing countries to trade in such services.[1]

Developing countries have to adjust...

Developing countries have to adjust to a growing volume of trade through ongoing commercial relationships and to the competitive strategies of multinational corporations in different countries – through buyer-supplier arrangements, subsidiary-headquarters relationships, corporate alliances and production and marketing deals. Managing these relationships – often initiated by purchasers and frequently involving investment ties – can be more difficult than navigating the traditional export-import marketplace. And recent growth in the share of non-traditional products in developing countries' output also requires new markets and marketing strategies.

Networking can strengthen the capacity of developing countries to adjust to changes in international tastes, prices and competitive conditions. Regional networks can reduce the enormous co-ordination costs in global sourcing and marketing. They can also help firms overcome production bottlenecks and build technological and managerial capacities.[2] Many less advanced developing countries are finding that some of their most promising new trade opportunities are in markets outside the OECD. Regional networks can help them trade on a commercial (rather than preferential) basis and adjust to the stiff competition as they move up the value chain into new markets.

Globalisation blurs the national identity of firms and of products and undermines the traditional separation between domestic and international policy-making. It thus reduces the scope for autonomous national policies, with the policy parameters now set by the "rules of the game" for global markets. This can be good-reducing the latitude to pursuing inappropriate policies, such as overvalued exchange rates, without inflicting serious damage on their economies.[3] But it also demands that they come to terms with international trade rules, agreements, institutions and developments.

Participation in the multilateral trading system

Formal participation in the multilateral trading system through the WTO offers many advantages to developing countries, which are joining at a rapid pace. They recognise that trade rules and multilaterally negotiated agreements can affect their access to markets, help them withstand domestic pressures opposed to policy reform and improve the credibility of their domestic reform process.[4] Membership in the WTO thus can enhance the environment for greater investment and faster trade and economic expansion. It also gives them the protection of a rules-based system that guarantees access to a binding dispute settlement system and more generally strengthens the foundation for global political stability.

But the attempts of less advanced developing countries to adapt to this broader trade agenda have exposed gaps in trade-related capacity. They face three main challenges.

Implementing the new WTO agreements

First, implementing the new WTO agreements and obligations demands much from the institutional and human capacities of poor countries. The Uruguay Round addressed regulatory policies and business practices that can restrict trade behind borders, and developing countries took on unprecedented obligations to reform trade procedures and much domestic regulation. These obligations covered such issues as import licensing procedures, customs valuation, intellectual property law and technical, sanitary and phyto-sanitary standards. But do poor countries have the institutional capacity for these reforms? Can they finance the necessary investments in the light of other development priorities?[5] And can compliance bring benefits if it is not part of broader trade policy reforms? Ensuring that trade reform is comprehensive, coherent and sustainable – a major task for poor countries – thus becomes even more important.[6]

Rules and institutional mechanisms that shape the global economy

Second, considerable capacity is needed for effective participation in the design, enforcement and use of the rules and institutional mechanisms that shape the global economy. Being latecomers to full participation in the trading system and negotiating rounds, the less advanced developing countries had great difficulty participating effectively in the Uruguay Round negotiations. They lacked the capacity for effective participation in the negotiation process, and they had limited impact on the design of the new rules. As the WTO process becomes even more complex and technical, it is essential that developing countries develop the capacity to articulate their interests and defend their rights in the WTO framework.[7]

Box 1. EU food safety standards

A new study by World Bank researchers (Otsuki, Wilson and Sewadeh) investigates what health standards mean for trade. Reported in the *Financial Times* on 26 October 2000, the study examines the effects of a European regulation limiting the amount of aflatoxins in imported food. (Aflatoxins are a fungus-like substance linked to liver cancer.) The EU regulation insists on a tighter standard than that recommended by CODEX, which sets international food standards, or by the WHO and the US Food and Drug Administration.

The European approach to food safety is based on the precautionary principle, which justifies restrictions or regulations on food imports even while the scientific risks to health remain unproven. The study calculates that the EU standard, compared with the CODEX, would save two lives for every billion. It would also reduce exports to Europe of cereal, dried fruit and nuts from nine African countries by 64 per cent, or $700 million. And the EU's sampling method would further reduce African exports.

It is important, however, to consider such specific measures in the context of broader policies. The EU has taken major initiatives recently to improve market access for developing countries, including the Cotonou Agreement with the ACP countries (Box 14) and the "Everything but Arms" initiative, which applies to all Least Developed Countries.

Nearly all of the WTO's developing country members are also involved in demanding regional and bilateral trade negotiations and in implementing the agreements reached. Those countries may face new competitive pressures as well as complaints of unfair competition, dumping, etc. from local businesses. Separating legitimate trade issues from normal competitive pressures may severely tax their limited capacity for analysis.[8] They will also have difficulty in balancing competing trade priorities.

Gaining access to export markets

Third, gaining access to export markets of interest will be a major challenge for developing countries. While external constraints may not be the primary reason for slow export growth from poor countries, market access must be seen as an integral part of the capacity building agenda. Barriers to agriculture may, for example, impede the export of agricultural and labour-intensive products, hampering efforts to diversify into downstream processing and into higher value-added and faster growing products. In other words, trade barriers repress the development of trade capacity.

Product standards and other import requirements in industrial countries – such as environmental, labour and health standards – can also pose a significant challenge to developing country export capacity. While product standards have an important role in the effective functioning of markets and trade, developing countries often lack information on such requirements – and the technical and financial resources to comply. They also have limited capacity to participate in the design and implementation of product standards, to set up certification and accreditation facilities, and to bring disputes when standards discriminate against their exports.

Addressing Capacity Gaps

These are development challenges

The attempts of the less advanced developing countries to adapt to the new trade agenda have exposed trade-related capacity gaps that are no longer just trade policy challenges – they are development challenges. Requests from developing countries for support to strengthen their basic capacities in trade are on the rise, and there is a general consensus to provide that support.

But there is still confusion about what building trade capacity means. Getting clarity on this would promote a more productive sharing of information on projects and strategies. It would also permit developing countries to perform needs assessments using a common standard, facilitating cross-national comparisons and donor co-ordination. And it would help ensure the complementarity of regional and multilateral activities, strengthening performance monitoring and evaluation across projects and countries.

According to the DAC's 1997 survey of trade development activities, "Many DAC Members found it difficult to isolate direct trade development activities from country-level programmes which have an indirect impact on trade".[9] Indeed, many donors today do not maintain a formal separation in their programmes between trade capacity building and other activities. Canada, for example, has treated its trade capacity development as a component of its private sector development strategy – but its trade policy-related assistance as part of its strategy to develop institutional capacity for good governance. The EU recently dropped the distinction between trade capacity building, or trade promotion, and private sector development, merging the two departments into one. But trade policy issues are still handled by a separate department.

Two decades of experience with a variety of approaches (Box 2) have culminated in an ambitious concept of how best to help developing countries enhance their trade. This new concept has several key elements, loosely organised into the *what* and the *how* of trade capacity development.

On the *what*, perhaps the most important requirement is to address trade-related constraints known to have some bearing on trade and investment.

- The trade policy environment.
- Policy-making capacities relevant to national, regional and multilateral trade.
- Export-related capacities and infrastructure.
- Trade facilitation and support services.
- Market access.

A related requirement is to increase the capacity needs of individuals and institutions essential for effective trade policy. A key here is to support networks of individuals and institutions to allow for maximum pooling of resources – and to set in motion sustainable capacity building at the local and regional level. The main actors include:

- Government policy-makers and ministries.
- Business people.
- Private sector associations.
- Trade support institutions.
- Labour unions, NGOs and other civil society groups, including women's groups.
- Independent or university-based research entities.
- The secretariats of regional trade organisations.

On the *how*, it is clear that strengthening of human and institutional capacities will have to be comprehensive – not only because of the breadth of the challenges, but because of their interdependence. It has also become clear that trade development must be mainstreamed in development co-operation, just as gender and environmental considerations have been. This means that trade development strategies must be embedded in comprehensive development strategies, for it is not possible to respond to trade-related capacity constraints without also addressing the even more fundamental constraints and problems. Consider the weak professional training for policy-makers. The weak educational and vocational training systems. Governance problems. The absence of an entrepreneurial tradition. The excessive government intervention in economic decision-making. All at the root of trade-related constraints.

Box 2. Trade capacity building: concepts and evolution

For many years, promoting the development of trade was thought to require a set of limited interventions by donors and partner countries, and donor involvement in trade development was correspondingly narrow.

- *Export marketing (1970s).* Donors supported developing country trade promotion organisations, generally to help exporters find buyers for their products. These organisations proved inadequate as a trade development mechanism because "they continued to concentrate on offshore market development and promotional activities, rather than on addressing the fundamental constraint to improved export performance – the inability to develop international export capacities that are consistent with the requirements of the market.[10] "The International Trade Centre in Geneva is now trying to "redefine trade promotion," working with the trade promotion organisations to ensure that experience translates into new approaches.
- *Trade liberalisation (1980s and early 1990s).* With trade liberalisation as part of structural adjustment programmes designed by the key international financial institutions, some countries posted substantial gains in trade and investment, but others did not. As loan conditionalities eased in the 1990s, many liberalisation efforts slowed.
- *Trade facilitation.* Reducing trade-related transaction costs and building familiarity with the rules, procedures and institutions of the international trade system are the focus of such international agencies as the WTO, UNCTAD, UNDP and the International Trade Centre.
- *Trade capacity development.* The new approach focuses on building capacity by facilitating a country-driven participatory trade policy process as part of a comprehensive approach to overall development goals and poverty reduction strategies.

The Integrated Framework is relevant here for at least four reasons (Box 3). It recognises the need:

- To look beyond traditional trade policy instruments for integrating the poorest countries in the system. Several poor countries still face a wide range of constraints that prevent them from making the best use of opportunities.
- To address trade development capacity gaps comprehensively, based on a country's specific needs and priorities.
- To provide co-ordinated and integrated responses by the donor community as an effective way to address the enormous challenges and the limited resources.
- To mainstream trade into comprehensive development frameworks and poverty reduction strategies.

Capacity development for trade is of mutual interest for developed and developing countries

Trade policymakers have a major stake in its success

Strengthening trade-related capacities is ultimately a challenge for development policy and practitioners, but trade policymakers have a major stake in its success. It is in the interest of OECD countries that developing countries are able to overcome their capacity gaps, implement trade agreements effectively and meet their continuing obligations under those agreements. It is also in their interest that developing countries be strong negotiators. A country that knows its own trade interests and can confidently articulate them is a more reliable negotiating partner. It is more likely to conclude agreements that will serve its own interests, be politically sustainable back home and therefore be implemented effectively.

Box 3. The Integrated Framework for least developed countries

The least developed countries (LDCs) are particularly disadvantaged by a lack of capacity to provide trade facilitation services and infrastructure. The Uruguay Round agreement included promises by industrial countries to provide technical assistance to help developing countries strengthen their trade services, but these promises were not binding, and the reality has been disappointing (Michalopoulos 1999, Wang and Winters 2000).

The Integrated Framework was established in 1996 to increase the effectiveness and efficiency of trade-related technical assistance to the countries, in part by strengthening co-ordination among participating agencies and ensuring that technical assistance is demand-driven. Participating are the World Trade Organisation, the International Monetary Fund, the International Trade Centre, the United Nations Development Programme, the United Nations Conference on Trade and Development and the World Bank.

By the summer of 2000, 40 LDCs had completed the first step of the Framework process – a needs assessment. The six international agencies responded, indicating areas in which they could assist. This process revealed little overlap in the activities of the agencies and substantial needs that required additional financing. Organising roundtables to mobilise donor resources proved difficult. By August 2000 only five roundtables had been convened, and in only one (Uganda) did the roundtable lead to the commitment of new funds from donors.

An independent review of the Framework, completed in June 2000, highlighted divergent expectations. Donors hoped to increase the effectiveness of technical assistance through better co-ordination among agencies. Recipients wanted more funding. Hence the recommendations: integrate trade in national development strategies, take steps to strengthen the secretariat and co-ordination functions and establish a trust fund for Framework activities. A Trust Fund has been established and will be managed by UNDP. A new governance body has been set up to provide policy oversight – the IF Steering Committee – and will include representatives from donor countries, LDCs and the OECD/DCD in addition to the six core agencies. And field level co-ordination will be managed by the World Bank in the context of Poverty Reduction Strategy Papers (PRSPs).

Some of the Uruguay Round Agreements have proven more difficult to implement than expected – perhaps reflecting weaknesses in developing country negotiating capacity. But it also seems clear that the very perception by developing countries that they were not well-equipped to negotiate the Uruguay Round has diminished their enthusiasm for those agreements. Events in Seattle suggest that the continuing support of developing countries for the multilateral trading system may hinge on their success in strengthening management of their trade-related affairs and improving their trade performance.

Donor support to developing countries can be valuable

Donor support to developing countries can be valuable in addressing several of the concerns facing developing countries in the multilateral trading system. The WTO's industrial country members have lent their support to a "confidence-building" initiative devised by WTO Director General Mike Moore. The initiative includes proposals for an expanded WTO technical assistance programme, enhanced market access for LDCs, and consultations between the WTO and other organisations on trade-related capacity building. Industrial country governments have also pledged in recent months to strengthen the Integrated Framework. And several heads of state, at two previous G8 meetings, have called publicly for enhanced capacity building for trade and improvements in its delivery.

Trade-related capacity building can also be valuable for meeting a significant challenge facing the MTS, notably as regards trade and labour standards. The World Bank's Global Economic Prospects 2001 suggests that the use of trade sanctions to support labour or environmental standards – legitimate and desirable as these standards may be – intrinsically threatens to restrict developing countries' access to international markets without achieving their professed goals.[11] In this context the policy and private sector capacities required to raise labour and environmental standards can – and should – be strengthened through development co-operation.

How Trade and Trade Policy Can Reduce Poverty

Ensuring that the multilateral trading system is beneficial to the poor

Ensuring that the multilateral trading system is beneficial to the poor is one of the key concerns in current debates about capacity development for trade. Although there is consensus that the MTS and national trade policies should be conducive to maximising the benefits and minimising the negative impacts to the poor, there is no clear-cut policy prescription for how to do this.

The link between trade policy and poverty is complex and sometimes quite indirect.[12] Because trade policy is only one of many factors affecting long-term growth and poverty, and trade policy reforms are undertaken at the same time as other major macro or structural reforms, it is often difficult to isolate and trace its impact. But research is starting to produce some conclusions – which need to be confirmed by more detailed country analyses.

Open economies are conducive to growth

The main conclusion for the longer term is that open economies are conducive to growth – and that overall economic growth is a necessary condition and very closely linked to income growth for the poor. For the short term, and depending on the protection in individual countries and the sources of income and patterns of consumption of the poor, trade liberalisation may increase or decrease their welfare. But in most instances the short-term effects are small. And if there are mutually supportive policies, adequate infrastructure and sound institutions, trade and its liberalisation are more likely to promote growth and poverty reduction. That points to the importance of building human and institutional capacity to accompany trade reforms – and of putting effective safety nets in place. It is also important to consider the effects of reform on men and women (Box 4).

Short-term impacts

The poor are likely to gain from import liberalisation if…

The poor are likely to gain from import liberalisation if they are employed in the export sectors and consume products that have been previously protected. And they are likely to lose if they are employed in protected sectors and consume exportables.

Because the modern industrial sector has typically been more heavily protected and has few poor employees, while agriculture has frequently been penalised, the poor would likely benefit, even in the short run, from trade liberalisation in most developing countries. In Bangladesh after the liberalisation in the 1980s and 1990s, small farmers gained access to such imported technology as pumps, enabling them to benefit from the Green Revolution. This increased employment and reduced food prices. In Uganda, poverty among farmers decreased considerably through the use of new technologies in maize and cassava cultivation. The poor also gain from better market access for their export products, mainly agricultural products and textiles.

Supporting institutions are also important

But liberalisation will reduce poverty only if it is complemented with a broad array of accompanying policy measures, including macroeconomic stability and an appropriate exchange rate policy. The price signals to producers for home and export markets are a combination of trade and exchange rate policy. And an appreciating real exchange rate may well negate the positive stimulus of trade liberalisation on exports. Supporting institutions – such as banks, property rights, quality standards organisations – are also important both for the success of trade reforms and for the benefits the poor obtain from them.

Box 4. Trade and gender

Trade liberalisation and economic globalisation can affect men and women differently, though the differences are neither uniform nor purely positive or negative. Still, approaching trade liberalisation with an integrated gender perspective can increase the likelihood that trade policies will contribute to social, economic and political equity and to poverty reduction. Consider the following:

- Women's participation in the workforce is growing, particularly in export industries.
- Women predominate in the informal sector, producing goods that may be sensitive to competition from imports.
- Women are agriculturalists and, in many countries, the principal producers of domestic crops for home consumption and local trade.

By incorporating a gender perspective in building trade capacity, donors can help developing countries expand trade opportunities and maximise the benefits of trade policies for both men and women.

Approaches include:

- Expanding the assessment of proposed trade programmes to include their impact on social development indicators, such as quality of life, health, education and poverty.
- Removing gender-biased barriers to growth, such as the constraints on women's mobility, the absence of property rights and the disparities in education.
- Strengthening capacity to collect gender-related data at national and regional levels.
- Including the impact by gender, when monitoring and evaluating the effect of trade policies.

Source: US Agency for International Development, January 2001.

The longer-term impacts of trade reform are positive

There is little controversy over the long-term link between growth and poverty eradication. Overall growth in incomes is typically viewed as necessary but not sufficient for poverty reduction. And there is little controversy over the positive longer-term impact of openness on growth and poverty reduction. Greater openness – defined as the ratio of export plus imports to GDP – has been shown to be linked to greater growth through imports that embody more productive technology on total factor productivity. Similarly, an open economy leads to greater competition and efficiency both in the domestic and international markets.

Countries that shifted the structure of incentives…

Many countries that shifted the structure of incentives in favour of exports have benefited from strong, export-led, labour-intensive growth – and that growth has stimulated rapidly rising incomes and substantial reductions in poverty. In these countries, such as Vietnam, the long-term effects of trade reform were extremely positive – not only because of the high rates of growth, but because the labour-intensive growth process was especially favourable for reducing poverty. Intensive country studies support these cross-country results. Many countries grew rapidly after an effective trade reform accompanied by appropriate supportive policies. And no country with a closed economy sustained long-term growth.

Trade liberalisation and export competitiveness

One of the continuing debates is on the link between openness and trade policy. Some countries (Korea) achieved a reorientation of the incentive structure in favour of exports essentially through subsidies, an undervalued exchange rate and extensive use of duty drawbacks. Such countries thus increased export competitiveness and selectively opened the economy to competitive imports while retaining substantial protection in their domestic markets. This approach led to serious structural and financial system problems over the longer-term however. Other countries used alternatives, such as export processing zones (Box 16), to increase openness and get the benefits of increased exports while maintaining trade controls in the rest of their economy.

The emerging conclusion…

The emerging conclusion: To some extent it is possible to increase the openness of the economy and thus growth while maintaining some import barriers. But there are limits to what can be done through such measures as duty drawbacks and export subsidies. Export subsidies in the poorest countries[13] are limited both by budgets and international commitments (WTO). Many developing countries face institutional capacity constraints implementing such measures. And where they are in place, they tend to favour the bigger and larger producers and exporters, not the poor. Meanwhile, low-income developing countries need to promote competitive industries by analysing their initial conditions and competitors, as well as their market prospects in the context of globalisation. There may be scope for retaining and utilising domestic measures selectively and in a transparent manner which are not in contradiction with WTO rules, in order to foster industries which can make a strong contribution to overall export growth and competitiveness in the economy. A liberal trade regime, which provides vital access to competitive import and is supplemented by selective and relatively moderate domestic measures, is a surer way to achieve openness and reduce poverty than is a complex system of taxes and subsidies.

A liberal trade regime is a surer way to achieve openness and reduce poverty…

Export growth is also impeded by other factors including weak export infrastructure, inadequate ancillary export services and high transport costs, often a consequence of poor policies. And external barriers to trade, especially in agricultural and labour-intensive products, undermine efforts of poor people and poor countries to diversify into downstream processing, higher value-added and faster growing products.

Mainstreaming Trade into National Development Strategies

If trade is to serve as an engine of growth…

If trade is to serve as an engine of growth, developing countries must develop a multidimensional strategy for trade expansion – framed in an appropriate macroeconomic environment – and a comprehensive approach to development and poverty reduction. Institutional reforms and improvements in the legal environment can increase investment activity – as can appropriate infrastructure and human capital development.

This ambitious agenda requires a "national vision" of how the country will enter into the globalisation process in a way that sustains human development and generates national support.[14] In this vision, structural and social concerns should be treated equally with macroeconomic and financial concerns. This is also the rationale behind UNCTAD and UNDP's joint global programme, "Globalisation, Liberalisation and Sustainable Human Development" (Box 5). The programme enhances the ability of developing countries, especially low-income countries, to manage their integration into the global economy in a manner supportive of sustainable human development. This approach is based on the principle that the partner country determines – and thus owns – the goals, timing and sequencing of its development strategy.[15]

Trade reforms should be an integral part of comprehensive development frameworks

Trade reforms should be an integral part of comprehensive development frameworks. They seek to ensure that trade policy priorities are set according to the development stage of each country, and are consistent with reforms of exchange rate policies, foreign direct investment, competition and labour practices. The priority each country accords to trade thus depends on the conditions specific to the economy and should come about through a national dialogue over development priorities and appropriate responses.

Box 5. UNCTAD/UNDP Programme on Globalisation, Liberalisation and Sustainable Human Development

The Programme, launched in 1998, aims at enhancing the ability of low-income countries to manage their integration into the global economy in a manner so as to exploit the opportunities offered by globalisation, while minimising the risk of economic and social dislocation.

The Programme articulates its work at two levels.

The global-level activities are meant to

- enhance the ability of developing countries to effectively participate in regional, bilateral and multilateral negotiations;
- promote a better understanding of the linkages between globalisation and sustainable human development; and
- encourage dialogue among policy-makers and other development actors on the social and economic dimensions of globalisation.

The country-level activities, undertaken to date in 10 countries, are aimed at

- analysing the impact of globalisation on economic, social and human development in specific national contexts;
- identifying the future challenges of managing integration into the global economy;
- building consensus on the national development strategies pursued in the wake of globalisation;
- assisting developing countries in equipping themselves with policy and institutional tools to manage their integration into the global economy; and
- ensuring that policies for integration into the global economy and the ones designed to promote sustainable human development are mutually reinforcing.

For further information, please contact:

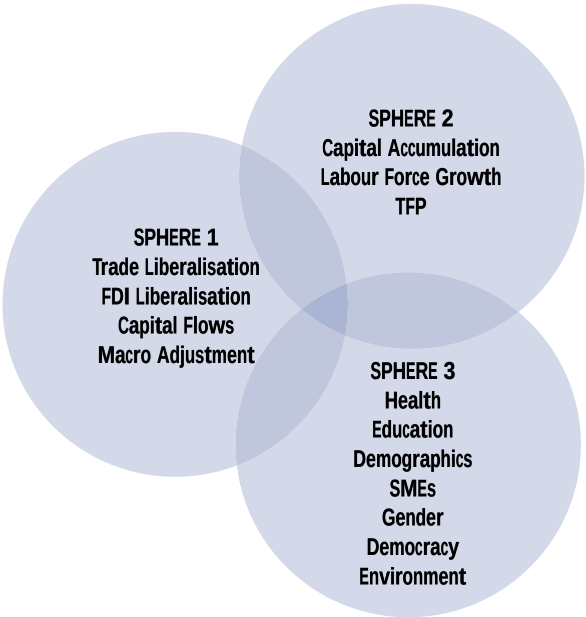
UNCTAD/UNDP Programme on Globalisation, Liberalisation and Sustainable Human Development
E-7024, UNCTAD, Palais des Nations
CH-1211, Geneva 10, Switzerland

UNCTAD / UNDP Programme on Globalisation, Liberalisation and Sustainable Human Development Conceptual Framework

Sustainable human development (SHD) is the core objective of the process of economic growth and development, and also a powerful instrument for promoting them.

The UNCTAD / UNDP Programme investigates the interrelationship between 3 complementary policy spheres:

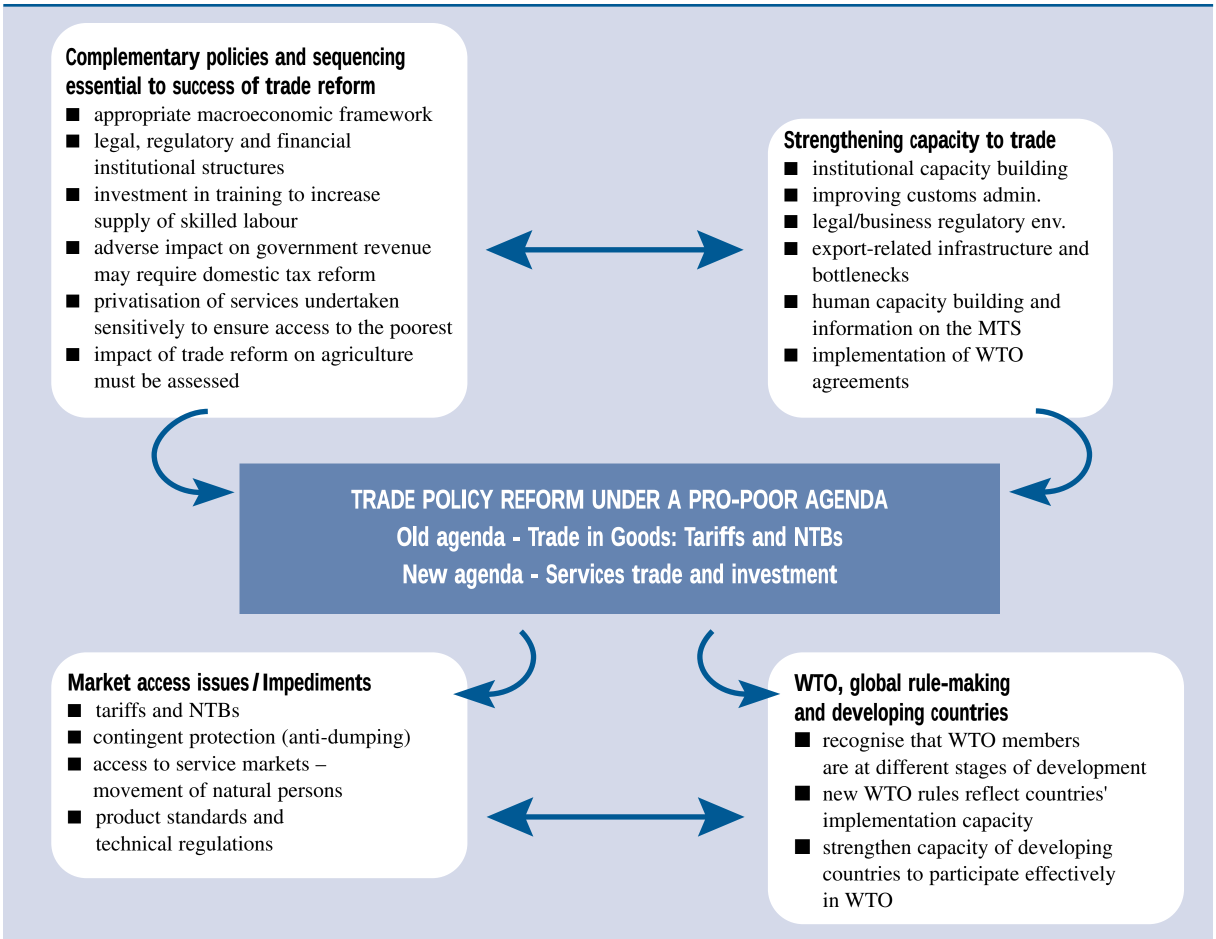
- integration into the global economy and the liberalisation of markets;
- the promotion of fast economic growth;
- and sustainable human development, and the impact of each of these interlocking policy spheres on promoting development.



FDI: Foreign Direct Investment
TFP: Total Factor Productivity
SMEs: Small to Medium-sized Enterprises

Agosin, M., Bloom, D.E. and Gitli, E. (2000), "Globalisation, Liberalisation and Sustainable Human Development: Analytical Perspectives", UNCTAD/UNDP Occasional Paper.

Figure 1. Mainstreaming trade into national development strategies



… mainstream trade through country-specific poverty reduction strategies

The intention now is to operationalise the Integrated Framework and to mainstream trade through country-specific poverty reduction strategies. Mainstreaming has been defined as involving the process and methods identifying priority areas for trade and integrating them into the overall country development plan.[16] It includes trade reforms, capacity development for trade, market access, global rule-making and regional co-operation (Figure 1). Trade reform must be accompanied by good policies elsewhere, backed by capacity building.

The vehicles for mainstreaming trade into comprehensive development frameworks and for ensuring more effective implementation of the Integrated Framework, will be the World Bank/IMF Poverty Reduction Strategy Papers (PRSPs) and the United Nations Development Assistance Framework (UNDAF) with the World Bank taking the lead.

It has been agreed now to proceed with the implementation of the IF on a pilot basis. The trade integration strategy will encompass analysis of both external and internal constraints to trade, and include an elaborated programme of prioritised and sequenced trade-related technical assistance projects to be considered subsequently for funding at World Bank Consultative Groups (CGs) and/or UNDP Round Tables.

Notes

1. *Trade and Development Issues in Non-OECD Countries* [TD/TC(2000)14/FINAL]
2. *South-South Co-operation in a Global Perspective*, Ed. Lynn Mytelka, OECD 1994.
3. *Building Export Capacity and Market Access*, [MM/LIB/WS9/1], WTO Background Document for Libreville 2000, meeting of African Trade Ministers.
4. The stake of developing countries in the trading system is growing rapidly. In 1996, the average trade-to-GDP ratio for SSA was 24 per cent, with 13 of the 38 SSA WTO members reporting trade-to-GDP ratios in excess of 35 per cent. WTO secretariat calculations reported in R. Blackhurst, B. Lyakurwa and A. Oyejide, *Improving African Participation in the WTO*, paper commissioned by the World Bank for a Conference at the WTO on 20-21 September 1999.
5. For a thorough discussion of the development implications of implementing WTO agreements, see J. Michael Finger and Philip Schuler, "Implementation of Uruguay Round Commitments: The Development Challenges ", *The World Economy, 2000, No. 23.*
6. For example, the lack of stable real exchange rates has been a persistent problem preventing a strong supply response to other trade reforms. High tariffs combined with institutional weaknesses in tax and customs administrations in particular have raised the cost of exporting. Many poor countries continue to rely on revenues from tariffs on intermediate and capital goods as a source of income, they frequently lack effective duty exemption/drawback programmes and have faced difficulties in setting up effective export processing zones. Finally, export growth has been impeded by weak export infrastructure, inadequate ancillary export services, and high transport costs, often a consequence of poor policies – *Global Economic Prospects and the Developing Countries 2001*, World Bank.
7. R. Blackhurst, B. Lyakura, A. Oyejide; *Improving African Participation in the WTO*, paper commissioned by the World Bank for a Conference at the WTO on 20-21 September 1999.
8. Jim Fox, Consultant, reports that Zambia's joining COMESA and SADC will introduce complexities into the government's trade policy that are likely to demand considerable attention and effort from the government, perhaps more than that required by WTO.
9. *Survey of DAC Members' Co-operation for Capacity Development in Trade*, 1997 [DCD/DAC(97)24/REV2].
10. International Trade Centre, *Report of the ITC Executive Forum on National Export Strategies*, p. 30.
11. *Global Economic Prospects and the Developing Countries 2001*, World Bank.
12. This section is based on contributions by Costas Michalopoulos, Special Advisor, World Bank; and Margriet Kuster, Ministry of Foreign Affairs, Netherlands. It draws on discussions held in Stockholm at the "Globcom" Conference on "Poverty and the International Economy", 20-21 October, 2000.
13. For a fuller dimension of the various export development strategies and the trade offs involved, see *Global Economic Prospects 2001*, Chapter 2.
14. See "Redefining Trade Promotion", ITC (2000), for some concrete examples of how individual countries have approached the export strategy-making process and reinforced linkages between strategy and other economic and social initiatives.
15. See "On Common Ground" Converging Views on Development and Development Co-operation at the Turn of the Century (*The DAC Journal – Development Co-operation 1999 Report*, p. 121) for an account of how the international community has converged around the idea of a Comprehensive Development Framework (CDF) and similar instruments such as the CCA/UNDAF, PRSPs, etc.
16. Integrated Framework Seminar: The Policy Relevance of Mainstreaming Trade into Country Development Strategies: Perspectives of Least Developed Countries, WTO, Geneva, 29-30 January 2001.

3 Policy Constraints to Trade

Developing countries face many challenges in their efforts to improve trade performance and in the strategies they (and donors) pursue. Among the greatest of these challenges is overcoming the policy constraints to trade.[1]

Effective trade policy requires a public sector, a private sector and a civil society prepared jointly to:

- Establish and maintain a trade-supportive policy environment.
  This has typically included a liberal import regime, a sound and predictable legal and regulatory framework, rationalised and simplified customs and other administrative procedures and efficient and low-cost economic infrastructure.
- Analyse and monitor trade issues and developments at the multilateral and regional levels, formulate and implement coherent trade policies, and participate effectively in multilateral and regional negotiations.
- Implement multilateral, regional and bilateral agreements.

Trade competitiveness requires private enterprises, industrial associations, civil society groups and government agencies able to:

- Monitor and analyse foreign market opportunities, trade policies and trade institutions at the national, regional and multilateral level.
- Articulate their needs and concerns in the domestic trade policy process.
- Produce goods and services that meet the quality, design, timeliness, health, safety and environmental requirements of foreign markets and international trade agreements.
- Provide (or make use of) a variety of export- and investment-related technical assistance and advisory services, including export credit, export marketing assistance, management advice and help in complying with international product standards.

The private sector and civil society have an essential role...

There is considerable overlap between these two sets of requirements, and public and private sector actors must be active in both areas. Private sector and civil society representatives have essential roles in shaping trade policy. And almost everything that must be done to promote competitiveness has a policy dimension.

Distinguish between border barriers to trade and the "behind the border" trade agenda

Another way to look at the constraints for developing countries is to distinguish between border barriers to trade and the "behind the border" trade agenda. The first focuses on creating incentives for efficient growth by reducing the average level and the dispersion of border protection, eliminating NTBs, and strengthening the public institutions needed to ensure that goods cross frontiers with low transaction costs, that is, efficient customs regimes that do not create anti-export biases. The second revolves around regulatory standards and policies that ensure that supply responses to liberalisation are efficient, equitable and enduring. Important issues here include liberalising trade in services to enhance competitiveness, to promoting access to information and technology and strengthening institutions to benefit from participation in regional and multilateral trade arrangements.

The relative importance of these two trade agendas varies considerably across developing country partners (Table 1). The traditional border policy agenda continues to be important in South Asia and Africa[2]. The non-border agenda is relatively more important in middle-income countries, where border barriers are typically low and basic customs and trade infrastructure function adequately. As demands and priorities differ depending on the countries involved, donors must tailor their services to the needs of clients.

Principal constraints on trade development

Given the diversity in economic circumstances, it can be risky to generalise about the trade constraints facing developing countries. But many constraints affect at least a few developing countries, and several constraints affect many of them. The less advanced developing countries suffer from capacity gaps on nearly every significant policy-related or competitiveness-related requirement for trade development. Countries further along in the development process typically struggle with a narrower but sometimes quite persistent set of problems.

Gearing Up for Participation in International Trade

… still struggling to create and sustain trade-friendly economic policy environments

Low-income developing countries confront a wide range of constraints and capacity gaps in their effort to make effective trade policy and exercise their rights and obligations in international trade. Many of them are still struggling *to create and sustain trade-friendly economic policy environments:*

- Inflation, public deficits and interest rates remain high in many countries.
- A variety of policy-related disincentives or constraints hinder exports, including export taxes, overvalued currencies and capital controls.
- Exports are also burdened by a variety of import protection, including high and variable tariffs and quantitative restrictions. Some LDCs, in particular, raise significant amounts of revenue from tariffs, which makes them reluctant to embrace full import liberalisation.[3]
- The policy and regulatory regimes of many countries are characterised by a lack of transparency and predictability. Corruption undermines economic efficiency in some countries.

… limited capacities to formulate and execute trade policy and negotiate and implement trade agreements

The governments, private sectors and civil societies of many developing countries have limited capacities *to formulate and execute trade policy and negotiate and implement trade agreements:*

- Knowledge of multilateral and regional trade policies, institutions and agreements is limited in most LDCs and many other developing countries. Trade ministries tend to be poorly informed about WTO and regional agreements and rules, and other government officials and private sector actors tend to be even less knowledgeable.[4]
- Knowledge, skill and resource limitations make it difficult for many developing countries to negotiate effectively, implement trade agreements, meet ongoing trade obligations and defend their trade-related rights. Many countries report that they are especially deficient in the knowledge and technical skills necessary both to shape and to comply with the growing number of technical provisions and environmental, health, safety and product quality standards found in multilateral and regional trade agreements. LDCs, in particular, lack the human and financial resources to carry out the institutional and regulatory reforms necessary

Table 1. Priorities in different types of countries

COUNTRY-TYPE / REGION	NATIONAL PRIORITIES				INTERNATIONAL CO-OPERATION	
	Traditional trade agenda		New trade agenda		Traditional trade agenda	New trade agenda
	POLICY	INSTITUTIONS	POLICY	INSTITUTIONS		
LIC, weak institutions (Sub-Saharan Africa)	Lower tariffs; dispersion; shift to domestic tax bases	Strengthen customs; drawback; temporary admission	Measures to enhance efficiency of transport and transit regimes; phase out monopolies	Develop national capacity to design regulatory policies; protect indigenous knowledge, assets	Build capacity to participate in negotiations	Assess development relevance of international co-operation; impact of regulatory norms (SPS, TBT)
LIC, strong government (Southern Africa)	Reduce border barriers	Reduce red tape; adopt Kyoto trade facilitation measures	Services liberalisation; emphasis on competition as opposed to change in ownership	Upgrade public standards setting and enforcement bodies; protect indigenous knowledge, assets; pro-competitive regulation	Use international agreements to reduce border barriers	Use international agreements as anchors for domestic policy
Transition (Europe and Central Asia)	Maintain relatively low and uniform tariffs	Develop customs and related infrastructure; regulations	Develop legal and regulatory regimes for services	Develop national capacity to design regulatory policies	Build capacity to participate in negotiations	Use international agreements as anchors for domestic policy; negotiate improved market access for natural persons
MIC, low protection (Latin America & Caribbean, E. Asia & Pacific)	Limit extent of discrimination resulting from RIAs	Adopt Kyoto trade facilitation measures	Enhance technology policies; E-commerce; develop competition policy	Develop WTO-legal, appropriate IPR regime and institutions;	Explore scope for common standards and trade procedures	Explore scope for common standards in regulatory areas affecting trade and investment
MIC, high protection (Middle East & North Africa)	Significantly reduce border barriers; limit discrimination from RIAs	Reduce red tape; implement Kyoto trade facilitation measures	Services liberalisation; end monopolies; draft competition law	Pro-competitive and prudential regulation; establish competition authorities	Use RIAs to reduce red tape, facilitate trade	Use international agreements as focal points and anchors for domestic policy

Source: World Bank.

to implement the provisions in these agreements. Many LDCs also lack the ability to defend their trade interests effectively or to seek redress through WTO's dispute-settlement system.

- Many developing countries find it difficult to pursue effective multilateral, regional and bilateral trade policies simultaneously. Some middle-income developing countries that are able to play leadership roles in regional trade arrangements serve largely as bystanders in the WTO.
- The promise of regionalism is still far from being fulfilled. Most members of ECOWAS, SADC and COMESA, three of Africa's principal sub-regional trade arrangements, still trade more with the EU than they do with each other.
- Deficiencies in trade-related expertise, analytical skills and negotiating skills are a product of small staffs, limited resources for hiring and training, inadequate experience and high turnover. Most African LDCs, for example, have fewer than five officials assigned to work on trade policy issues full-time.[5] Governments have difficulty recruiting and retaining talented people for government jobs that typically offer lower pay and status than private sector jobs.
- The effectiveness of trade policy-making is also constrained in most LDCs, and many other developing countries, by limited government and private sector access to information on international trade developments, issues and agreements. In LDCs, in particular, the problem has been aggravated recently by the growing international gap in access to information technology. The dissemination of policy-relevant trade information is often inconsistent in developing countries. In three of the four case study countries for this project, for example, governments lacked reliable mechanisms for ensuring that trade-related information was distributed to all relevant officials or private sector actors.
- Trade policy co-ordination is weak in many countries. Responsibility for trade-related policies is often dispersed across different ministries.[6] Ministries of finance, which exercise significant influence over trade policy through their control of the purse, sometimes resist trade liberalisation measures that reduce tariffs and other trade-related revenues. Ministries of foreign affairs usually take the lead in trade negotiations and staff WTO missions, but they often lack expertise on trade issues and have only limited roles in the formulation of trade policy back home. Trade ministries themselves often have other responsibilities beyond trade, such as industry or tourism.
- Many developing countries lack coherent trade development strategies. Some governments lack the capacity to analyse the strengths and weaknesses of their economies or of key sectors. Trade is not a top priority for the governments and enterprise sectors of some developing countries, however, and trade policies are often not well-integrated into national development strategies.[7]
- Mechanisms for consultation on trade policy among governments, the private sector and civil society are weak or non-existent in most LDCs and many other developing countries.[8] The involvement of the private sector in policy deliberations is "largely ad hoc and limited".[9] In LDCs, in particular, the lack of competent enterprise sector and civil society interlocutors is an impediment to policy dialogue. Business associations often have small memberships and limited staff. Labour unions, NGOs and other civil society groups are often poorly funded and lacking in expertise, advocacy skills and access to information. Government officials are often unaccustomed to interacting with the private sector. The absence of regular dialogue leaves governments poorly informed about the private sector and without the benefit of its advice.[10]

- Small staffs and limited expertise diminish the effectiveness of the WTO missions of many developing countries. Fewer than 20 African countries have full-time representation at the WTO, and the rest often rely on a few officials to cover the WTO along with all the other international organisations based in Geneva.
- Few developing countries have strong, independent institutions capable of performing research and analysis on trade policy matters. And absence of effective data collection and analysis further undermines the quality of trade policy in many developing countries. In some cases, poor data collection is a consequence of weaknesses in customs and other kinds of trade-related legal or regulatory enforcement.[11]

Promoting Competitiveness in the Enterprise Sector

In their efforts to improve export competitiveness and attract foreign investment, developing country enterprises and governments face challenges in three broad areas: the production of exportable goods and services, trade and investment facilitation and support and market access.

Export production

A wide range of challenges makes it difficult for developing country enterprises to produce goods and services that meet international design, quality and packaging standards – or to shift to higher value-added lines of production. Private sector representatives from developing countries, including business people interviewed for the Ghana and Senegal case studies and participants in the May 2000 DAC workshop, frequently characterise their difficulties designing and manufacturing exportable goods as the most significant obstacle to improved export performance. The report of the ITC's 1999 Executive Forum affirmed this point. The principal challenges in export production include the:

- Weak, inefficient and costly economic infrastructure, including telecommunication systems, roads, railways, utilities, ports and airports.
- Limited availability of critical production inputs at competitive prices, due to import constraints and inadequate market leverage.
- Limited availability and high cost of capital.
- High production costs and low quality, due to the foregoing factors and the scarcity of skilled labour.
- Limited access to cutting-edge production technology and limited technical know-how.
- Product and packaging designs that do not meet international specifications.
- Poor information on foreign tastes and product standards (health, safety, environment or quality), and on the provisions of regional and multilateral trade agreements.
- Weak management skills.
- Absence of standards and quality testing labs and related technical support services.
- Limited access to information technology for product design, input sourcing and manufacturing processes.

Box 6. Promoting competitiveness of Ugandan flowers

Market-oriented assistance at the industry level can be a catalyst for export success in LDCs. Ten years ago the only roses grown in Uganda were in individual's gardens. Starting in 1993, the USAID-supported Ugandan Agricultural Development Centre set out to identify demand in the global marketplace and develop agricultural products that Uganda could produce to meet that demand.

One area that appeared promising was to sell air-freighted roses at auction in the Netherlands. The Centre worked directly with self-selected Ugandan farmer entrepreneurs. Starting from market demand and working back, the Centre helped to define the product, quality standards, marketing channels, production process, business operation and financing required. Specialised consultants – expatriate and local – worked closely with Ugandan producers, transporters and financial institutions, assisting them to grow, batch, finance and transport production on schedule.

The results have been nothing short of spectacular – 22 farms now grow cut flowers. Sales have climbed from zero to 133 million stems a year, with export earnings of $14 million in 1998. The cut flower industry in Uganda now employs 3 300 people, 75 per cent of them are women, and offers a daily wage three times higher than competing opportunities in the surrounding areas. Ugandan producers have diversified into chrysanthemums and other varieties. Cut flower business associations have started up and flourished.

The market-oriented approach in Uganda was a precursor to a new approach now being applied by USAID and a number of other donors. Through "competitive analysis," the relative strengths of an industry compared to its global competitors are assessed. Government and private sector actors in the industry, together, identify opportunities and impediments to improved industry performance in global markets. Together, working backward from market demand, they identify steps to overcome constraints and improve industry performance.

- Limited direct foreign investment (a valuable source of plant, equipment, technology and training).[12]
- Limited availability of business support services – the enterprise associations, private firms and government entities that provide technical assistance on many of the foregoing supply-side constraints.

Trade and investment facilitation and support services

Moving beyond the production of exportable goods, one can identify a number of other problems relating to export and investment transactions. These constraints make it difficult for developing country enterprises to find buyers for their products, source inputs, attract investment and move goods and services efficiently from workshops, plants and offices into foreign markets (Box 6). They include the following:

- Weak, inefficient or costly trade-related infrastructure, including storage and refrigeration facilities.
- Limited capacity to acquire and analyse information on foreign market opportunities, and inadequate knowledge of international business practices.
- Limited export marketing experience, including negotiating skills.
- Inadequate knowledge of rule of origin, design, health, safety and environmental standards in trade agreements and foreign markets.
- Inefficient and corrupt customs administration and other trade-related administrative procedures.
- Inadequate or costly capital for the financing of exports, investment or other links with foreign firms.
- Limited knowledge of import and export administration.
- Ineffective government and private sector export and investment promotion services.

- Limited application of information technology to market research, transaction management and links with buyers, suppliers, shippers and others.
- The lack of competent business associations and trade services firms to help enterprises identify markets, assemble financing, process export sales and manage transactions.[13]

Market access

… essential to the success of any trade development strategy

Finally, a number of factors make it difficult for developing country exporters to gain entry to foreign markets. Market access is clearly essential to the success of any trade development strategy. New markets are also valuable because they catalyse the development of capacities needed to take advantage of them. The emergence of a new market opportunity often triggers investment and entrepreneurial activity and generates new business for suppliers and service providers that may have little direct involvement with the external sector. Greater access to the markets of other developing countries will also be an important element of trade capacity building as this will promote integration at the regional level, often an important stepping stone to global integration.

Many developing countries, and all of the LDCs, enjoy preferential access to most industrial country markets under GSP, the new ACP agreement, and selected provisions in regional and multilateral agreements. But this access is neither unlimited nor permanent. A number of developing country exports are subject to tariff peaks and tariff escalation, which make it difficult for enterprises to add value to their exports. Furthermore, a variety of special access provisions are being phased out – ACP preferences, for example – and the Uruguay Round and some regional trade liberalisation initiatives have diminished the preference margins enjoyed by developing countries. Many countries lack sectoral strategies or trade policies that respond to the erosion of preference margins and the termination of special market access programmes.

Many developing country governments believe that industrial countries have not faithfully implemented certain Uruguay Round liberalisation commitments. Some contend that new barriers to their exports are being substituted for tariff and non-tariff barriers eliminated under the Uruguay Round.

As noted earlier, developing country exporters are also having difficulty complying with complex rule of origin provisions and a growing array of foreign performance, health, safety, environmental, and other standards. The inability to certify that their products meet industrial country import requirements can be a very costly capacity gap for many developing country exporters. Developing country governments further worry that industrial countries are using quality standards to protect their markets. International standards are set in trade agreements and, increasingly, in standard-setting negotiations led by private sector representatives. Governments and private sector actors in many developing countries, especially the LDCs, lack the training and expertise necessary to participate effectively in these standards discussions.

Finally, many of the less advanced developing countries have limited capacity to defend their market access rights. While developing countries as a whole are making increasing use of anti-dumping measures, the LDCs are often unable to mount cases in the WTO's dispute-settlement system and have difficulty contesting anti-dumping and countervailing duty actions.

Notes

1. Success in trade development is defined here broadly to mean a sustained increase in the volume, diversity, and value-added of exports, and an increased inflow of foreign direct investment that yields export gains, helps upgrade production technologies, and increases employment. A number of developing countries, including El Salvador and Vietnam, two of the case study countries for this project, have recorded large recent gains in export earnings without substantial diversification in the product mix of their exports or the identity of their top foreign markets. Bangladesh, to offer another example, has experienced large export gains during the past two decades, but just four products account for over 90% of its manufactured exports, and half of its total exports go to just three foreign markets. Countries like these would be considered qualified or partial successes under the definition used here.
2. Viz. *Africa in the 21st Century*; numerous DRG trade team papers; and the GEP 2001.
3. During the DAC's May 2000 workshop, Jose Manuel Salazar pointed out that it may sometimes be easier for developing countries to collect export and import taxes at their borders than to collect taxes internally.
4. In response to a recent Japanese government survey, the Chinese government rated the capacity of its trade ministry to handle the country's WTO obligations as "unsatisfactory" (Japanese APEC technical assistance survey). In its Integrated Framework Needs Assessment, the government of Mozambique said that "specific information and understanding of WTO agreements and their impact on a range of sectors is negligible at both the public and local private sector levels". The government also characterised its trade analysis and negotiating capacities as "severely limited" (p. 3). In a report prepared for an Integrated Framework donors meeting, the Tanzanian government characterized its own and the Tanzanian private sector's understanding of Uruguay Round agreements as "very weak" (Final Report, p. 22). In its Integrated Framework Needs Assessment, the government of Uganda described its trade analysis and negotiating capacities as "almost non-existent."
5. P. Lance Graef, "Building WTO Expertise in Sub-Saharan Countries". Paper prepared for WTO-Related Technical Assistance Symposium for Sub-Saharan Africa, Seattle, Washington, 29 November 1999, p. 3.
6. In his case study of Ghana, Solignac-Lecomte concluded that the dispersion of authority across several ministries has harmed the effectiveness of trade policy in Ghana. In a paper prepared for a donor's meeting under the Integrated Framework, the government of Tanzania explained that trade was suffering from the absence of a single government agency with lead responsibility for export development. (Ministry of Industry and Commerce, Government of Tanzania, "Report Prepared for the Consultation on Trade-Related Assistance", 13 November 1999, p. 13.)
7. According to a UNDP strategy paper for trade capacity building in Africa, "Despite the general endorsement of export-led development as one of the few options for most countries in Africa, few governments have elaborated a comprehensive and coherent strategy to promote trade". ("Supporting Capacity Building for Trade and Development in Sub-Saharan Africa: A Framework Paper", Fifth Inter-Country Programme for Africa, Regional Bureau for Africa, UNDP, 8). It has been suggested that developing countries that have not made trade a top priority may in part be taking cues from donors, some of which have not made trade a priority in their assistance programmes.

8. A recent assessment of the African Enterprise Network initiatives concluded that in most African countries, "There is generally no established process for permanent dialogue and exchange of information between the public and private sectors on trade issues". ("Case Study of East African Enterprise Network, Southern African Enterprise Network, West African Enterprise Network", prepared by Deborah Orsini, Management Systems International, Washington, D.C. Reprinted by DAC/OECD as document DCD (2000)10/ANN5, p. 18.)
9. T. Ademola Oyejide, "Interests and Options of Developing and Least-Developed Countries in a New Round of Multilateral Trade Negotiations", G-24 Discussion Paper Series (UNCTAD and the Center for International Development, Harvard University), May 2000, p. 23.
10. The Tanzanian government told donors participating in the Integrated Framework that "The capacity weakness among exporters is a cause and a consequence of the absence of a formal mechanism for dialogue between the government and exporters". (Ministry of Industry and Commerce, Government of Tanzania, "Report Prepared for the Consultation on Trade-Related Assistance", 13 November 1999, p. 21.)
11. The Tanzanian government estimates that "unrecorded" exports could be more than twice as large as officially recorded exports. Even a disparity half as large would indicate a data collection deficit that would substantially undermine the analysis required for effective policy-making. The fact that large amounts of trade occurs in the informal economy in Tanzania – a situation replicated in other developing countries – suggests that governments are also failing to collect potentially large amounts of tariff and other trade-related revenue.
12. Factors contributing to the scarcity of direct foreign investment in many developing countries include poor infrastructure, inadequate skilled labour, the small size of many developing country domestic markets, capital controls, unstable legal and regulatory systems, lack of continuity in economic policy, cumbersome administrative procedures, corruption and concerns about political instability or conflict.
13. In its Integrated Framework Needs Assessment, the government stated that Bangladesh was host to 135 business associations and 55 chambers of commerce, but that only 16 of these groups were able to provide trade promotion services. (Needs Assessment, p. 12.)

4 Formulating a Durable Policy Framework for Trade Development

Developing countries wishing to improve their trade performance obviously face many challenges. Capacity gaps need to be addressed in a wide range of areas, often simultaneously, and an unusually diverse array of stakeholders needs to be engaged. And trade development efforts need to be embedded, or mainstreamed, in a broader development framework encompassing a poverty-reduction strategy, sound macro-economic policy, adjustment mechanisms, and policies designed to stimulate private enterprise. Finally, the continuing evolution of the global economy, of the institutions of the MTS and of individual developing economies means that the character of trade development challenges will change over time.

Help put in place effective and sustainable trade policy frameworks and processes

The breadth, complexity and continuing evolution of trade development challenges have led towards a consensus that one of the principal objectives of trade capacity building should be to help developing countries put in place effective and sustainable trade policy frameworks and processes. Indeed, the record suggests that no country has been able to achieve substantial gains in trade without an effective trade policy framework. Such a framework and process will, of course, be constructed from a set of discrete institutions and arrangements, each of which needs attention from developing countries and donors. But the collective efforts of donors and developing countries should be guided by a vision of a trade policy process capable of implementing a trade development strategy rooted in an overall national development strategy (Figure 2).[1]

This approach has several things to commend it. A sound trade policy framework and effective policy process will:

- *Enable developing countries to address a wide range of trade-related challenges and opportunities – including those that cannot be anticipated – over an extended period.*
- *Enable developing countries to sustain and upgrade trade-related capacities after donors have departed, permitting dependence on external assistance gradually to decline.* The participatory character of effective trade policy-making (discussed in more detail below) will help strengthen local capacities, as stakeholders "learn by doing" and learn from each other.
- *Facilitate local "ownership" of trade development efforts.* The involvement of a wide range of actors in the trade policy process will facilitate genuine local "ownership" of trade development and ensure that trade strategies and policies are demand-driven.
- *Reduce the risk that developing country trade policies will be influenced by the trade policy priorities of donors.* A decrease in external assistance and an increasing reliance on local capacities will minimise the chance that a developing country's trade policies will be skewed by the commercial or trade policies of donors.

The Trade Policy Cycle

There is no single correct way to structure the trade policy framework, and no two countries will adopt the same approach. Yet every country, regardless of the course it chooses, must master the same four-staged policy cycle: formulation of trade policy and strategy; preparation and execution of negotiating strategies; implementation of agreements; and monitoring and evaluation of policies and agreements.

... must be broadly inclusive

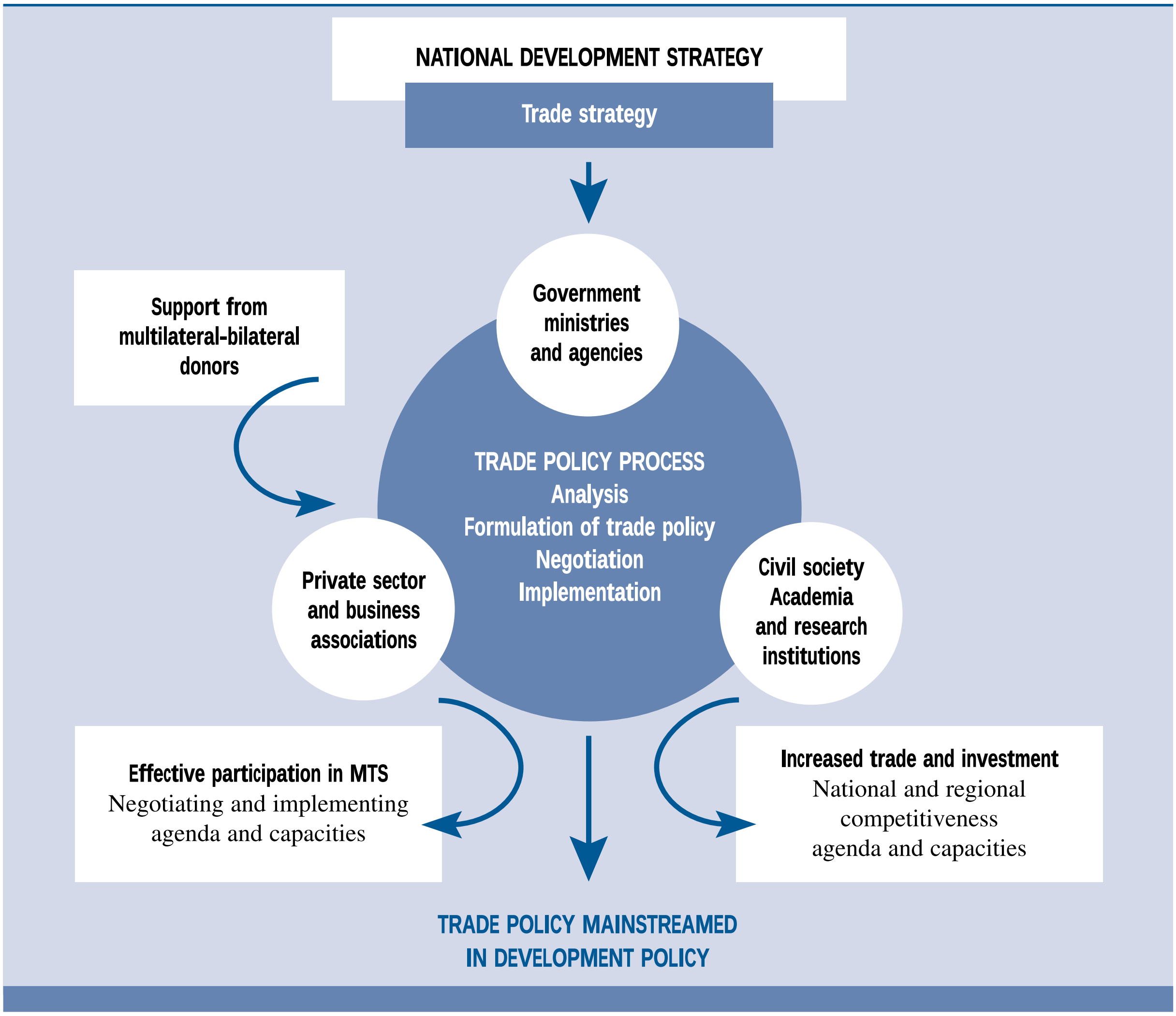
- *The formulation of trade policy* must be broadly inclusive, involving significant contributions from the enterprise sector and civil society. It is also heavily analytical. Governments must have a sophisticated understanding of the principal regional and multilateral agreements to which they are parties and of the international commercial developments that affect their economies. They must have the data collection and analysis capacities to understand the strengths and weaknesses of their economies as a whole, and the particular challenges facing individual sectors. Enterprises must have an understanding of their own competitiveness problems and a sense of the opportunities available to them in international markets. Civil society groups need a capacity to monitor the economic and social impact of trade-related policies and developments.
- *The preparation of negotiating positions and strategy* also needs to be broadly inclusive. To produce satisfactory agreements, negotiators need a detailed understanding of the interests, concerns and capacities of key domestic stakeholders. Governments need to know what key constituencies hope to achieve through negotiations and what they are prepared to give up. A number of developing countries have addressed this requirement by inviting representatives of industrial associations and NGOs to join official trade negotiating teams. As trade negotiations proceed, negotiators also need to know whether, from the perspective of the relevant government departments, various negotiating proposals can be successfully implemented. If the formulation of trade policy and negotiating positions has been characterised by inclusive consultations, the outcome of negotiations is likely to be considered legitimate by non-governmental stakeholders and implementable by the principal policy actors.

Responsibility for implementation may reside in...

- *Responsibility for implementation* may reside in a number of government departments and the legislature. Indeed, trade ministries may play only a secondary role in the implementation of agreements. The difficulty and cost of implementing trade agreements will therefore depend on the capacities and priorities of a range of government departments.
- *Monitoring and evaluating* international trade developments, policy and agreements will, again, require frequent input from enterprise and civil society stakeholders and policy co-ordination among a wide range of government departments.

A defining feature of the trade development status of many least-developed countries today is the absence of the human resources and institutions necessary to conduct each of the four stages of the trade policy cycle competently. Most middle-income countries, by contrast, have built working trade policy machinery in recent years, though many still seek to strengthen capacities important to its effective functioning. It is difficult to overstate the importance of the requirement that donor strategies always be carefully calibrated to the needs of countries at different income levels.

Figure 2. National development strategy and the trade policy process



Although it is not possible to describe a single policy framework that is ideally suited to promoting trade, recent capacity building efforts point to several features or arrangements that have tended to promote success. Donors and developing countries should seek to construct trade policy frameworks with the following elements:

- A coherent trade strategy that is closely integrated with a country's overall development strategy.
- Effective mechanisms for consultation among three key sets of stakeholders: government, the enterprise sector and civil society.
- Effective mechanisms for intra-governmental policy co-ordination.
- A strategy for the enhanced collection, dissemination and analysis of trade-related information.
- Trade policy networks, supported by indigenous research institutions.
- Networks of trade support institutions.
- A commitment by all key trade stakeholders to outward-oriented regional strategies.

Box 7. The Philippines approach

- Enshrine export development as a priority in law
- Formally integrate export development into the national economic development plan
- Institutionalize the public-private sector partnership through a joint apex co-ordinating organisation and strategy implementation teams
- Designate one umbrella organisation to represent the private sector's concerns and interests
- Implement export promotion in tandem with industrial development and investment promotion strategies
- Cluster sectors on the basis of common priority export support needs
- Regularly monitor and update the strategy

Based on the report prepared for the 1999 Executive Forum by Maria Rosario Q. Franco, independent Trade Strategy Consultant, Manila.

A Coherent Trade Strategy

… the indispensable point of departure

A carefully designed, mainstreamed trade strategy – a vision of how a national economy, given its strengths and weaknesses, should link with the global economy – is the indispensable point of departure for successful trade development. Without such a blueprint, it will be difficult for countries to set goals and evaluate progress towards them, to assign responsibility for critical tasks, to conserve scarce financial resources and personnel and to make good use of available development assistance. Indeed, there are no cases of developing countries that have made major advances in trade performance without such a strategy. But many countries that have yet to experience an export take-off (including Ghana, one of the case study countries for this project) have lacked coherent trade development strategies.

A trade strategy must address critical questions

A trade strategy must address critical questions:

- What are the principal barriers to trade development and how can they be addressed?
- What should be the country's policy stance with respect to its regional trading partners?
- What should be its priority objectives in multilateral trade negotiations, and what should it be prepared to concede?
- What macroeconomic or structural policy adjustments will be needed to support an export and investment take-off?
- What are the principal challenges related to infrastructure policies, investment and trade financing?
- How should a trade development plan be linked to the larger development framework?
- How can the contribution of trade to poverty-reduction be maximised?
- What are the likely impacts of trade-induced price changes (especially in agricultural products) on household expenditures, consumption and poverty levels?
- How will trade liberalisation affect relative prices in the tradables and other sectors? Are there specific labour or social rights of women that are vulnerable?
- How is trade liberalisation affecting the gender division of labour between and within sectors?

Box 8. Lessons from Japan-Vietnam Joint Research (JVJR)

The purpose of the JVJR is to assist Vietnam with analysis and policy advice in the course of implementing the Vietnamese Five-year Plan for Social and Economic Development which includes a broad economic reform agenda. The JVJR has focused specifically on securing participation in the research from key Vietnamese stakeholders, in particular, the Vietnamese Ministry for Planning and Investment and staff from the affiliated Institute for Development Strategies and the Central Institute for Economic Management. Other Ministries, the Vietnam National Bank and National Economic University have also contributed. The success of the programme has been due to continuous dialogue with counterparts, a respect for ownership, and the opportunity for the Vietnamese to understand and choose from several policy options.

- What are likely to be the adverse social or economic consequences of trade expansion or new foreign investment?
- What role should enterprise and civil society stakeholders play in the trade development effort?
- What roles are these stakeholders able and willing to play?
- Where will any additional resources needed for trade development come from?
- What should be requested of donors?

To be durable and effective, the trade policy framework must be characterised by…

Many developing countries will welcome donor support for their initial effort to design a trade development strategy. As noted earlier, though, a principal goal of donor support should be to help developing countries establish a durable and effective framework through which they can continually revise and update trade strategy and policy on their own. To be durable and effective, the trade policy framework must be characterised by two critical and overlapping consultative processes, one bringing together governmental and non-governmental stakeholders and the other involving policy-makers.

Consultation Mechanisms

The formulation and implementation of sound trade development strategies and policies require concerted consultation among senior representatives of three key sets of stakeholders: government, the enterprise sector and civil society institutions like trade unions and consumer, environmental and social justice NGOs. The precise way this consultation is structured is less important than the seriousness with which it is treated by the participants, the fidelity with which they represent the views of their constituencies and the quality of the leadership the consultation provides to the trade policy process.

… reach agreement on national trade development goals

The initial objective of stakeholder consultation should be to reach agreement on national trade development goals and a plan for achieving them. A stakeholder consultative group may also be charged with the continuing refinement of trade strategy in response to success, failure, and changing circumstances. The same body, or perhaps a group of deputies, can also be assigned a role in providing guidance on the policies and practices through which the national trade strategy is implemented. Another potentially valuable function – for which private sector participation is essential – may be to help co-ordinate the provision of trade support services. Finally, a commitment by senior officials to a formal, ongoing trade policy dialogue will signal high-level concern about trade, bolstering the dedication of mid-level officials, executives, and other participants in the policy process.

Box 9. Examples of consultative mechanisms

The Philippines Export Act gives the Export Development Council, an apex body, overall responsibility for formulating and co-ordinating the national export development effort. The Export Development Council includes eight cabinet-level representatives and nine private sector representatives. The Council, chaired by the Secretary of the Department of Trade and Industry, meets monthly, "ensuring that export development and the monitoring of the strategy remain an on-going pre-occupation among senior policy-makers and business leaders".[2] The work of the Export Development Council is supported by a set of "networking committees," private sector-led bodies that make recommendations on specific sectoral matters.

The government of Mauritius meets twice annually with the Joint Economic Council, a grouping of the country's leading private sector associations, including the Chamber of Commerce and Industry, the Chamber of Agriculture, the Mauritius Employers' Federation, and organisations representing many of the leading industrial sectors or interests. Representatives of the Joint Economic Council have also served on the country's negotiating team for Lomé and other regional and multilateral trade agreements. In addition, the government, trade unions, and the Employers' Federation consult on trade and other economic matters in regularly scheduled tripartite meetings.[3]

Who should participate in national trade policy consultations?

Who should participate in national trade policy consultations? Governments will need to be represented by senior officials from all of the ministries or departments with responsibility for trade-related matters. Legislators should also participate. The enterprise sector should be represented by the officers of leading industrial and agricultural associations, and civil society by trade union and NGO leaders. Consultative mechanisms have been set up successfully in a number of the more advanced developing countries (Box 9).

A critical first step toward building effective stakeholder dialogue…

Many developing countries, however, especially the LDCs, lack enterprise associations with the competence to advocate for industrial or sectoral interests in the national policy process or in international markets. Many NGOs are also poorly organised and funded and have limited access to policy-makers. Given the weakness of many of LDC enterprise associations and NGOs, a critical first step toward building effective stakeholder dialogue in some countries will be to support the development of private institutions that can be effective interlocutors with government. Indeed, in these and other countries, a wide range of donor support may be needed to launch effective national trade policy consultations. Several donors, as well as industrial country NGOs and business associations, are already offering technical assistance and training to governments, business groups and NGOs participating in national trade strategy exercises. The goal of assistance in this area should be to help draw into trade policy consultations as wide a range of trade policy perspectives as possible, including those of stakeholders concerned about potentially adverse consequences of trade development.

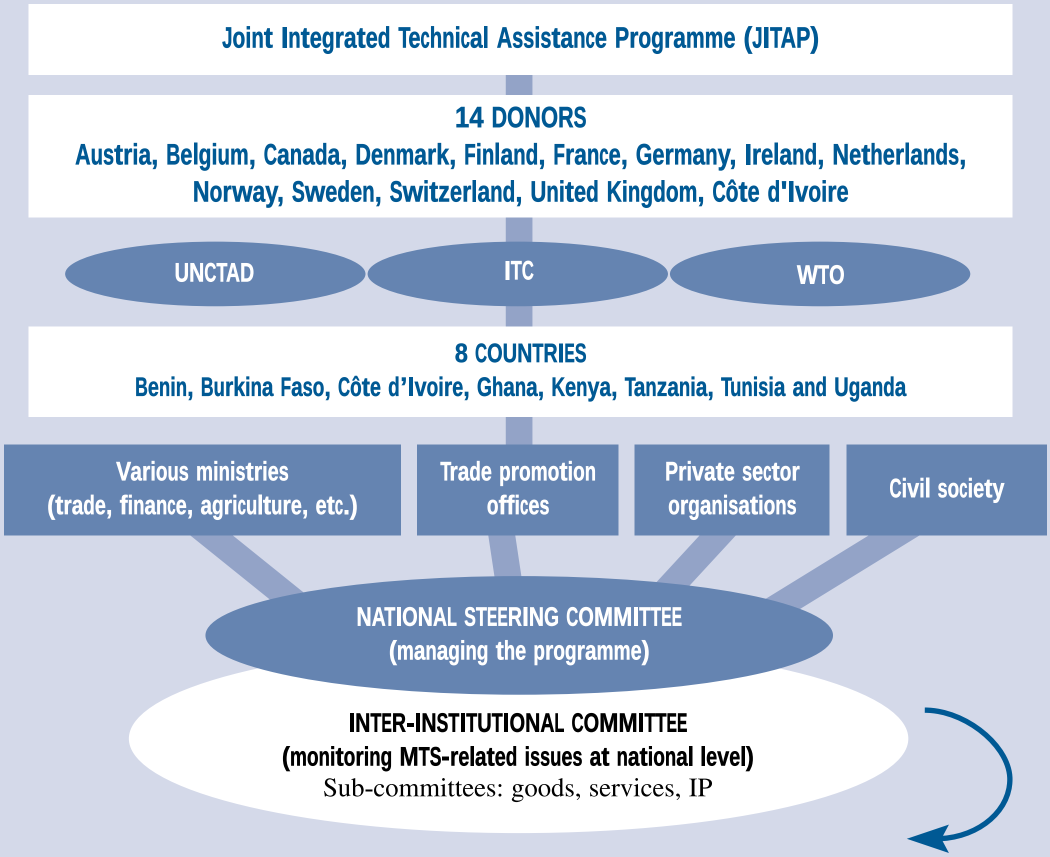
…successfully brings key stakeholders together …

An initiative that has successfully brought key stakeholders together through donor support is the Joint Integrated Technical Assistance Programme (JITAP) managed by the WTO, the ITC and UNCTAD (Figure 3). A key component of this programme is the development of national networks of persons having substantive knowledge of MTS issues.

The architecture of JITAP provides an enlightening perspective on the scope of trade-related technical assistance (the clusters) and who the actors are. The key features:

- An integrated approach to capacity building, addressing a wide range of issues – the 15 clusters – which are critical to the active and productive involvement of the programme countries in the multilateral trade system.
- The inclusion of a wide variety of stakeholders both as actors and beneficiaries: various ministries, trade promotion offices, private sector bodies, civil society.

Figure 3. Joint Integrated Technical Assistance Programme



Objective	Activities
Assistance to customs	Demand-led TA for implementation of CVA, etc.
Legal adjustment and business environment	Demand-led TA
Resource centres on MTS	Documentation and internet access for administration, businesses and academics
Trade information management	Review of national trade information services, development of a national network of trade information producers and providers
Networks	Internet-based discussion facility for programme partners and national networks
Human resource development; improvement of MTS knowledge	Training of trainers in MTS
Analysis of MTS impact on national economy and trade policy adaptation	Study + symposium
Formulation of sectoral export strategies	Human resource development; assessment of export and market potential
Formulation of firm-level export strategy	Trade secrets, the export answer book for SMEs
Export financing	Generic manual on how to approach banks; analytical studies on export financing arrangements
Quality management and export packaging	Support to national enquiry points (within national standards bodies).

Notes: TA – technical assistance
CVA – Customs Valuation Agreement
MTS – Multilateral Trading System

Box 10. Can an integrated approach work?

Joint programming by ITC, UNCTAD and WTO: The Joint Integrated Technical Assistance Programme (JITAP)

The ITC-UNCTAD-WTO Joint Integrated Technical Assistance Programme (JITAP, see www.jitap.org) – implemented since mid-1998 in eight countries* – constitutes an innovative approach involving joint programming among UN agencies. Its experience so far offers extensive insights into the methodologies and mechanisms for trade-related technical assistance (TRTA).

The October 2000 Mid-Term Evaluation report concluded that JITAP was making a valuable contribution to the more active involvement of beneficiary countries in the MTS, and provided the most comprehensive framework for TRTA at the country level. In most cases, it was actually the only effective attempt at enhancing a country's capacity to handle the various aspects of participation in the MTS.

Response from beneficiaries has been good in most cases.

Implementation was a bit slow in the early stages, mostly due to the requirements of an elaborate programming exercise, but impact was already tangible, particularly in terms of awareness of MTS-related issues, human resource development, capacity building in the various national agencies and enhanced dialogue among stakeholders.

Co-ordination among the agencies has been good, especially in the programming and in the early stages of implementation. It is seen as clear indication that an integrated approach CAN work, although continuous attention and a re-boost at certain moments may be necessary.

Improvement and consolidation are needed in certain areas: more flexibility overall; a more active involvement of entrepreneurs (which implies finding new ways of understanding their actual concerns and perceptions, and of reaching them); a more active involvement of universities, academics and professional trainers, including private consultants; and the establishing of partnerships in the field with bilateral and multilateral donors.

Among the many bilateral and multilateral TRTA experiences, JITAP stands out because of its unique process-oriented approach, based on a comprehensive analysis of the various aspects of trade policy making, and its attempt at not just creating "static" capacity, but at triggering an inclusive trade policy process, bringing the various stakeholders on board.

The report concluded that JITAP should be seen as a country-level catalyst for TRTA by donors. It recommended that a follow-up be considered in current JITAP countries, as well as an extension to new countries, based on a careful analysis of the realities of policy making in each country.

* Benin, Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Tanzania, Tunisia and Uganda.

Source: De Silva, L., HB Solignac Lecomte, H. Haefliger and M. Kaur Grewal, 2000, *Report Of The Mid-Term Evaluation Of The Joint Integrated Technical Assistance Programme (JITAP)*, Geneva: ITC/UNCTAD/WTO.

- A combined process- and output-oriented approach. Policy is the result of consultation and joint implementation. The dynamics of managing the programme – through sharing the responsibilities among several actors within the National Steering Committee, instead of appointing a single manager – promote an inclusive trade policy process.
- A unique joint endeavour by the three leading multilateral trade agencies to address these issues, drawing on their complementary strengths. A key factor of success is the explicit location of management in the ITC.
- A hybrid approach – a blend of country and inter-country (sub-regional) activities – to the design and implementation of programme activities (although funds pledged are largely country-specific).
- Extensive donor participation in the funding arrangements – the expected overall figure is more than $7 million, from 13 donors, for three years.
- A management model, with several layers – in Geneva, where the three agencies and the donor community are involved, a sub-regional layer, based in Kampala and Abidjan respectively for East and West Africa and co-ordinating mechanisms at the national level.

Policy Co-ordination

The second consultative process critical to effective trade policy is the one within developing country governments. As with stakeholder consultations, the machinery for successful policy co-ordination can take a number of forms. But the multilateral trading system and international markets have become much more complex over the past two decades, and the number of government entities whose expertise or assent is needed to make sound policy has grown correspondingly. Developments in international trade and investment today frequently have implications for the core work of ministries responsible for finance, infrastructure, social welfare, labour, economic planning, statistics, justice and foreign affairs. The reverse is also increasingly true: policies formulated well beyond trade ministries have implications for trade.

All the ministries and cabinet units must be systematically engaged

Yet officials in these disparate government departments do not always fully recognise the trade implications of the matters under their jurisdiction. Not surprisingly, interagency discussions of trade issues may be infrequent and ill-informed. To be effective, all the ministries and cabinet units whose work affects or is affected by trade must be systematically engaged in trade policy discussions.

With effective mechanisms for stakeholder consultation and for interagency co-ordination in place, developing countries can tackle a series of tasks relevant to the development and ongoing refinement of trade strategy and policy. Private sector representatives can alert policy-makers to trade and investment obstacles and take the lead in crafting sector-specific trade development strategies. Governments can preview new policy initiatives with key stakeholders. Civil society representatives can sensitise policy-makers and private sector representatives to the potential social costs of new trade policies. Internally, and in consultation with non-governmental stakeholders, governments can evaluate current strategy and policy and make necessary mid-course corrections.

Trade Information

Access to information is essential…

Access to information on international trade policy and market developments is so essential to effective policy-making and commercial success that it deserves special attention in any effort to strengthen the trade policy framework. Policy co-ordination depends critically on an unimpeded flow of information among the numerous government departments with responsibility for trade-related matters. Effective policy-making also requires access to up-to-date information on international trade policy and market developments and to trade-related materials produced by other governments and by multilateral organisations. Export competitiveness and investment development likewise require access to current information on trade rules, foreign market opportunities, and international health, safety and environmental standards. A plan for improving information flows and access needs to be a significant part of a national trade development strategy.

New information and communication technologies (ICTs) offer powerful tools

New information and communication technologies (ICTs) offer donors and partner countries powerful tools for addressing the information requirements of policy co-ordination and competitiveness. By facilitating real-time interaction and the rapid and inexpensive distribution of data and documents, these technologies can make an indispensable contribution to the flow of information within governments, between governments and key stakeholders, and between governments and international institutions. The same qualities will enable these technologies to dramatically enhance public and private sector access to vital, often time-urgent information on trade policy matters and commercial developments. Applied to commercial needs, information technology can enhance foreign export marketing, improve the access of exporters and importers to foreign market information, establish and sustain linkages between buyers and suppliers, and facilitate access to training and technical assistance. ICTs can also strengthen trade-related development co-operation by increasing the flexibility and reach, enhancing the content and reducing the cost of many kinds of technical assistance.

… Requires advanced equipment and trained technical personnel

Taking full advantage of new information resources requires advanced computer and telecommunications equipment and trained technical personnel. Providing the necessary equipment and human resources to developing countries will be costly. It is also important to recognise that the application of information technology to the trade policy process is still at an early stage. ICTs are changing rapidly, and their full potential has yet to be tapped. Assessments of their effectiveness in trade contexts are scarce, and new strategies for the application of these technologies to the policy process still need to be devised.

Trade Policy Networks

Links to non-governmental sources of trade-related research, analysis and dialogue

The analysis, information and technical dialogue that are so essential to sound trade policy cannot be produced and consumed solely by governments. Policy-makers need to be linked through informal and formal networks to non-governmental sources of trade-related research, analysis and dialogue. Networking can support the formation of a "critical mass" of human and institutional resources that overcomes the limits to sustainability inherent in the old approach to capacity development, which focused on individual countries and institutions and a small number of specialists. Governments and donors should make the construction of these networks a top trade development priority.

Trade policy networks can be formal institutions or informal arrangements – national or regional in scope. Several formal networks have been formed during the past decade, including the Latin America Trade Network (LATN), launched in the early 1990s by Faculdade Latinoamericana de Ciencias Sociales (FLACSO) in Buenos Aires, the newly formed Southern Africa Trade Network (SATRN), headquartered at the Botswana Institute for Trade and Policy Analysis and the CAPAS network (Co-ordinated African Project of Assistance on Trade in Services), launched in 1992 by the Eisenhower Center of Columbia University and UNCTAD. A central objective of each of these networks is to link researchers with trade policy-makers within a particular region. Indeed, many of the researchers involved in these networks participate in policy working groups organised by governments.

The ITC-Supported *World Tr@de Net* is one promising approach. Its objective is to address knowledge gaps on multilateral trading system issues through the creation of national and regional networks of experts and trainers. Drawn from government, enterprise associations, and academia, these specialists will help build and sustain trade-related knowledge in their respective professional communities. They will be linked to each other, and to regional and multilateral networks and information resources, through reference centres in ministries, universities, and business associations. Another networking initiative, the new Africa Knowledge Networks Forum does not have an exclusive trade focus but may still be of interest to donors and others seeking to strengthen trade-related capacities. The forum, sponsored by the Economic Commission for Africa, is intended to facilitate ongoing interaction among African research networks, policy-makers and training institutions. It plans to maintain a comprehensive database of African expertise across a range of disciplines, enabling policy-makers to track down relevant research and analysis.

Availability of indigenous research capacities

A key prerequisite for effective trade policy networking and policy-making is the availability of indigenous research capacities outside of government, in universities or independent research institutes. The record of FUSADES in El Salvador, described in one of the case studies for this project, demonstrates the potentially valuable analytical contributions that a non-governmental research institution can make to the trade policy process. Another example is the African Economic Research Consortium, a research network with institutional and individual participants from a dozen East African countries. The Consortium, supported by donors and private foundations, has had considerable success training African economists and sponsoring policy-relevant research.

Trade Support Institutions

Developing countries need to build networks of trade support institutions (TSIs) capable of providing five kinds of services to exporters: trade policy information and commercial intelligence; export promotion and marketing, product development, financial services and training. Since no single institution or firm can provide all of these services effectively, national and regional networks of TSIs, each focused on providing a limited range of specialised services, can play an essential role in promoting exports and investment (Box 11). This network model is a departure from the traditional approach, in which a government trade-promotion organisation attempted to meet most of the trade support service needs of exporters.

Developing countries need to build networks of trade support institutions (TSIs)...

A wide range of entities, both from the private and the public sector, can provide trade support services, including:

- Institutions that offer technical assistance on product quality standards (metrology, conformity assessment).
- Packaging design consultants.
- Commercial banks and other financial institutions that offer trade credits and guarantees.
- Freight forwarders and shippers.
- Trade entry points.
- Chambers of commerce and industry.
- Industrial development and investment promotion agencies.
- Research and development organisations.
- Sector-specific export councils.
- Training institutions (universities and business schools).
- Small business development agencies.
- Enterprise and professional associations (manufacturer, exporter and product sector associations).
- Consulting firms.
- Overseas commercial representatives.

Within a TSI network, an institution's comparative advantage may consist of either its built-in technical specialisation or its privileged relationships with markets, suppliers and partners. Some competition among TSIs can be productive. At the same time, though, an appropriate government entity can provide leadership and co-ordination. A centrally positioned co-ordinating entity can help the support-service chain function effectively by developing operational linkages among ministries, TSIs and the business community. A co-ordinating body can also ensure that the full cross-section of services is available.

An institution's comparative advantage may consist of...

Box 11. Development of a trade promotion network in Vietnam

Vietnam lacks a strong trade support service infrastructure. ITC, with the support of the Government of Switzerland and UNDP, is thus launching a project on trade promotion and export development in Vietnam. The first principal activity of the project is to work with a wide range of business support institutions and government ministries and agencies to draw up the blueprint of a "trade promotion network". It will draw on the experience of four countries: Australia, Switzerland, Thailand and Malaysia who are all moving basic trade support functions away from the traditional, centralised Trade Promotion Organizations towards a network of many, highly-specialised support institutions.

The network will be organised around the four basic functions of trade development and trade promotion: *(i)* trade strategy and trade promotion; *(ii)* trade information; *(iii)* product development; and *(iv)* human resource development. In the area of trade information, several information providers (Chamber of Commerce and Industry, Bar Association, a government trade information institution, a private sector web-base data provider, and others) have already established an informal network among themselves with each specialising on various dimensions of information. In the area of trade strategy and trade promotion formulation, several institutions have recently emerged that will likely form the backbone of the network in this domain including Vietrade (Ministry of Trade) and several product associations (fish, shoe manufacturing, garment manufacturing and others.) Other pieces of the network are there and/or will be developed as needed.

Private Sector Linkages

While the focus above has been on strengthening consultations and communications within the public sector and between the public and private sectors, strong linkages among private-sector organisations are also a crucial aspect of trade development. The approach of some countries is to establish and support product-specific export committees. These committees assess export constraints and opportunities and develop joint market development initiatives for co-financing with the national trade promotion organisations.

Inter-firm networking gives rise to a collective learning space

Linkages between trade and industry could be particularly important for promoting the involvement of the SME sector. According to one UNIDO representative, enterprises that occupy the same position in the value chain can, through *horizontal* co-operation, "achieve scale economies beyond the reach of individual small firms, obtain bulk-purchase inputs, achieve optimal use of machinery, and pool together their production capacities to satisfy large export orders. Through *vertical* integration with other SMEs as well as with large enterprises further along the value chain, the individual SME can specialise in its core business. *Inter-firm networking* also gives rise to a collective learning space, an 'invisible college', where ideas are exchanged and developed and knowledge shared in a collective attempt to improve product quality and to occupy more profitable market segments".[4]

For inter-firm co-operation to succeed in developing countries, it usually depends on the intervention of an external agent acting as a catalyst. This can help stimulate the creation of export-led industrial clusters and networks which can then contribute to the development of knowledge-intensive elements such as design, quality improvement and R&D.

FDI can generate a variety of outputs which enhance national competitiveness

Linkages between trade and investment are perhaps even more crucial for the LDCs' export development. FDI can generate a variety of outputs which enhance national competitiveness. FDI includes not only capital but also managerial and technical know-how, organisational skills, databases and channels of market access. The greater the linkages between locally-based affiliates of foreign companies, local enterprises and public institutions, the greater the spillovers in the domestic economy. Hence the value of integrating foreign companies fully into the national systems of production, innovation and export development.[5]

Box 12. Fostering export-oriented industrial clusters and networks

The Indian Ministry of Industry has successfully pursued a national cluster-development programme to increase the international competitiveness of the small-industry sector. Its approach recognizes that efficient and competitive clusters are characterised by strong backward and forward linkages among local firms and institutions. The lessons learned from implementing the programme include:

- **Plan demand-led initiatives.**
  Every cluster has its unique dynamics in terms of needs, available institutions, service providers and networking relationships. The initiatives that need to be taken up by the trade support institution should, therefore, fill the gaps or strengthen the perceived relationships.
- **Develop local systems and linkages.**
  Industry associations and other intermediaries, such as consortia and co-operatives, play a pivotal role in reinforcing sector support systems.
- **Focus on people.**
  Cluster and network development are essentially about bringing change in the way people from firms, institutions, government and non-governmental organisations interrelate to promote a business environment conducive to export.
- **Define evaluation criteria.**
  Conventional evaluation criteria for sales, exports, employment, etc., are not sufficient to assess the impact and cost-effectiveness of a cluster-based trade and industry linkage. Qualitative criteria – such as the degree of co-operation, development of community identity, improved relationships and enhanced leadership capabilities – are equally important for building competitiveness in the long run. Experience indicates that a minimum of three to four years is required to generate sustainable impact (in terms of both development and export objectives) at the cluster level.
- **Create institutional capacities.**
  "Cluster brokers" are an important key to this type of trade-industry linkage. Resource-building institutions need to be identified and supported. Similarly, ground-level support institutions (technical, financial and otherwise) need to be supported as part of a national export development strategy.

Contributed by Mukesh Gulati, UNIDO, New Delhi.
ITC - Executive Forum, *Redefining Trade Promotion, The Need for a Strategic Response*

Outward-Oriented Regional Strategies

… are critical to successful trade development

Outward-oriented regional strategies are critical to successful trade development – and not just for governments. The economic factors that make regional trade potentially so valuable are well-known: reduced transaction costs due to geographic and cultural proximity; the economies that can be captured when production and marketing are distributed across national borders and when capital and labour are able to move to places where they will find higher returns; and the opportunity to acquire export production and marketing experience in familiar regional markets before venturing into more competitive international ones. But regionalism can strengthen trade policy-making and competitiveness in other ways, and donors and partner countries need to think systematically about regional opportunities in a wide range of trade development planning:

As regional integration deepens…

- For those countries that are parties to regional trading arrangements, discussions with regional partners on trade strategy, trade policy and multilateral negotiating positions already figure prominently in the national trade policy process (Box 13). *But as regional integration deepens, countries will find it increasingly beneficial to co-ordinate trade policy not only for intra-regional trade, but also for developments in the multilateral trading system.*

Consultations among representatives of the enterprise sectors…

- *Consultations among representatives of the enterprise sectors of neighbouring countries can help steer policy-makers toward more effective regional policies.* Consultations among civil society representatives can help ensure the social and economic sustainability of regional policies. With the help of donors, enterprises and NGOs need to form regional networks to improve access to market-related information and to prepare themselves better to advocate business and civil society interests on a regional basis. Following the lead of their governments, some enterprises have begun to organize themselves into regional networks to

Box 13. National institutional capacity for international negotiations: inter-ministerial co-ordination and public/private sector dialogue in Mauritius

Mauritius has been putting significant efforts into regional co-operation since it joined the IOR and SADC, in addition to its membership of COMESA and the IOC. Wishing to co-ordinate its commitments in these various circles, the country has developed an institutional framework in which representatives from different government departments as well as economic operators are associated in defining Mauritius's regional co-operation.

The Regional Co-operation Division

Answerable to the Ministry for Economic Development and Regional Co-operation, the division ensures that Mauritius's activities connected with regional co-operation are co-ordinated. It has the following tasks:

- Formulating regional policy consistent with national strategy.
- Encouraging the implementation of policy intended to ensure that actions undertaken at regional and at international level are compatible.
- Developing an information base for strategic planning and for formulating regional policy.
- Promoting national dialogue between the sectors on regional matters.

In this context, the Division:

- Plays the role of an observatory for regional co-operation.
- Covers both developments affecting the members of the groups to which Mauritius belongs and more general aspects.
- Acts as secretariat for the Regional Co-operation Council.
- Prepares technical notes, reports, strategic documents and the country's contributions to meetings of the IOC, SADC, COMESA and the IOR.
- Co-ordinates regional co-operation projects.
- Advises ministers on the preparation and implementation of regional projects.
- Provides the Cabinet with regular reports on matters of regional co-operation.

The Regional Co-operation Council

The council lays down national strategy for measures taken on regional co-operation and economic integration worldwide.

This forum brings political decision-makers and representatives from the business world into the decision-making process so that Mauritius can participate actively and consistently in regional groupings and on the international scene. It has a broad mandate to identify, examine and debate regional matters to promote the development of regional co-operation in general. It acts as adviser to the government and meets under the chairmanship of the Minister for Economic Development and Regional Co-operation. It includes representatives from the public and private sectors who are in contact with the deciders and operators of the region, either on the professional level or in a personal capacity.

Source: Commission de l'Océan Indien, 1998, *L'avenir de la COI – Réflexion stratégique sur la coopération régionale dans les dix prochaines années*, Maastricht: ECDPM.

improve mutual access to market-related information and to prepare themselves better to advocate business interests in the context of regional trade arrangements. The West Africa Enterprise Network may provide a model for enterprises in other regions. Having grown rapidly since its formation in the early 1990s, it includes more than 350 participants in 12 countries. Its goals are to promote intra-regional trade and investment and to improve the regional business climate. Through formal meetings and informal contacts, its members establish new business ties, exchange market leads and experience, and discuss common policy concerns.[6]

Solutions to information access problems …

- *Solutions to information access problems can often be more readily – and more cheaply – implemented on a regional basis.* Countries that participate in the same regional trading arrangement often have similar needs with respect to policy and commercial information. In cases like these, it may be more cost-effective for neighbours to share trade-related communication links and information resources than for each to try to construct them on their own. Linking up with each other in a common information network can also strengthen policy and commercial ties among neighbouring countries. This is another area in which donors are supporting promising initiatives. Canada, for example, has helped the Secretariat for Regional Economic Integration of the Central

American Common Market build an internet-based information system. The system, used by government officials and private sector actors in the five Common Market countries, offers documentation on Central American economic integration and detailed statistics on regional trade. Users report that the system has already provided valuable help during trade negotiations, and it may provide a model for a larger system that will support western hemisphere free trade negotiations.

Trade policy networks and indigenous research initiatives can thrive…

- *Trade policy networks and indigenous research initiatives can thrive and capture scale economies when they are extended across a region.* When countries conduct significant trade with each other, participate together in a regional trading arrangement, or have similar interests in the multilateral trading system, regional research and policy networking initiatives may be essential, not merely helpful, to the preparation of sound trade policy. Furthermore, it may be extraordinarily difficult – and probably unnecessary – to create within every country in a region a discrete, independent trade policy network and research capacity. Recognising this potential, donors are supporting regional research collaborations, backing numerous projects and exercises that bring together researchers and policy-makers from the member countries of regional trade groupings.
- *Cultural and language ties also make it possible for networks of TSIs to operate regionally.* Operational linkages among TSIs in different countries can help promote the expansion of trading links within a region. Regional links among TSIs already exist in such areas, as quality management and trade information.

Strengthen the secretariats of regional trading arrangements

- *Developing country governments and donors need to strengthen the secretariats of regional trading arrangements, whose analysis and technical assistance will be increasingly in demand as regional integration deepens.* Most regional secretariats are already struggling to satisfy requests for information, analysis, technical assistance and training. Strengthening the ability of regional institutions to provide these services is an effective – and cost-effective – way for donors to help build trade capacities that individual countries would be hard-pressed to build and pay for on their own.

Notes

1. It is important to stress here that the purpose of an effective "trade policy process" as defined here, is not merely to improve trade policies narrowly defined, but also to strengthen the capacity of public and private sector actors together to address matters that bear on export competitiveness.
2. "Country Studies: The Philippines", *Report of the 1999 Executive Forum of the International Trade Centre*, *Redefining Trade Promotion, The Need for a Strategic Response*, p. 7.
3. "Country Studies: Mauritius", *Redefining Trade Promotion, The Need for a Strategic Response*, p. 8.
4. Giovanna Ceglie, UNIDO, cited in *Redefining Trade Promotion*, ITC, 2000, page 25.
5. Khalil Hamdami, UNCTAD, in *Redefining Trade Promotion.*
6. With donor support, entrepreneurs in East and Southern Africa have also formed enterprise networks, but these are newer and thus far smaller than the WAEN.

5 Principles for Developing the Capacity for Trade

The preceding chapter described the principal elements of a durable trade policy framework that governments, key stakeholders and donors should help install in developing countries. This approach to building trade capacity has significant implications for donors.

For a long time, capacity building was synonymous with institution building, or technical assistance, with a focus on one institution or a few individuals. Today, it is becoming synonymous with building systems or networks – across institutions and individuals, often across borders, to achieve common objectives. The network promotes a critical mass of human and institutional resources that transcends the limits in the old approach. A key role for donors in trade development, and in general, is to facilitate the processes that lead to this critical mass. The following principles and approaches will help to facilitate this process in ways that are consistent with DAC's Partnership Strategy.

Capacity building is becoming synonymous with building systems or networks…

Co-ordinate trade capacity building efforts

The scope of the institution-building required to leave behind a sustainable trade policy framework – especially one characterised by regional linkages among stakeholders – is beyond the means of any single multilateral or bilateral donor. Furthermore, the required policy framework cannot operate effectively if the institutions and arrangements constituting it are assembled (or strengthened) independently. The design of the trade policy framework and trade policy process will naturally vary from country to country. But if the design is to be sound, and faithfully executed, there will clearly need to be a significant measure of donor agreement on objectives, the sequencing of activities and a rough division of donor labour. Donors must also stay in close touch for the duration of the institution-building process, ensuring that significant tasks are not neglected and that the parts of the framework work together as intended.

… beyond the means of any single multilateral or bilateral donor

The regional dimensions of an effective trade policy process further increase the urgency of donor co-ordination (Box 14). Co-ordination among the donors active in a given region is essential to the successful implementation of regional initiatives in stakeholder consultation, strategy and policy co-ordination, information access, trade policy networking, research and trade support services.

Both at the national and the regional level, improved donor co-ordination is not only more likely to promote more effective trade policy-making – it will also save donor resources and make them more productive. By co-financing a trade policy framework, donors will also be able to conserve funds, share risk, and leverage their own investments.

… will also save donor resources and make them more productive

Box 14. The EU approach to donor co-ordination

The European Union has been making efforts over a number of years to promote more effective co-ordination of its various assistance programmes to reinforce their coherence and complementarity. Guidelines for operational co-ordination between the Community and its member States have existed since 1998, based on the principal of on-the-spot exchange of information and consultation. These procedures have not proved easy to implement, and the EU Council of Ministers recently approved several proposals from the Commission for improving and strengthening the effectiveness of Community co-ordination measures.

- *A statement on development aid policy* focuses future EC action on six priority areas, one of which is trade and development, including assistance to developing countries with their integration into the multilateral trading system.
- *An agreement on a standard framework for country programming* of Community development assistance, based on the partner country's own development strategy, using the co-ordination mechanisms introduced by the Bretton Woods Institutions or the UNDP wherever feasible (CDF, PRSP, UNDAF). The intention is that the EU Member States and the Commission will together be active in the development and practical implementation of these new co-ordination mechanisms, based on leadership by the partner country authorities and on a much more extended process of donor co-ordination, using the PRSP or its equivalent as the basic operational tool.
- *A set of updated guidelines for operational co-ordination* between the Commission and EU Member States make specific suggestions for improving in-field co-ordination, centred on a full exchange of information and, wherever possible, work-sharing and a common strategic approach, using the new standard framework for country programming.

The Community is currently seeking to apply the new approach in the programming of its future development assistance to all developing countries, notably to the 77 ACP countries covered by the Cotonou Agreement, signed in June 2000. This approach provides an excellent opportunity for the mainstreaming of trade issues, for developing trade-sector specific programmes where these figure in the partner country's chosen priorities, and for a sharing of effort and input amongst donors in a co-ordinated and transparent manner. It is entirely consistent with the integrated approach to trade policy capacity building being developed via JITAP or the Integrated Framework for LDCs. The Community is convinced that if trade policy support is to be successfully mainstreamed in the development co-operation agenda it must be introduced at an early stage into this country and regional programming process and at the same time be integrated fully in the wider context of CDF/PRSP/UNDAF preparations. Improved donor co-ordination is essential to the success of both activities.

Ensure that trade capacity building activities are comprehensive in scope and integrated in execution.

Efforts in one area must be implemented jointly with efforts in other areas

The principle that development co-operation efforts should strive to be comprehensive and integrated is more than a mantra – it is critical to the success of efforts to build viable trade policy frameworks. Assembling such a framework will require action in multiple areas, involving multiple stakeholders, and efforts in one area must be implemented jointly with efforts in other areas. A comprehensive approach will also help countries to identify priority needs and donors to identify and co-ordinate priority interventions.

Donors need to make a special effort to reach out to a wide range of key stakeholders, including those concerned that expanding trade may harm their interests, and involve them in the design of projects, especially those aimed at creating consultative mechanisms. Donors also need to ensure that new policy co-ordination mechanisms involve the full range of government departments with an interest in trade policy. And they need to devote resources to the building of capacity in government departments other than trade ministries.

Box 15. The role of ITC in capacity building for trade

A sound macroeconomic environment and effective trade policies are essential but not sufficient conditions for integrating developing countries in the multilateral trading system. There is also a need to develop supply capacities by way of product development, strong marketing skills, efficient trade support services and operative trade development strategies, including sectoral action plans. Building capacities at the operational level of trade development, with a view to improving the competitiveness of the individual enterprise, is at the core of ITC's mandate.

Specifically, ITC's goals are:

- To build national core expertise to master and address the business implications of the evolving MTS-related regulatory framework and formulate negotiating positions on the basis of a good understanding of product and market reality and potential.
- To enhance national capacity to formulate export strategies, particularly at product/sectoral level, grounded on realistic assessments of supply capacities and international demand and an understanding of international commercial practices.
- To strengthen the capacity of trade support institutions to provide effective services to the business community.
- To improve trade performance and facilitate export diversification in selected key product and services sectors; and
- To foster international competitiveness at the enterprise level through improved performance at all levels of the export development process by using tools, guides and opportunities for practical experience.

At global level, ITC follows a "product-network" strategy that involves the participative development of generic products such as diagnostic tools, learning systems, practical guides, information management tools, databases and Internet applications. These tools are supplied through a network of partner institutions (multiplier agents) responsible for their national customisation (both in terms of content and pedagogical approach) and widespread applications, thus minimizing costs and application lead time, and maximizing reach, feedback and sustainability. Subject to the availability of resources, more in-depth and tailor-made assistance is provided at country level.

Foster local ownership and participation in all trade-related development co-operation activities.

… are defining features of an effective trade framework

All trade capacity constraints and trade development challenges are most acutely perceived by businesspeople and civil society representatives. That is why local participation and consultation – among stakeholders, within governments and across regions – are defining features of an effective trade framework. By helping developing countries build such a framework, donors will ensure that the trade development process is locally-owned and demand-driven.

A well-functioning trade policy process will also promote local ownership by minimising the risk that the trade or commercial interests of donors will conflict with those of partner countries. And once the trade policy process is up and running, the key actors will take firmer control of their relationships with donors, identifying with greater precision objectives that can be achieved with additional donor support.

Devise and embrace approaches that will strengthen sustainability

If the trade policy process is truly participatory and inclusive…

If the trade policy process is truly participatory and inclusive, the engagement of stakeholders in policy deliberations will itself build local capacity and strengthen sustainability over time. But donors need to think more systematically about ways to increase the sustainability of trade capacity building efforts. And they must tailor their responses to partner country needs and capacities.

Box 16. EPZ: Incubator for trade development

Today's Economic Processing Zone is a logical outgrowth of yesterday's Export Processing Zone – a special rule-defined area of economic activity meeting social and political objectives. While the old model EPZ has been criticized as static, labour-intensive, incentive-driven, and exploitive, the new EPZ is dynamic, investment-intensive, management-driven and empowering.

The Economic Processing Zone is a policy tool for government to achieve certain specific objectives. Each zone can be designed to overcome restrictions in trade and development. Problems can include inferior infrastructure, ineffective government administration, and economic and social instability. Limited resources may not permit the country, or even the international community, to solve them quickly for a country as a whole, but a modest investment in a new EPZ can ameliorate them in a small area so that the country can begin to benefit from increasing global linkages and learn by doing what is required to succeed in the global market.

The new EPZ is where a nation may learn to manufacture and trade in non-traditional products and services. It frequently has superior infrastructure, transparent operating environment, and responsive management. It attracts both foreign and domestic investment to serve the global market, which includes the country's domestic market. As confidence is gained, the EPZ environment is duplicated in other parts of the country, and the early industry begins to move out of the original zone structure. Meanwhile, the EPZ itself is dynamic. Zone management aims to provide a business environment that is always superior to that of the rest of the country. It deliberately attracts the next more sophisticated level of investor in terms of value-added per worker, capital invested per worker, and/or level of technology. The Economic Processing Zone is an incubator.

The most advanced of these modern EPZs is the "old" zone in Kaohsiung, Taiwan that began with simple sewing and moved through fashion garments to electronic assembly, then to electronic design and testing, research and development, and now is looking toward hosting corporate headquarters and billion-dollar global logistics centers. The Kaohsiung Zone has been developed in 35 years and has paid for itself by accounting for over US$30 billion of net foreign exchange earnings (1/3 of the total of Taiwan). Meanwhile, Bangladesh EPZs have moved much of the garment industry out into the countryside, and started to attract the higher value-added jobs in textile mills and electronic assembly. Some Chinese SEZs are also in transition having lost some of their earlier investors to sites further inland and brought in higher technology investors.

These successful zones share common characteristics.

- **Support from the highest levels of government** to create a truly international business environment.
- **Locations near the nation's best transportation links and population centres.**
- **Programmes to spread successful practices to other parts of the country** which can be done with additional zones as in China, through programmes that provide zone benefits to individual factories, as in the USA, Mauritius, Tunisia, Bangladesh and India, and through the ability of zone companies to subcontract work out into the domestic economy under Customs supervision, as in Korea.
- **Strong management teams help the corporate investor succeed** e.g. one zone management convinced the state Education Department to provide teachers and grant degrees to workers interested in continuing their education in facilities provided by the EPZ.
- **EPZ management commitment to ensuring the success of their investors,** thus seeking and selecting only those investors who can best utilize their own emerging EPZ facilities, steering others to the diversion programmes cited above.

Contributed by: Robert C. Haywood, Director
World Economic Processing Zones Association (WEPZA)

New development co-operation techniques and strategies may be needed. "One-off" initiatives, in which foreign technical experts spend weeks or even months in-country working on a problem but leave little expertise behind, are not only ineffective: they also generate disillusionment among developing country officials and executives. An alternative approach is to post expatriate technical specialists in ministries or private sector associations for extended periods – one or two years, perhaps. Sustained interaction with a single trade specialist can strengthen the quality of policy-making in many LDCs, where trade ministries and business groups are often staffed by just a handful of full-time officials.

Donors also need to do a better job of identifying and using local talent when staffing projects. Greater use of national experts could be fostered by having better information on local expertise, being more flexible in recruiting experts and decentralising authority to field staff. But in their recruitment of project management staff, donors need to take care that they do not drain undermanned government ministries and enterprise associations of their most qualified personnel. Overseas observation missions, another capacity building strategy favoured by many donors, can also limit the availability of local officials and executives, and should be carefully designed.

… identifying and using local talent when staffing projects

Strengthen donors' own trade-related capacities

The trade development agenda proposed here will impose new demands on the skills and knowledge of donors. Expertise in building institutions (public sector, private sector and hybrid) and consultative mechanisms will become especially important. So will strategies for nurturing policy and support service networks. Strengthening stakeholder consultation and policy co-ordination will require improved facilitation skills, especially in the field. Knowledge of multilateral and regional trade policy and issues needs to be enhanced in the field and in headquarters. Increased expertise on the enterprise and NGO sectors will also be useful.

New demands on the skills and knowledge of donors

In light of the fact that donor involvement in many kinds of trade capacity building is still fairly new, donors might benefit from a systematic exchange of information on each other's programmes and experiences. One way to facilitate such an exchange would be to construct an Internet web portal dedicated to the sharing of donor work on trade capacity building. Donors could voluntarily make available to their counterparts a variety of materials relating to their activities, including strategy documents, project descriptions and budgets, project evaluations and background documents. Depending on the availability of funding, it might also be possible for a portal administrator to maintain a comprehensive database of projects, keep the portal's links and resources up-to-date and upload relevant background material and documents generated by institutions other than donors. A database could be quite useful to donors contemplating new forms of assistance – and be valuable for donor co-ordination. Regular dialogue between the trade and aid communities would also help to develop common understanding and potentially improve the quality of approaches.

… systematic exchange of information…

Regular dialogue between the trade and aid communities…

Commit greater financial and personnel resources to efforts to build trade policy frameworks in developing countries – with the prospect of substantial returns

Institutional development is painstaking work. Helping to build a trade policy framework in a country where none has existed before will require long-term donor commitments and the efforts of a large number of talented officials. If the effort succeeds, though, and if enduring capacities can be built, donors can gradually reduce their roles. The long-term cost effectiveness of such an effort will be much higher than the cost-effectiveness of an ad hoc approach that fails to create a self-sustaining trade policy process.

Annex 1

Monitoring and Evaluation

Monitoring and evaluation to assess performance and the results of projects, programmes and activities are two complementary management functions that make it possible to ascertain whether donor support and aid in trade capacity development are meeting their objectives. They should go hand-in-hand with implementation to identify potential problems and successes and to take necessary corrective measures.

Donor support must adequately meet the real needs and expectations of recipients. To that end, monitoring and evaluation must make it possible to:

- Ascertain whether the activities were designed and formulated in such a way as to adequately support national strategies and objectives of the recipient country.
- Pinpoint the factors hampering or favouring the attainment of the objectives set at national level and see to what extent donor interventions feed into the overall objectives and multidimensional strategy developed by the recipient country.

Donor support activities should appropriately and consistently attain their established goals and objectives. This requires:

- Examining the quality of the support material.
- Assessing the process for identifying products (activities) by means of evaluation tools that make it possible to gauge performance in relation to expectations.
- Assessing the capacity of the teams supplying the inputs needed for the activities and determining the extent to which those inputs can be transformed into products or results.
- Examining the results and impact of donor interventions, taking fully into account the views of direct beneficiaries.
- Assessing the degree of real and potential sustainability of results.
- Looking into the linkage between the various activities executed by one donor, on the one hand, and the links between these activities and those of other bilateral and multilateral donors on the other, with a view to better integrating these activities and identifying existing and potential synergies.

It also requires making proper use of available resources:

- Analysing administrative and management aspects of each intervention with a full involvement of recipient institutions.
- Appraising the sustainability of activities in relation to available resources.
- Noting all the lessons from experience, with special attention being paid to the potential impact of donor support on human and institutional capacity building at both national and regional levels.

Box 17. Strategy performance indicators – the Philippines

Contribution to national development objectives	Contribution to enterprise growth and expansion of export base	Accomplishment of specific targets / initiatives
■ National export performance ■ Percentage contribution of exports to gross national product (GNP) ■ Contribution of exports to new jobs created ■ Export growth by region	■ Industry clusters formalised/ established ■ Growth in value added of major export products ■ Net increase in number of exporters ■ Increase in number of export subcontractors and component suppliers ■ New export products developed and successfully launched	■ Policy reforms achieved ■ Programmes and services launched ■ Joint projects undertaken with other agencies ■ Bilateral/multilateral technical co-operation programmes implemented ■ Export-oriented livelihood programmes launched

ITC - Executive Forum, *Redefining Trade Promotion, The Need for a Strategic Response.*

Dimensions of the evaluation and donor support for trade development

To evaluate the quality of donor support interventions, three dimensions should be assessed as objectively as possible: *relevance, performance and success.*

The *relevance* of an activity or a set of activities can be gauged by the validity and timeliness of the objectives set for these activities in relation to:

- The national, regional and international contexts of the beneficiaries. The evaluation must take account of this important dimension, which encompasses the level of development of the beneficiary country, its regional economic relations and its degree of integration into the global economy.
- The real needs of direct beneficiaries of donor aid. The beneficiary country's evaluation of its actual needs and their formulation in consultation with end-users comprise the groundwork necessary for assessing the relevance of an activity, project or programme.
- The mission, competence and comparative advantage of each donor in relation to the others.

The *performance* of donor support programmes can be measured by assessing the progress made in relation to the set objectives. This entails looking at inputs and immediate results. Performance criteria often address:

- Efficacy, which should reflect the extent to which objectives have been attained and products delivered.
- Efficiency, which requires optimal transformation of inputs into products.
- Punctuality, which presupposes that inputs and results are produced on time. The evaluator should pay special attention to the timeframes for the completion of activities.

Success is a dimension that generally becomes evident in the longer term, especially for aid targeted mainly at policies, institutions and capacity building. The success of donor aid depends on the impact on beneficiaries and should be reflected in a change in their situation. Active participation in trade negotiation processes could be one of the indicators to measure the impact. It also depends in large part on the sustainability of the results, especially in terms of capacity building, even after the termination of donor support activities. The autonomy of the recipients must be one of the long-term objectives of any aid. Specific indicators could show if any impact is reached depending on whether expected results are short, medium or long term.

Identification of indicators

Indicators can signal changes of situation or specific results. They show whether the objectives set for activities have been attained. Each partner country should aim to set its own national development objectives with trade as a key element and build monitoring and evaluation into the strategy (Box 17).

In the context of donor support for capacity development for trade, the indicators should be established in design and programming and in evaluating the needs of beneficiaries and setting specific objectives. In this connection, thought should go to the aims of the activities, the target beneficiaries and their needs, the changes expected to result from the activities, the degree of efficiency with which the activities achieve their aims and its measurement and to the criteria to be used for gauging the success of the activities (impact, sustainability and contribution to capacity building).

Quantitative, qualitative and approximation criteria may be used. Quantitative indicators will calibrate the results of activities in volume terms and on the basis of a cost-effectiveness approach. Qualitative indicators will be used to assess behaviour and attitudes with a view to measuring the impact and sustainability of the results. Approximation indicators will be used when data are hard to come by. They help to pinpoint performance trends, potential problems and signs of success. All these indicators could be used to analyse the impact of donor aid on beneficiaries in the short, medium, and long term:

Enhancing country participation in world trade

What is the country share in world trade (target percentage)?

Ensuring trade reforms and policy formulation

What reform measures have been undertaken?

What are the implications?

Enhancing human and institutional capacity to participate in the multilateral trading system

How many LDCs are represented in Geneva/Brussels?

How many LDC delegations participate in meetings and negotiations?

Organising trade capacity development activities

What is the scope of participation?

How many firms and sectors are represented?

Enhancing institutional aspects of the implementation of WTO agreements

Are institutions like enquiry points for the GATS, TBT and SPS agreements up and operational?

Is the private sector able to comment in a timely manner on most WTO notifications relevant to the country exporters' interests?

Setting up and enhancing institutional capacity for policy formulation and implementation

Are national consultative bodies operational?

Who takes part?

Have strategies been developed for implementation?

Developing access to information on trade issues and networks between public and private sectors

What types of information are governmental institutions and the private sector getting?

From what sources?

Is it relevant and up-to-date?

Are mechanisms and institutions such as the WTO Reference Centres operational and open to the private sector?

Setting up co-ordination mechanisms on WTO matters at national level

Have national committees (or focal points) to co-ordinate WTO related issues been established and functioning?

Adapting domestic legislation and regulations to international trade agreements

Have new laws and regulations adopted been notified?

Has a programme of legislative reform been agreed by government?

Enhancing private sector competitiveness

Have exports by local enterprises increased?

Using multilateral mechanisms to protect rights

What have been the results of using the WTO Dispute Settlement System and Safeguard mechanisms?

How many cases have been brought to the WTO?

Annex 2

The Four Country Case Studies*: Parallels and Contrasts El Salvador, Ghana, Senegal and Vietnam

The four case studies conducted in preparing these guidelines reveal features common to all, or most, of developing countries. They also reveal some significant differences. In all four countries, many (if not all) of the principal obstacles to trade development are not directly trade-related. El Salvador's export performance has been constrained by poor infrastructure, production costs that are high relative to its neighbours and large remittances from Salvadorans working abroad, generating upward pressure on the exchange rate. Vietnam's export performance, though strong, appears to have been hurt by legal and policy-related impediments. Senegalese exporters struggle with high factor costs, limited credit and poor physical infrastructure. In Ghana, "macroeconomic instability, partly fuelled by the government's monetary and budgetary policies, is arguably 'the fundamental problem hampering competitiveness'".

Vietnam and El Salvador both recorded impressive export growth in the 1990s. But in the past two years, Vietnam experienced a significant drop in direct foreign investment, which played a key role in stimulating export growth in the 1990s, and it faces some difficult reform decisions in its bid to join the WTO. El Salvador's exports have not grown as much in value or in diversity as have its neighbours'. The end of the Multi-Fibre Agreement will also pose a major challenge for El Salvador's relatively high-cost textile sector, a key foreign exchange earner. Like El Salvador, Ghana and Senegal both face the prospect later of losing a substantial measure of preferential access to key foreign markets, when non-LDC countries in the ACP group must give up their non-reciprocal tariff preferences under Lomé. All four countries – including the top export performers, Vietnam and El Salvador – derive most of their export earnings from a relatively narrow range of products. All have had difficulty diversifying into new products and markets.

Ministries, private sector institutions and private firms in all four countries have, to varying degrees, had difficulty gaining access to and disseminating information on international trade policy developments and foreign markets. In Vietnam, Ghana and Senegal the information deficit is a consequence of limited access to computers and the Internet or limited capacity to analyse data and trends. In Senegal and Ghana these limitations are compounded by difficulties ensuring that information and data are distributed to all those officials and private sector representatives with an interest in them. Evidence from Vietnam and Senegal suggests that inadequate access to information is undermining not only the effectiveness of trade policy-making, but the bargaining power of exporters in their dealings with intermediaries or importers.

Of the four countries, only El Salvador could be said to possess strong technical capacity in all of the critical trade policy functions: trade policy analysis and formulation, trade negotiating and implementation of agreements. Ghana and Senegal are struggling to formulate policy, prepare for negotiations and meet their obligations. Vietnam has sought external assistance to help it make the policy and institutional reforms necessary to accede to the WTO.

Ghana and El Salvador have fairly well articulated trade development strategies; Vietnam and Senegal lack clear strategies. The absence of a coherent trade development strategy does not yet appear to have substantially harmed Vietnam's export performance. Nor has the existence of such a strategy substantially boosted Ghana's export performance. The dispersion of trade policy authority across several government departments may be undercutting Ghana's effort to mount a coherent trade strategy.

*Available on the OECD Online Bookshop

Regional integration is a key element of the trade strategies of all four countries. But the governments and private sectors of Ghana and Senegal appear to lack the technical capacity they need to participate effectively in shaping of each country's regional integration schemes.

Assistance for trade capacity building is not a significant part of the overall donor portfolio in any of the four countries. In El Salvador, for example, trade-related assistance has accounted for only about 2% of total donor expenditures since 1993.

Donors are not actively co-ordinating their trade-related assistance in any of the four countries. This may be due in part to the fact that trade-related projects are not a significant part of donor portfolios. To varying degrees, donors in the four countries were co-ordinating activities or exchanging information on other forms of assistance. Consultation and information exchange appear to have progressed furthest in Vietnam, where UNDP has taken a leadership role in the donor community, and in Senegal, where 19 donor co-ordinating committees have been established (although none for trade-related assistance).

In different ways, Senegal, Ghana, and Vietnam have had difficulty making effective use of the trade-related technical assistance. Donor "competition" for access to trade officials and institutions may be encouraging the countries to accept more assistance than they can absorb. In addition, officials may be signing up for trade-related projects not because they are convinced of their benefit, but because of the remuneration, equipment or other resources those projects provide.

Governments and private institutions appear comfortable with their "ownership" of trade development strategy in Vietnam and El Salvador (although private sector institutions are not yet significant participants in trade policy-making in Vietnam). In Ghana and Senegal, private sector institutions express dissatisfaction with the responsiveness to their needs of donor-supported trade development activities.

Annex 3

Useful Websites on Capacity Building for Trade Development

www.wto.org

World Trade Organization

Technical co-operation in the WTO aims to help recipient countries understand the WTO agreements and expand their capacity to use the multilateral trading system in order to advance their economic growth and meet their development objectives.

www.wto.org/english/thewto_e/teccop_e/tecguide_e.htm

Guide to sources of trade-related technical assistance

This is meant to be a comprehensive Guide to technical assistance provided by the WTO and other organisations and national governments. The information contained in the Guide was supplied by the agencies and governments concerned.

www.intracen.org/

International Trade Centre

The International Trade Centre UNCTAD/WTO (ITC) works with developing countries and economies in transition to set up effective trade promotion programmes for expanding their exports and improving their import operations. This covers six key areas: product and market development; development of trade support services; trade information; human resource development; international purchasing and supply management; and needs assessment and programme design for trade promotion.

www.intracen.org/itcinfo/techinfo/english/list.htm

ITC Technical Co-operation Tools

www.jitap.org/

Joint Integrated Technical Assistance Programme

JITAP is a collaborative programme launched by ITC, WTO and UNCTAD to trigger a solid process of trade policy-making in poor countries starting from a very low level of awareness and institutional capacity.

www1.worldbank.org/wbiep/trade/default.html

World Bank

The World Bank Website on International Trade and Development was created as a research, training and outreach tool for people interested in trade policy and developing countries. Particular emphasis is placed on the new trade agenda associated with the anticipated new round of WTO negotiations. Interesting course and training material can be found on the site.

www1.worldbank.org/wbiep/trade/WTO_2000.html

World Bank – WTO 2000 Capacity Building Project

This three-year research and capacity building project was launched in January 1999 to help developing countries participate more effectively in the next round of WTO negotiations. The site primarily contains the research papers. It also provides links with Websites of developing country regions, such as AERC (Africa Economic Research Consortium), LATN (Latin American Trade Network) and TIPS (Trade and Industrial Policy Secretariat (TIPS), a resource centre for trade and industrial policy research in Southern Africa), some of which have special sections on capacity building for trade.

www.unctad.org/en/techcop/techcop.htm

UNCTAD

UNCTAD's technical co-operation programmes on trade aim at expanding the trading opportunities of developing countries, by building up their capacity in this area through policy advisory services, access to information and training. The emphasis is on enlargement and improvement of export market opportunities, including the commodities sector, and on improving the efficiency and cutting down the costs of export and import transactions.

www.ldcs.org

Integrated Framework for Trade-related Technical Assistance for LDCs

This is the initiative of six core organisations to work together with the Least Developed Countries (LDCs) in an effort to co-ordinate their trade assistance programmes. The Website contains all relevant information on the progress of the Integrated Framework in the LDCs.

www.ftaa-alca.org/

Free Trade Area of the Americas

This Website provides useful information on the process, its committees, the measures designed to facilitate commercial exchanges in the Hemisphere.

www.ftaa-alca.org/tecass/tapindex.asp

FTAA Database of Technical Assistance Programmes.

www.ictsd.org/

International Centre for Trade and Sustainable Development

The centre is an independent non-profit and nongovernmental organisation that contributes to a better understanding of development and environment concerns in the context of international trade. A very useful weekly trade news digest provides a weekly review of trade-related articles and information relevant to the sustainable development and trade communities (free e-subscription on Website).

www.iisd.org/tkn/default.htm

Trade Knowledge Network

This is part of a project aimed at building long-term capacity to address the issues of trade and sustainable development in developing country research institutions, nongovernmental organisations and governments through increased awareness, knowledge and understanding of the issues. The network will link members and consolidate new and existing research on trade and sustainable development.

www.oneworld.net/ecdpm/

ECDPM

This programme aims to strengthen the capacity of organisations in ACP countries to manage development policy and international co-operation and to improve co-operation between development partners in Europe and the South. The Website provides an Infokit on the new Cotonou Convention (including the new trade regime) and a variety of publications on trade and capacity building.

www.capacity.org/

Capacity building – ECDPM

A specific Website dedicated to advancing the policy and practice of capacity building in international development co-operation is linked and a special issue on capacity building for trade is planned in late 2001.

DAC Guidelines

The OECD Development Assistance Committee adopts policy guidance for Members in the conduct of their development co-operation programmes. These guidelines reflect the views and experience of the Members and benefit from input by multilateral institutions and individual experts, including experts from developing countries.

Shaping the 21st Century: The Contribution of Development Co-operation

Approved by the DAC High Level Meeting of 1996, *Shaping the 21st Century* sets forth strategic orientations for development co-operation into the 21st century. The report recalls the importance of development for people everywhere and the impressive record of human progress during the past 50 years. It suggests a set of basic goals based on UN Conference outcomes – for economic well-being, social development and environmental sustainability – as a vision for the future, and proposes strategies for attaining that vision through partnership in support of self-help efforts, improved co-ordination and consistent policies. These goals, and the partnership approach, have since been widely adopted in the international development system.

In this context, DAC Members have developed a series of guidelines for attaining the ambitious goals set out in *Shaping the 21st Century.*

The DAC Guidelines (2001):

- ***Poverty Reduction***
- ***Strategies for Sustainable Development***
- ***Strengthening Trade Capacity for Development***
- ***Helping Prevent Violent Conflict***

Previously Published *DAC Guidelines*

- ***DAC Guidelines for Gender Equality and Women's Empowerment in Development Co-operation***
- ***Support of Private Sector Development***
- ***Participatory Development and Good Governance***
- ***Donor Assistance to Capacity Development in Environment***
- ***Guidelines on Aid and Environment:***

  No. 1: Good Practices for Environmental Impact Assessment of Development Projects
  No. 2: Good Practices for Country Environmental Surveys and Strategies
  No. 3: Guidelines for Aid Agencies on Involuntary Displacement and Resettlement in Developing Countries
  No. 4: Guidelines for Aid Agencies on Global Environmental Problems
  No. 5: Guidelines for Aid Agencies on Chemicals Management
  No. 6: Guidelines for Aid Agencies on Pest and Pesticide Management
  No. 7: Guidelines for Aid Agencies on Disaster Mitigation
  No. 8: Guidelines for Aid Agencies on Global and Regional Aspects of the Development and Protection of the Marine and Coastal Environment
  No. 9: Guidelines for Aid Agencies for Improved Conservation and Sustainable Use of Tropical and Sub-Tropical Wetlands

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Organisation for Economic Co-operation and Development

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DAC WORKSHOP: TOWARDS GOOD PRACTICES FOR DONORS ON CAPACITY DEVELOPMENT FOR TRADE

CASE STUDY OF: EAST AFRICAN ENTERPRISE NETWORK, SOUTHERN AFRICAN ENTERPRISE NETWORK, WEST AFRICAN ENTERPRISE NETWORK

This case study on the expanding enterprise networks in Africa considers lessons learned for donors in fostering a regional approach to trade and investment development as a stepping stone to regional and global integration. It also provides a unique model for ways in which the new generation of entrepreneurs can contribute to enhancing international competitiveness and to developing and implementing a trade reform agenda. It has been prepared as a contribution by a private firm in connection with USAID for the discussion at the workshop on 29-30 May 2000 towards good practices for donors in capacity development for trade. This case study represents the views of Management Systems International (MSI), the main contractor on this OECD managed programme from 1995-1999.

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TABLE OF CONTENTS

CASE STUDY OF:

EAST AFRICAN ENTERPRISE NETWORK
SOUTHERN AFRICAN ENTERPRISE NETWORK
WEST AFRICAN ENTERPRISE NETWORK

Report prepared by:

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Washington, D.C.

Acronyms

AFD	Agence française de développement
BABA	British African Business Association
CCA	Corporate Council on Africa, USA
DfID	Department for International Development, U.K.
EAEN	East African Enterprise Network
FOWA	Forum West Africa
OECD	Organisation for Economic Cooperation and Development
RTIC	Regional Trade Information Center
SAEN	Southern African Enterprise Network
SME	Small to medium scale enterprise
WAEN	West African Enterprise Network

I. The Enterprise Network Initiative

A. Introduction

1. The *Enterprise Network* initiative was launched in 1993 in West Africa. In 1998, the initiative was expanded to East and Southern Africa. Today, the Enterprise Network initiative involves over 500 business men and women who belong to one of 30 national units which, in turn, make up three regional enterprise networks: the West African Enterprise Network (WAEN), the East African Enterprise Network (EAEN) and the Southern African Enterprise Network (SAEN). The dual mission of each of the regional enterprise networks is to improve the business climate in member countries and to promote cross-border trade and investment in its geographic region. To achieve this mission, Enterprise Network members pursue four common objectives: enhance the competitiveness of individual member firms, facilitate access to financing, improve business information flows and promote opportunities for regional economic integration.

2. Woven into all of the Enterprise Network programs is a strong emphasis on trade capacity development which targets primarily intra-regional transactions but also North-South linkages. Since the creation of the Enterprise Network initiative in 1993, six bilateral donors (US, France, Canada, Switzerland, Belgium and Japan) and two multilateral donors (World Bank and European Union) have contributed some measure of funding in support of the three regional enterprise networks. USAID commissioned this case study as input into the DAC assessment of best practices among donor initiatives in support of capacity development for trade, and as a complement to the country case studies on Senegal, Ghana, El Salvador and Vietnam. This case study, conducted as a desk study, will focus on (1) organization and achievements of the Enterprise Networks, with emphasis on those activities which enhance regional and international trade capacity, (2) an assessment of constraints to trade and of trade capacity development needs for the Enterprise Networks; (3) donor efforts on behalf of the Enterprise Networks; and (4) conclusions and recommendations for trade capacity development and donor coordination which would support indigenous private enterprises. This case study responds only to those questions raised in the scope of work for which adequate documentation was available to permit an informed response.

B. Background on the Enterprise Networks

3. The original idea for the creation of a network of new generation African entrepreneurs grew out of a private sector conference sponsored in Senegal in 1991 by USAID and the OECD/Club du Sahel. The purpose of the conference was to bring together private sector operators from both anglophone and francophone countries in the region, to assess the environment in which the private sector operates in West Africa, and to establish an agenda for private sector-driven action to change that environment. A priority action identified by participants was the creation of a network of business persons who would work collectively to bring about the changes called for in the action plan and to promote business-to-business linkages in West Africa. In response to this request, USAID agreed to provide a limited amount of seed capital to facilitate the creation of a self-financed and locally-driven network of West African entrepreneurs. Funding covered the organization of quarterly regional meetings and the services of a two-person technical assistance team to provide process assistance to the networks in their efforts to define their mission and objectives.

4. WAEN, the first of the three regional enterprise networks, was launched in 1993 by a core group of five entrepreneurs from each of seven countries. Within three years, WAEN had grown from 35 to 350 business persons and spread from seven to thirteen countries in West Africa, both anglophone and

francophone.[1] In 1998, new regional enterprise networks were created in East Africa (60 members from six countries)[2] and Southern Africa (100 members from eleven countries).[3]

5. Enterprise network members finance the operating expenses of their national enterprise networks, and, after a start-up period, of a small regional secretariat. Most members are individual owners and operators of private enterprises who have a strong interest in regional markets and a long term stake in their national economies, practice modern management techniques, are attuned to the uses and advantages of information technology, acknowledge the need for increased competitiveness to enter global markets, have little familiarity with donor assistance programs and are keen to work in productive partnership with government to effect change. Members are first and foremost interested in strengthening their individual business or businesses through the Enterprise Network, primarily through the potential for expansion of their activities into the regional market. Policy reform initiatives are useful to them *if* they contribute to the effective development of business opportunities in the region.

6. The rapid expansion and continued involvement of members in the three regional enterprise networks seem to demonstrate that these new organizations fill a need which derives in large part from the political and economic context in which most of the indigenous African private sector operates.

The political context

7. *S*ignificant democratic movements in Africa date only from the early 1980s. Free elections have now been held in many countries, but these must be contrasted with recent military coups in Cote d'Ivoire, the Gambia and Chad, and continued civil unrest in Congo, Angola and Sierra Leone. Democratic institutions remain extremely fragile and the organization of civil society is modest, at best. However, journalists are increasingly able to express themselves openly, independent private radio stations are sprouting up, the public sector is no longer sacrosanct and instances of fraud and corruption are being exposed. The Enterprise Networks are part of this changing political landscape and are able to advocate openly for reform in most countries.

The economic context

8. Private enterprises in most African countries are struggling to survive. Their difficulties stem from the small size of the formal private sector, historically poor relations between the state and the private sector, a highly restrictive legal and regulatory framework for business, and the lack of a regional market for their goods and services.

9. The *small size of the formal private sector* is an historical outgrowth of the colonial concessionary system, under which private firms were granted special licenses for particular markets. Many of the foreign-controlled concessions were tolerated after independence by the new African bureaucratic elite, which was opposed to the development of an indigenous private sector that might compete for power. Post-independence political leaders also created large state-owned enterprises whose management answered directly to them. A small number of indigenous private firms, with close ties to the

[1] Original WAEN member countries included Benin, Burkina Faso, Chad, Cote d'Ivoire, Gambia, Ghana, Guinea, Mali, Mauritania, Niger, Nigeria, Senegal and Togo.

[2] EAEN member countries include Burundi, Ethiopia, Kenya, Rwanda, Tanzania and Uganda. Djibouti was approved as a seventh country in March 2000.

[3] SAEN member countries include Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.

political regime, were authorized to operate. To protect their vested interests, this first generation of indigenous business persons often staunchly opposed market liberalization. The result was a highly regulated economy and an almost total vacuum of indigenous private industry. Where indigenous entrepreneurs did engage in formal sector economic activities, it was usually in the services sector where the required investment was less onerous and profits could be achieved more quickly.

10. *Relations between the state and the indigenous formal private sector* remain strained in many African countries. As opposed to the Asian experience, African states generally have not sought to support the indigenous private sector, although certain marriages of convenience have always existed. The state's bureaucracy, run by an educated administrative class, enjoys a great deal of discretionary control over the formal private sector through an array of regulations and licenses. Until recently, this educated elite was able to use its power to extract rents from the private sector. Mechanisms for open dialogue were few and far between.

11. The *legal and regulatory framework* restricts the ability of the private sector to serve as a "motor for economic development." Reforms are needed, especially as concerns tax and customs regimes. Financial sector deregulation is also particularly critical if indigenous private sector firms are to have access to financial instruments adapted to their requirements. Access to medium and long debt and equity financing remains a key constraint for almost all indigenous private sector firms in Africa.

12. The *lack of regional markets* was a major contributing factor to the creation of each regional enterprise network. Every country in West, East and Southern Africa advocates regional economic integration. Many have created a cabinet level ministry responsible for the issue. The private sector, for its part, is well aware of the fact that national markets are too small to permit significant industrial or agricultural development. However, despite interest from both public and private sectors, there has been no real progress towards regional integration. The regional economic integration institutions, ranging from ECOWAS and UEMOA in West Africa, to EAC in East Africa and COMESA and SADC in East and Southern Africa, have been unable to implement regional trade agreements, despite a number of draft protocols and treaties. National priorities continue to take precedence over regional ones. Further, the regional market has had little relevance for the formal private sector which has traditionally transacted more with European markets, and even the U.S., than with other countries in the region. Owners and operators of firms in Africa know little about the neighboring countries in their region. The vast majority of regional trade is handled by the informal sector, outside the legal framework. Formal sector firms are often unaware of the extent to which even their own products circulate throughout the region through informal sector trade.

Recent positive trends

13. In the last few years, two positive trends have emerged in the economic environments in Africa: first, a new, aggressive generation of African entrepreneurs is playing an increasingly important role in economic activity. Second, African economies have experienced the double shock of structural adjustment and devaluation of local currencies. Although some firms have suffered, there are definite positive outcomes from these changes.

14. The indigenous formal sector is changing rapidly. The "first generation" formal private sector that emerged following independence matured in a setting of protected markets and close ties to the regimes in power, where access to resources and policy makers was granted to a small elite in exchange for political support. The "*new generation*" African private sector consists of more entrepreneurial businesspersons who are eager to take advantage of the potential business opportunities afforded by political and economic liberalization. In their home countries, these new generation entrepreneurs are

operating in a difficult economic context that tolerates no mistakes. They are part of the growing civil society movement in Africa, and are calling for a share in the responsibility for government decision making. The members of the Network come from this new generation of African entrepreneurs.

15. *Structural adjustment* was imposed on African governments by the donor community, led by the IMF and the World Bank. The structural adjustment programs, coupled with devaluation of local currencies, among which the CFA franc, produced immediate negative effects for protected national industries, which were forced to compete for the first time, and for consumers, who saw their purchasing power diminish. However, these two events had positive effects for the indigenous formal private sector. Structural adjustment policies contributed significantly to reducing the state's role in the economy and to forcing government to accept the private sector as its partner. Although adjustment policies were often poorly or incompletely applied, they did facilitate macroeconomic stabilization, economic liberalization and restructuring of the bankrupt banking sector. On the whole, the formal private sector has benefited from structural adjustment.

16. The Enterprise Networks are tackling these contextual problems through their strategic action plans which emphasize engaging in productive dialogue with the state, facilitating access to medium and long term debt and equity financing, increasing competitiveness of African goods and services on the global market, promoting national entrepreneurship and developing a regional market.

Enterprise Network organization

17. The Enterprise Network initiative is based on a unique organizational model for the African private sector. Each regional enterprise network is made up of national enterprise units. The national units are constituted by a select group of new generation business persons willing to devote their personal time and financial resources to creating an Enterprise Network. Generally identified by the technical assistance team through targeted interviews, the core group of each national unit, usually three to five persons, recruits additional members who share the same profile: entrepreneurs of high integrity who have invested their own equity in their own firms and who are committed to achieving the two goals of the Network—improving the business climate and fostering regional trade and investment. The national unit membership base is intentionally cross-sectoral to ensure a focus on the broader interests of the private sector.[4]

18. The Enterprise Network agenda is strictly apolitical. Because their human and financial resources are necessarily limited, Enterprise Networks look to play a catalytic role in their national and regional environments and seek synergies with other private sector organizations, such as Chambers of Commerce, Manufacturers' Associations and Employers' Federations, in the pursuit of common objectives. Several national units are also institutional members of their national Private Sector Foundations (Uganda, Ghana).

19. Other strategic partners of the Enterprise Networks include national governments, regional economic institutions, donor agencies, international financial institutions, international private sector organizations and offshore investors. Network members serve as advisors to a number of international

[4] Network membership in each country generally ranges from 10-15 members. Most national units require that prospective new members be proposed by a current member and vetted by other members. By maintaining a highly selective membership, networks have achieved strong cohesion among members, offsetting the traditional lack of trust among entrepreneurs not of the same family or tribe.

bodies. Formal memoranda of understanding have been signed with ECOWAS, COMESA, the World Bank's Business Partnership Group and AFD.

Illustrative achievements

20. The Enterprise Networks seek private sector solutions to private sector problems. Network results to date have been impressive, given their recent creation and their limited human and financial resources. To cite a few examples which relate to regional and international trade capacity:

West Africa (since 3/93):

- a $15 million, privately-capitalized West African Enterprise Fund was set up under the leadership of Ken Ofori-Atta of Databank Financial Services, Ghana, to promote regional trade and investment in the ECOWAS region;
- WAEN has organized four regional conferences to promote intra-regional trade linkages and to debate regional integration issues;
- WAEN created a professional cluster, *Netforce*, made up of indigenous auditing firms in the region, who work together to improve professional standards and to obtain regional contracts;
- WAEN members utilize the Network to identify skilled labor in other countries (managers, construction supervisors);
- WAEN was active in the launch of a regional consultative entity on economic integration policy, the *Forum West Africa (FOWA),* which brings together key regional players (ECOWAS, UEMOA, CILSS and WAEN) to share information on regional integration initiatives, to discuss, research and establish positions on technical aspects of regional integration and to make preliminary designations and commitments for action among the entities, in concert with each one's mandate;
- WAEN carried out a special study on the cost and speed of intra-regional monetary transfers, notably via regional banks such as BOA and Ecobank, to encourage more efficient transfers within the ECOWAS region;
- WAEN proposed to the Forum West Africa and to interested donors the creation of an observatory of border crossing practices, to track anomalies and report them to national authorities (customs, immigration, police, etc.), and is participating in its implementation;
- WAEN was asked to contribute to the debate on the proposed redesign of the ACP-EU convention and on the UEMOA unified investment code;
- WAEN created a Regional Trade Information Center (RTIC) in 1995, to collect and disseminate trade information at the request of its members, to create a website and to publish a quarterly bilingual newsletter, the *Networker.*
- members of the Nigeria Network participate actively in the Nigerian Economic Summit, an annual joint economic policy review commission, and are linking with WAEN partners inside the region and with WAEN strategic allies to explore investment opportunities in the newly-democratized Nigeria.

East Africa (since 7/98):

- a national level investment fund was launched in Kenya, and mechanisms are being studied to regionalize the initiative in the year 2000;
- passion fruit is being exported from Rwanda to Uganda;
- an East African trade and investment magazine, EnterpriseAfrica, was launched by an EAEN member;
- a venture capital workshop is being organized in Nairobi by the Kenya Network to discuss financing options for regional enterprises;
- Kenya, Uganda and Tanzania Enterprise Networks contributed to a private sector strategy paper for the East African Community;
- EAEN created a website including trade information and member profiles;
- EAEN held its first regional conference in 1999, focusing on the regional market in East Africa, and resulting in the signature of a Memorandum of Intent with COMESA to pursue joint efforts to promote regional integration.

Southern Africa (since 10/98):

- national level investment funds have been established in Zambia, Zimbabwe, Mozambique and Botswana and inter-Network coordination mechanisms are being examined to regionalize this concept in Southern Africa by year's end;
- a cotton yarn spinning joint venture is being negotiated between Network members in Tanzania and Mauritius;
- The Mozambique Network entered into an agreement with SAFRI (Southern African-German Business Initiative) to create a national Excellence Foundation in Mozambique to promote competitiveness; national network members were invited to the first Africa Business Forum in May 2000, organized by SAFRI and Afrika Verein;
- SAEN members were invited by the World Economic Forum to participate in several trade and investment panels at the Southern African Economic Forum in Durban, South Africa, in June 1999;
- SAEN has created and maintained an interactive website including country trade information and SAEN member profiles;
- SAEN members will participate in a trade mission to promote business linkages in the United States in June 2000;
- SAEN held its first regional conference in Mauritius in June 1999 to debate regional integration issues and signed a memorandum of intent with COMESA to pursue common trade and investment objectives;
- SAEN created two professional clusters to promote joint investments and capacity building, one in tourism and the second in capital markets;

- A major regional trade agreement was signed between Delta Cafes in Mozambique and Tanganda Tea in Zimbabwe, facilitated by SAEN;
- The U.S. EXIM Bank is discussing agent agreement with SAEN members to facilitate export financing in the region;
- SAEN organizes quarterly regional workshops on competitiveness issues;
- SAEN contributed to the design of a regional workshop on the implementation of the SADC Trade Protocol.

In addition to these regional-level accomplishments, hundreds of transactions have taken place between individual members of the same national networks.

21. A further illustration of trade capacity within the Enterprise Networks is the following U.S. dollar estimate of business deals in 1999 from five SAEN national networks, provided at the most recent SAEN regional meeting in Madagascar in March 2000:

- Botswana- deal flows totaling approximately $2.5 million (information technology, consulting engineering, tourism)
- Zambia- deal flow from network contacts valued at $700,000 plus capitalization of ZINC, Zambia Investment Club, at $50,000
- Mauritius- deal flow from ventures in the region valued at $300,000 (flour milling, paper products, tourism, cotton spinning)
- Zimbabwe- deal flows within the Network estimated at $600,000, plus creation of a Zimbabwe Enterprise Network Work Out Team to acquire or restructure poorly performing companies, buttressed by pooled capital of $10,000
- Mozambique- deals flow valued at $400,000, primarily from Delta Café expansion to other countries in Southern Africa; joint financing of ventures to provide subcontracting services to Mozal is being planned;

II. Constraints to trade and needs for capacity development

22. This section will examine the constraints to trade and trade capacity development needs from the perspective of the indigenous private sector firms which make up the membership base of the three regional Enterprise Networks.

A. Policy and supply-side constraints to regional and international trade

Macroeconomic environment

23. Despite the generally positive response of national economies in Africa to structural adjustment initiatives of the 1990s, especially market liberalization and free floating currencies, continuing concern exists among most Network members regarding the stability of the macroeconomic environments in their countries. Despite relatively solid gains in GDP growth rates, inflation remains high in many countries

(Ghana- 36%; Zambia- 40% and Zimbabwe- 56% are examples). While many public sector reform programs have been implemented, budget deficits are still chronic and good governance remains a critical issue. A significant number of well-designed economic reforms have been adopted but remain valid on paper only. Privatization has gained speed, but many issues have been raised regarding the equitable privatization of remaining assets.

24. Network members complain most frequently of chronic inflation, poor government budgetary policies (and lack of private sector input into the budget process), hugely burdensome fiscal policies and lack of access to medium-term and long-term finance. While tax breaks and other attractive incentives are offered as a matter of course to foreign investors, the same incentives are not offered to the African private sector which is also frequently subject to harassment from customs, immigration and fiscal authorities.

Sectoral policies

25. Sectoral policies are poorly developed in most Enterprise Network countries, and far too little emphasis is placed on dialogue with indigenous formal private sector entities engaged in the target sectors, especially agriculture, transport and tourism. In the agriculture sector alone, resumption of efforts to replenish food deficits will require sizeable improvements in agricultural production techniques over the next decade, which should involve the indigenous private sector.

Factor costs

26. The competitiveness of African products is seriously handicapped by high factor costs. Weak infrastructure, particularly the high cost and unpredictability of transport and poor road and rail systems, the lack of storage, especially cold storage, for exports, and unreliable supply of water and electricity, are serious problems. Compared to other developing regions of the world, the workforce is poorly educated, and little technical training is available. The prevalence of HIV/AIDS and the inadequacy of health systems is increasingly a major factor in labor productivity. Finally, the cost of capital is exceptionally high as compared to Western standards (ranging from 18% in South Africa to 55% in Zimbabwe). [5]

Transaction costs

27. Administrative procedures are lengthy and costly. While many countries have created investment promotion centres to facilitate one stop shopping for licenses and permits by investors, more needs to be done to simplify the process. A business environment which is not predictable and entails enormous hidden costs will never be competitive in the race for foreign investment.

Access to finance

28. For the indigenous SME, the lack of access to MT/LT debt and equity financing is extremely serious. Commercial banks are not structured to provide longer term financing and the MT/LT resources available on the market are nearly all geared for projects which are 5 to 10 times larger than those put forth by indigenous SMEs. Collateral requirements for short term lending are very high. Property rights for

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5 Report on the 1999 Southern African Economic Summit, Durban, South Africa, World Economic Forum, Geneva, Switzerland.

land are difficult to document or are simply not available to private individuals, which restricts the sources of collateral.

Foreign direct investment

29. To achieve the levels of growth it seeks in order to reduce poverty, Africa must diversify its economies and add value to local products. This will require substantial foreign direct investment. Only 1-2% of total global foreign direct investment is directed towards Africa, and of that amount, 70% is invested in four countries which have significantly diversified their economies: Nigeria, South Africa, Egypt and Morocco. The limited flow of FDI to Africa indicates that the perception of risk remains unacceptably high. Enterprise Network members offer the foreign investor the security of a well-trained and reliable foreign partner. The challenge is reversing the negative image of Africa held by foreign investors.

30. In addition to the need for increasing FDI flows, there is significant scope for improving cross-border investment within geographic regions. Cross-border investment has, in part, been constrained by bureaucratic and political delays in developing and implementing measures to encourage regional integration. It has also been constrained by lack of a concerted effort on behalf of the private sector to promote the benefits of an enabling environment for regional integration and lack of private sector support for regional integration initiatives. The barriers to cross-border finance and investment are both policy-driven and behavioral. [6]

Policy-driven barriers to regional finance and investment

- Management and control of capital accounts by Central Banks

- *Example:* In certain countries, cross-border capital investment flows are managed and controlled by Central Banks. In many cases such investments are not permitted, or are only permitted based on "special dispensation".

- *Implication:* Companies are limited in their ability to include regional investments in their corporate growth strategies.

- Bureaucratic two-way exchange controls

- *Example:* In certain countries, for regional cross-border investments, exchange control approval from the country of origin of the funds is needed to get the funds out, and exchange control approval from the recipient country is needed to get the funds in (and back out again). If the approvals are granted, it is usually only after a lengthy bureaucratic process.

- *Implication:* Investors end up investing the funds in the origin country, even if opportunities in the recipient country promise greater returns.

- Lack of harmonization of investment incentives

[6] SAEN Regional Conference 1999, Working Paper No. 2, "Increasing Access to Finance."

- *Example:* Several countries offer fiscal incentives for venture capital firms that are based in, and invest in, that country. However, there are no fiscal incentives for a venture capital firm based in one country to invest in companies in another.

- *Implication:* Venture capital funds based in one country have little incentive to finance cross-border deals.

- Lack of a regional-deal pipeline mechanism

- *Example:* Local business associations often provide a source of local deals to local investors. However, there are no credible regional mechanisms to cost-effectively bring regional deals to regional investors.

- *Implication:* Investors have a tendency to invest in projects close to home.

Behavioral barriers to regional finance and investment

- Conservative financial sector

- *Example:* The philosophy of many financial institutions in the region is that if a particular project has no precedent in the region, it cannot be done.

- *Implication:* Innovative regional deals often never see the light of day.

- Misconceptions about the investment environment in neighboring countries

- *Example:* Adverse publicity and sensational media coverage often create misconceptions about business opportunities in neighboring countries.

- *Implication:* Viable cross-border deals are often not even given a first screening.

- Limited appreciation of the potential regional market

- *Example:* Investors' evaluations of the market potential for a given project is often limited to the national market of the project sponsor. The market is rarely evaluated, from the outset, as a much larger, regional market.

- *Implication:* The potential regional economies of scale are often not part of the equation. Similarly, project sponsors often tend to be inward looking and fail to investigate and exploit the regional market potential.

Trade institutions

31. In most Enterprise Network countries, the Ministry of Trade is responsible for setting trade policy but this ministry generally suffers from insufficent financial and human resources. Certain sectoral ministries, for example fisheries in Namibia and tourism in South Africa, have taken strong actions to promote trade, but these are the exception. The lack of capacity within the Ministries of Trade particularly handicaps the multilateral trade negotiations, South Africa, Zimbabwe and Mauritius are the only countries

which have sent strong delegations to WTO and ACP-EU meetings and are the only countries which have actively engaged the indigenous private sector in dialogue on the negotiations.

Regional economic integration institutions

32. In general, the indigenous private sector has not been consulted regularly on the process and technical measures to achieve regional integration. The blame for this situation must be shared by the public and the private sector. The public sector did not usually extend the invitation and the private sector often felt itself unprepared to contribute meaningfully to the debate. At times there is also rivalry among the different voluntary organizations in a country over which association should participate in regional events. Further, the pace at which the private sector operates is considerably faster than that of governments and regional institutions. As such, private sector participants get frustrated and may give up their involvement. However, as interest in the regional market has grown, private sector actors are more willing to become involved in dialogue on the practical means of achieving integration.

SADC

33. SADC began in 1980 as the Southern African Development Coordinating Conference (SADCC), to coordinate development activities in Southern Africa with a regional dimension, notably infrastructure. SADC (Southern African Development Community) was born in 1992, to focus on the creation of a regional economic community by encouraging its 14 national government to facilitate private sector economic activity through increased investment (domestic and foreign) and trade expansion. Movement towards this goal has been painfully slow. The SADC Trade Protocol, signed in August 1996, states that a Free Trade Area would be established among members within 8 years of the protocol's ratification. The protocol calls for liberalization of intra-regional trade, enhancement of industrial and economic development in the region, greater production efficiency and improvement of the investment climate. The protocol was finally ratified by the requisite number of countries early this year, including, at long last, South Africa. Plans are to move towards application by year's end, but the FTA would not see the light of day before 2009, at this rate.

34. SADC is criticized for lack of dialogue with the private sector. A SADC Regional Business Council was established in 1989 but was short lived. Although it organized several investment meetings, it was not active in policy dialogue, due to lack of capacity and lack of opportunity. When donor support was withdrawn, the Council collapsed. A new initiative, the SADC Federation of Chambers of Commerce, is now being supported by the SADC secretariat as its official private sector counterpart. SAEN has sought special consultative status to the SADC secretariat but the request was put on hold until it can be vetted by the 14 member nations.

35. Intra-SADC trade is 22%, the highest of any regional block in sub-Saharan Africa. With a market of nearly 200 million people and a GDP of $180 billion, officials estimate that intra-SADC trade could move to 35% with application of the trade protocol. The last year, however, has seen serious slippage in SADC's promise as a region as the war in Congo, involving eight nations, continues to rage; the conflict in Angola escalates, the price of gold slips and the AIDS pandemic worsens. On the positive side, South Africa has finally begun to take some active steps towards regionalization under President Mbeki, beginning by the ratification of the SADC Trade Protocol and continuing with a statement of renewed commitment to the regional development plan, including the corridors initiatives and expanded investment. More indications of strong leadership by South Africa in the regional integration process will be needed to make integration a reality.

COMESA

36. An outgrowth of the former Preferential Trade Area (PTA) for East and Southern African States, COMESA (Common Market for Eastern and Southern Africa), created in 1982, includes 21 member countries, spread from Egypt to Swaziland. COMESA has targeted intra-regional free trade by the year 2000. All member states are currently meant to be offering 90% reduction of duties on qualifying imports. Few countries have actually introduced this level of preference, although most now offer between 60-80%. It is likely that a Free Trade Area will be established between a core group of countries in 2000, with a Common External Tariff and Customs Union coming into operation in 2004 for a similar core group. Within COMESA, considerable progress has been made regarding trade facilitation, standardizing trade documentation, trade information dissemination and payments procedures.

37. In addition to its trade initiatives, COMESA assists member states with implementation of economic changes to create an enabling environment for investment, including comprehensive investment legislation, exchange control liberalisation, adoption of export promotion measures, lliberalisation of the banking and insurance sectors, enactment of large-scale privatisation programmes and development of national capital markets.

38. The COMESA Secretariat recently proposed the following agenda and time-frame for investment facilitation in the region[7]:

1. Harmonize laws relating to investments, both nationally and regionally (2000)
2. Carry out an Investor Roadmap (2000)
3. Implement SADC stock exchange listing regulations and requirements (2000)
4. Establish true one-stop investment shops with full decisionmaking powers (2002)
5. Complete implementation of all recommendations of Investor Map (2003)

39. The COMESA Clearing-House is in the process of restructuring with the proposed change into a Regional Export Services Agency (RESA). Services provided would include:

- Africa Guaranty Facility: covering political risks on trade related transactions

- Fast Payment Facility: to reduce cost of regional transactions in a liberalised foreign exchange regime by improving risk management in payment system

- SWIFT Regional Centre to standardise and automate international payment messaging

40. The private sector was rarely consulted by the PTA, although a PTA Federation of Chambers of Commerce and Industry was created. A new attempt was made to get the private sector organizations of East and Southern Africa together, with the inclusion of South Africa after that country's transition. In 1995, the Eastern and Southern Africa Business Organisation (ESABO) was created, intended to cover the countries of COMESA and SADC. South Africa took a strong lead in the early days, with the South Africa Chamber of Business (SACOB) providing a secretariat. However, the South African focus on SADC led to the transfer of the ESABO secretariat to the Kenya Chamber of Commerce and Industry in 1996. While ESABO continues to exist, its role as a voice for the private sector in the region has diminished and it is poorly known within the region's private sector.

41. COMESA's structure allows it to operate much more efficiently than SADC as regards trade policy and regulations. The Secretariat can take many decisions, working in concert with the Ministries of

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7 "Discussion Paper" COMESA and the Cross-Border Initiative, Mauritius, November 1998.

Trade or Finance, rather than having to revert to the heads of state. Indicative of this flexibility was the memorandum of interest signed between the General Secretary of COMESA and EAEN and SAEN at these Networks' first regional conferences. Both COMESA's Trade Information Director and the Clearing House director have consulted SAEN on several occasions.

ECOWAS

42. Created in 1975, the Economic Community of West African States (ECOWAS), has been regarded over the past two decades as an institution with little real authority. However, since the democratic elections in Nigeria, dynamics have changed and Ghana and Nigeria appear ready to join forces within ECOWAS, in part to counter the rapid integration measures being taken by the franc-zone economic and monetary union, UEMOA. However, to achieve meaningful results, it will be necessary to dramatically upgrade ECOWAS' institutional capacity. Ghanaian and Nigerian disgruntlement over UEMOA's Common External Tariff, adopted as of January 2000, may do more to reinvigorate the ECOWAS trade protocol than any other recent event.

43. ECOWAS has been very open to consultation with WAEN and participated willingly in the Forum Ouest-Africain. ECOWAS has given WAEN official observer status.

UEMOA

44. Created in 1994 from the old UMOA, following the CFA franc devaluation, UEMOA is a centralized and well funded institution whose members already benefit from a common currency and more recently have developed a common business legal framework under OHADA. On January 1, 2000, UEMOA was announced to have implemented the Common External Tariff (CET) and lowering the maximum tariff from 25 to 20%. However, the CET has already encountered some reciprocity problems within UEMOA and budgetary considerations may handicap efforts to implement the new system. UEMOA relations with ECOWAS are not clear since there are overlapping mandates. Further, the new EU-ACP agreement could impact on those relations if the EU decides to sign a regional agreement just with UEMOA.

45. Although WAEN was asked to comment on UEMOA proposals for a common investment code and the OHADA initiative, the consultative process with the private sector for these UEMOA initiatives was not broadly-based. Many entrepreneurs have little knowledge of the proposed reforms.

EAC

46. With the shifting political and economic climate within East Africa in the early 90s and renewed thrust within Africa towards regional integration, Kenya, Uganda and Tanzania agreed in 1993 on the establishment of the Permanent Tripartite Commission for East African Co-operation. The old East African Community had collapsed in 1977. The EAC Secretariat was launched in March 1996. Five key areas of co-operation were identified: economic co-operation, immigration, political co-operation, legal and judicial co-operation, and security matters. A Treaty establishing the EAC was signed by the Heads of State of the three countries late last year. The EAC development strategy has four main thrusts:

- promote the spirit of regional co-operation, rooted in the region's history, while avoiding the errors committed in the past;

- support the existing forces which have a major interest in strengthening regional institutions and in free movement of people, capital, goods, as well as services and information within the region;

- place immediate emphasis on economic co-operation, with a view to promoting enhanced political co-operation and integration in the long run; and

- reinforce institutional capacities for regional co-operation with the EAC Secretariat as a small but effective co-ordinating body, to organise and supervise special activities, studies and research aimed at facilitating decision making in areas relevant to regional integration.

47. The strategy goes on to say that the new initiative in regional co-operation is based on the "creation of an enabling environment for the establishment of a single market and investment area." The role of governments is played down, while the role of the private sector is enhanced. Modalities for EAC consultation with the private sector are still being worked out. The *East African Business Council* (EABC) was created to facilitate dialogue. The EABC is an apex trade and investment organization, comprising the EA Chambers of Commerce and Industry, Federations of Employers and Manufacturers Associations. It does not yet have its own permanent secretariat and headquarters. Its interim secretariat is within the offices of the Kenya Association of Manufacturers in Nairobi. The EABC appears to have a greater prominence in Kenya than in the other two countries, although it provides a forum for dialogue between its members. It is invited to participate, as observers, in the relevant meetings of the Commission. The EAEN was asked by EAC to develop a private sector strategy paper, outlining means of cooperation in the region.

Southern African Economic Forum (SAEF)

48. SAEF is an initiative of the World Economic Forum (WEF), designed to foster private/public sector dialogue in the region. The main vehicle for dialogue is the annual Southern African Economic Forum, which combines plenary sessions, smaller panel discussion groups, and informal networking. In between annual conferences, SAEF (under the auspices of the WEF) organizes private meetings and information sharing. SAEF supports the economic development of Southern Africa by promoting the region as an investment destination, providing a forum for addressing and resolving constraints to finance and investment in the region, and by providing a structured mechanism for private sector deal making.

Private sector organizations

49. For the most part, private sector organizations in Enterprise Network countries are not adequately staffed or financed to allow in-depth assessment of trade issues and policies, with a few exceptions such as the Joint Economic Council in Mauritius, ZimTrade in Zimbabwe and the South African Chamber of Business. There is generally no established process for permanent dialogue and exchange of information between the public and private sector actors on trade issues. National organizations are weak and the few regional organizations intended to deal with these issues, such as ESABO, and even the Enterprise Networks, have very limited human and financial resources.

50. There are several serious consequences of lack of public/private sector consultation: [8]

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[8] SAEN Regional Conference 1999, Working Paper No. 1, "Increasing Private Sector Dialogue in the Regional Economic Integration Process."

- Decisions may be made by policy organs of regional integration institutions that create economic imbalances or cannot be implemented because of impracticalities. These decisions may have considerable impact on business, e.g., tariff reductions, investment incentives, business procedures.

- Due to lack of understanding of business operations, the best decisions to foster regional economic activity may not be taken.

- Given its lack of involvement, the private sector is often unaware of issues at the regional level or of opportunities created through regional integration.

- The indigenous private sector can serve as a reliable sounding board for proposed initiatives (WAEN for example contributed to the debate on fast action monetary transfer mechanisms within West Africa) and can also assist in disseminating information on existing policy and protocols. (SAEN members for example worked with a SADC team to design a dissemination workshop on the impact of the upcoming SADC trade protocol).

Multilateral trade agreements

51. Very few African countries have the capacity to implement their WTO commitments or to assess and define their national interests for WTO or even EU/ACP negotiations. African entrepreneurs have not been brought into the dialogue process. The debates on regionalization have helped raise the profile of issues relating to international trade. The time is ripe to pursue the debates on global trade since many donor agencies are interested in promoting understanding of such issues through national level and regional level workshops (EU, USAID). The images of Seattle are still fresh in everyone’s minds and will help to encourage participation. Enterprise Network members could be useful resources in the design of such workshops for the private sector.

B. Trade capacity development needs for the Enterprise Networks

52. The first priority to develop trade capacity among indigenous small to medium-scale enterprises is to enhance their competitiveness through the provision of adequate infrastructure, notably transport (road, rail, sea, air, ports), electricity and communications.

53. On the level of the Enterprise Network members, the following needs are priority:

- Build capacity within private sector organizations regarding regional and multinational trade policy issues to increase understanding and to enable private sector to engage meaningful public/private dialogue on these issues

- Build private sector capacity to develop regional strategies for enterprise creation and expansion

- Create professional clusters among SMEs in the region, for the exchange of experiences and business opportunities, notably within the following sectors or subsectors: tourism, transportation, capital markets, agribusiness, information technology, poultry, fisheries

- Enact incentives for non-traditional exports, including tax breaks for venture capital

- Develop exit mechanisms for foreign investments
- Advocate deregulation and liberalization of the IT sector and removal of taxes from IT hardware/software
- Promote increased private sector involvement in education and training
- Enhance MT/LT debt and equity financing instruments, especially those which rely on domestic capital mobilization (e.g. Network investment funds and matching foreign investments)
- Increase use of export finance facilities: US EXIM Bank, Africa EXIM Bank
- Promote foreign direct investment in regional projects
- Ensure reliable business information flows
- Promote North/South partnerships/linkages
- Develop subcontracting arrangements (use MOZAL in Mozambique as demonstration model)[9]
- Promote free movement of labor from one country to another and generally more flexible labor markets

III. Donor efforts to promote Enterprise Network trade capacity development

A. Donor support for the Enterprise Networks

54. Traditionally, bilateral and multilateral donors have sought to enhance trade capacity and policy reform performance in developing countries by providing support to government policy makers to achieve better policy analysis, design and impact assessment. In the Enterprise Network initiative, support was provided to strengthen private sector capacity to pursue regional and international business opportunities and to develop and implement a reform agenda targeting trade and investment. The rationale behind the approach adopted by USAID derived from current thinking about policy change and democratic governance, i.e. that reforms are more likely to bear fruit and be sustained if stakeholders within civil society are able to influence the policy process and that mobilization of groups in civil society contributes to their ability to serve as a check on the use and abuse of power in government, through pressures for accountability and transparency.

9 $1.34 billion SA project to produce aluminum in Mozambique for Southern Africa. Serves to enlarge the industrial base, provide opportunities for downstream manufacturing and should generate export earnings of $400 million/year. 7000 workers are employed in construction; 4237 are Mozambican- all trained in Mozambique. 2600 post construction indirect employment opportunities, 600 permanent jobs, 90% Mozambican. Interconnected electricity supply, new roads, bridge and highways. 110 contracts for construction and services, of which 67 went to Mozambican firms. Site purchases of $11.7 million were made in Mozambique

55. Following the request for assistance from participants at the private sector conference in Dakar to establish a network of business persons to pursue regional business opportunities and policy reforms**,** USAID agreed to provide start-up funding for the initiative. Beginning in 1993, USAID also financed technical assistance under its Implementing Policy Change (IPC) project whose objective was to foster a participatory process to effect policy change. In mid 1995, when the French and Canadian development agencies expressed interest in contributing to the Enterprise Network initiative, a special Private Sector Support Unit was created within the OECD/Club du Sahel, to coordinate multidonor support to WAEN, specifically by agreeing on a common set of objectives and co-financing the program to achieve those objectives. [10] In addition to the U.S, France and Canada, the European Union, the UK Department for International Development (DfID) and the Japanese Ministry of Foreign Affairs also provided some funding to WAEN in 1996/1997.

56. When the Enterprise Network initiative expanded to East and Southern Africa in 1998, three new donors contributed to the project, the Belgian and Swiss Cooperation Agencies and the World Bank, and USAID and the French Ministry of Cooperation continued their contributions. The OECD/Club du Sahel Private Sector Support Unit has requested donor funding through 2002. During the period 2000-2002, each regional enterprise network should develop a fund-raising capacity in order to raise its own financing for its programs and activities, independently of the Private Sector Support Unit. This transition has already begun: In 2000, WAEN received a direct grant from the EU in the amount of $150,000 and EAEN and SAEN members are working with a U.S.-based backstop for business linkages, financed directly by USAID.

57. In order to promote local ownership from the start, donor contributions to the Enterprise Networks were limited to the providing seed capital for attendance at quarterly regional meetings and an annual regional conference and to financing the services of a technical assistance team, one based in Paris at the OECD and a second based in Washington, from 1993 to 1999. In January 2000, the OECD/Club du Sahel Private Sector Support Unit was downsized to one manager and an administrative assistant, based in Paris.

B. Seed capital for regional institution building and networking

58. To enhance local ownership and foster financial responsibility, seed capital has been limited to travel subsidies for two persons per Network to regional quarterly meetings and to an annual regional conference or general assembly during the first three years of each Network's existence. The budget for these subsidies has averaged approximately $125,000 per year for each regional network. This investment leverages an equal contribution from the national units, who would directly finance the attendance of additional participants and who pay for the bulk of the costs of hosting the visiting networks (transportation, entertainment, meals). This seed capital permitted core members to become acquainted with up to 12 countries in their regional enterprise network over the course of the first three years, which enhanced their knowledge of cross-border trade and investment opportunities.

59. When WAEN, in its fourth year, moved from subsidized travel to member-financed travel, there was concern that attendance at regional meetings would drop off. However, in the nearly five years since

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10 Throughout the duration of the project, in addition to its contribution to the OECD/Club du Sahel Private Sector Support Unit, USAID has continued to fund bilateral technical assistance to the Enterprise Networks for special assignments. The latest of these involves support to EAEN and SAEN to develop business linkages between their member firms and U.S. companies, and to seek trade and investment opportunities in line with the Africa Trade Bill, passed by the U.S. Congress in May 2000.

subsidies were removed, WAEN has held nearly fifteen meetings, including three Annual General Meetings, which have been well attended by most national units.

C. Technical assistance to launch, promote and develop the Networks

60. The focus of the capacity-building assistance provided by IPC and subsequently through the OECD/Club du Sahel Private Sector Support Unit was on strengthening previously unorganized groups within the African private sector to enable them to determine common interests; organize themselves to pursue those interests; articulate and present those interests to their strategic allies, including national governments, regional economic institutions, donors and other private sector associations and investors; identify means of sustaining their organizations over time; and learn from each other through the exchange of business and reform experiences on the regional level.[11]

61. Six key tasks were at the core of the technical assistance effort:

Identification of core membership

62. A key challenge to ensuring the success of a participatory project such as the Enterprise Network initiative was the identification and selection of appropriate participants to develop and sustain the network. In consultation with a number of African entrepreneurs, a prototype organization model for the Network was sketched out. Its features were: an informal association with a small but committed membership, financially autonomous, led by an elected national coordinator responsible for developing group consensus on an action plan for improving the business climate and identifying business opportunities among members. This was the vision the TA team used in the interviews held in each country to interest a core leadership team in assuming responsibility for the national network. Once the core team was identified, that team was responsible for developing more detailed selection criteria for membership and recruiting additional charter members. Most Network entrepreneurs selected in this fashion are heads of their own firm(s), employing between 5 and 50 persons, with average annual turnover of $1,000,000. They are generally between 35 and 45 years of age, and not usually active in any other private sector organization, although most are members of other associations. Many are part of a reverse diaspora, having returned to Africa in the last 10 years to create their own firms. They have invested considerable personal equity in their firms. Shareholders, if any, are usually other family members, or close friends. Many have a solid network of international contacts. A significant number are from the services sector. Most have not traveled widely in their regions before joining the Network. Most had no prior contact with the donor community.

Development of a strategic action plan

63. The TA team used a facilitative approach to assist the regional network and its national units in developing a strategic action plan (see SAEN example in annex). On the national level, brainstorming sessions served to identify constraints to private sector growth and regional trade, in order to obtain consensus on which obstacles would be addressed by the national unit and how. It was suggested that the plan address 4-5 objectives at most and provide details on actions, responsibilities, a timeframe and performance indicators. These plans served as the basis for national unit reporting at the regional

[11] From inception until 1999, technical assistance (TA) to the networks consisted of periodic visits from one of the two-person TA team and external relations from each of the two bases (Paris and Washington).

meetings. Periodic TA visits also served to review and revise the plans as needed. Over time, the priority objective of the action plans shifted from policy reform advocacy to strengthening individual firms and intra-Network and intra-regional business linkages. This shift might be attributed to discouragement over the lack of progress in achieving regional integration. As part of the effort to achieve sustainability, each national unit was encouraged to hire a part-time secretary to assist with administration, finances and information flows. The most business-oriented units were quick to see the value of this support.

Building skills for policy advocacy

64. The TA team assisted in building skills in advocacy in three ways: through advocacy workshops conducted on national and regional levels, participation in regional economic integration technical meetings and participation in international conferences which enhanced the visibility of the Networks and gave them a platform for advocating reforms and for seeking partnerships. While these opportunities build Network skills, they also served to provide valuable Network input to programs and policies of their strategic allies, including the World Bank, the Corporate Council on Africa, the Agence francaise pour le développement and USAID.

Strategy development for achieving financial sustainability

65. From the outset, no donor funding was provided for individual national unit expenses. This approach helped to ensure ownership and independence. National units assessed membership fees, averaging usually from $250 to $500 per person, to cover operating expenses and the cost of the regional secretariat, which ranges from $25,000 to $30,000 per year. The most entrepreneurial national units have created Network business ventures and investment funds as means of capitalizing their efforts.

Exchange of experience among national units

66. One of the strongest benefits of network membership is the opportunity to exchange information among entrepreneurs. Members are also able to compare institutions and systems, especially between the francophone and lusophone countries of Roman law tradition and the anglophone countries of common law tradition. This is particularly true as regards capital markets regulations and non-banking financial institutions. Information on innovative business ventures (e.g. cash loan operations or leasing company initiatives) as well as on sources of financing (e.g. U.S. EXIM Bank export guarantees and African-focused equity funds such as Modern African Growth Fund) is also very useful to members.

Branding and external relations

67. A critical task of the TA team was to assist the regional networks in their efforts to create a unique "brand" image for themselves, given the large number of private sector organizations already in place in each region. Once the "new generation" brand was established, the TA team ensure the liaison between national units and external strategic allies. Having an outside representative in Washington or Paris meant that regular contact and information flows could be assured between the regional networks and partners such as the key bilateral and multilateral development agencies (USAID, CIDA, AFD, DfID, World Bank, UNDP and European Union) and private sector organizations and financial institutions (Corporate Council on Africa, French Entrepreneurs Federation-MEDEF, British African Business Association- BABA, Malaysian South-South Corporation, etc.) The TA team coordinated speaking engagements for the Network as well as press coverage of their events and achievements. It was in this fashion, for example, that WAEN was invited to make a presentation on trade and investment in Africa at

the World Bank's Annual General Meeting in Hong Kong in September 1997 and that WAEN and SAEN representatives were invited to speak at the National Summit on Africa before 3,000 persons in Washington, D.C. in February 2000.

D. Developing business linkages

68. As the Networks have moved to more autonomous management, they have increasingly focused on business transactions and less on policy advocacy, given that they must sustain themselves from member contributions. Individual members seek first and foremost benefits for their businesses. Thus, the issue of Network-inspired ventures and intra-Network and North-South business linkages has assumed considerable importance.

69. *Network-inspired ventures:* Through networking, both virtual via email and physical at regional Network meetings and conferences, ideas are floated on interesting ventures or opportunities in the region which Network members can replicate if applicable in their home environments. For example, there has been considerable interest in exploring subcontracting possibilities similar to those resulting from the MOZAL project in Mozambique, for services such as catering, cleaning, transportation, construction and courier service. Interest in subcontracting among Network members in Cote d'Ivoire led to the creation of a national subcontracting databank.

70. *Intra-network linkages:* members have been intent on promoting intra-Network transactions on the national level, particularly for services such as insurance, software systems, bridge financing, accounting and legal services. On the regional level, business linkages have resulted in transactions for trade in paper goods, salt, cotton, coffins, coffee and tea, clothing, banking, fish and construction materials, among other items.

71. On the *North-South level*, business linkages have been promoted through participation of targeted foreign investors or technical partners at Network regional conferences, including construction and engineering (MK International Korea), handicrafts (Pier One), tiling (Tiffany and Company), finance (Modern Africa, IFC, Equator Bank, U.S. EXIM Bank), agribusiness (F.K. Shaffer, Carghill), packaging (TetraPak, AirLiquide), among others. A more targeted effort to match individual network members with interested U.S.-based partners has just begun under the USAID ATRIP project for EAEN and SAEN member firms. Members concur that this service is critically important to sustaining interest and involvement.

E. The Regional Trade Information Center (RTIC)

72. An early creation of WAEN is the RTIC which was developed in 1995 to improve the flow of trade information in West Africa. A feasibility study on information needs and dissemination was conducted, which served as the basis for the design of the RTIC. The basic conclusion was that the RTIC should provide a virtual library and distribution point of information which could assist members in doing deals. A staff person with a background in trade information was hired to collect, analyze and disseminate information to members. This person received training from several strategic allies (World Bank, USAID, EU) on available databases and information tools. The RTIC also publishes the quarterly WAEN newsletter and the monthly Trade Flash, disseminated via email. This experience has been productive for WAEN and should be expanded to EAEN and SAEN.

F. Public/private partnerships for reform

73. As the Enterprise Networks developed an identity and began to speak out on proposed reforms, they became partners with certain national governments and regional economic institutions in the development of new approaches to economic issues. In this context, WAEN was a key proponent of the establishment of a Forum West Africa and individual national units debated tax, investment and sectoral policies with the relevant ministries. A regular series of regional conferences was established to continue to debate critical issues on the broader regional level, with stakeholders from the public, private and donor communities. EAEN and SAEN have also sought working relationships with the regional economic institutions in their geographic regions (EAC, COMESA and SADC).

G. Allocation of resources

74. Project funding began in September 1992. USAID was the sole donor for nearly 3 years and is the only donor which has provided funding to the Enterprise Networks each year since its creation. Canada and France funded as of mid 1995. Belgium, Switzerland and the World Bank contributed as of 1998. Approximate levels of donor contributions to WAEN through 2000 are $3,250,000 (7-1/2 years); to EAEN $855,000 (2 years) and to SAEN $970,000 (2 years).

75. Approximate total annual financial contributions for the project are provided below. Funding covers both technical assistance (averaging 60-65% of total annual funding through 1999) and program assistance to the Enterprise Networks, e.g., travel to regional meetings, interpretation, special studies, regional conferences, representational travel, etc. (averaging 35-40% of total annual funding through 1999).

	WAEN	EAEN	SAEN
1993 (USAID)	$400,000 (7 networks)		
1994 (USAID)	$450,000 (10 networks)*		
1995 (USAID)	$450,000 (13 networks)		
1996 (USAID, France, Canada, EU)	$550,000 (13 networks)*		
1997 (USAID, France, Canada)	$550,000 (13 networks)*		
1998 (US, France, WB, Swiss, Belgium)	$300,000 “	$200,000 (4 networks)	$230,000 (7 networks)
1999 “	$250,000 “	$225,000 (6 networks)*	$250,000 (10 networks)*
2000 “	$300,000* “	$430,000 (6 networks)**	$490.000(11 networks)**
2001 (proposed)	$200,000 “	$210,000 (6 networks)	$275,000 (11 networks)
2002 (proposed)	$160,000 “	$175,000 (6 networks)	$225,000 (11 networks)
TOTAL:	$3,610,000	$1,240,000	$1,470,000

*includes funds for regional conferences, ranging from $40,000 (EAEN) to $100,000 (WAEN) per conference
** includes USAID TA contract in the amount of $112,500 each for EAEN and SAEN

H. Local ownership

76. Local ownership was an important factor in ensuring that the networks would work towards sustainability. The fact that the national units have been entirely self-financed from the beginning has forced the groups into a practical approach to their programs and activities. Most national units have opted for a high degree of informality in their organization and initiatives, preferring to focus their efforts on business opportunities, and leaving the reform agenda to their regional Executive Committees. Each regional network retains its own distinct personality and orientation, and the action plan for each, despite several common objectives, is different.

I. Sustainability

77. The experience with WAEN over the last 7-1/2 years indicates that African entrepreneurs believe in the value of the Enterprise Network concept. Those individuals who looked to receive more than they gave have dropped out, and indeed, a few WAEN national Networks may have died out completely (Guinea, Togo, Chad). However, many of the original core WAEN members continue to participate actively in the annual regional meetings and to network among themselves. A new WAEN Executive Committee is to be elected in June 2000 and the debate on sustainability and leadership at this Annual General Meeting in Abuja should be telling regarding the long term perspectives of WAEN.

78. SAEN has weathered its share of troubled waters in the two years since its creation, with the resignation for professional reasons of two of the three Executive Committee (EXCO) members, and the loss of its first regional administrative manager. However, replacement EXCO members were elected in March 2000 to serve out the balance of the terms of the original members and revised action plan was adopted with ambitious goals for the next 2 years.

79. EAEN suffers from the small number of national units (7 with the addition of Djibouti as of March 2000, as opposed to 11 in SAEN and 13 in WAEN), which impacts the dues levied to support the regional secretariat. However, members have continued to date to contribute to the support of the regional secretariat in Addis, including countries as small and troubled as Rwanda and Burundi.

80. A key factor in the sustainability of the regional bodies is the credibility and efficiency of the regional secretariats and of the program of services offered by the regional body. This is the biggest challenge faced by the governing Executive Committees of each regional enterprise network.

J. Donor coordination

81. Coordination of donor efforts in support of the Enterprise Network initiative is both necessary and useful, for three basic purposes: (1) to unify objectives in providing assistance, (2) to share information on trade and investment needs and opportunities within the three regional networks, and (3) to examine innovative means of providing effective support (and eliminating ineffective support) for private sector development. Unfortunately, the donor steering committee for the Enterprise Networks has suffered from a lack of continuity among the donor representatives who attend the semi-annual meetings, which has handicapped the networking by the donor agencies with their bilateral or multilateral constituencies on behalf of the Enterprise Networks. On their end, the Private Sector Support Unit and the Enterprise Networks need to be more proactive in providing regular progress reports to the donors on Network activities and interests.

82. The Enterprise Networks represent an important resource for donors, particularly as concerns their private sector development strategies. They should be more regularly involved consultations with

their donor partners. For their part, the Networks must do more to report on their achievements as measured against performance indicators. Information on indicators can help ensure that donor support will continue to be provided.

83. The one example of donor coordination on substantive issues for the Enterprise Network initiative involved two consecutive workshops in 1994 and 1995 on financial instruments, organized by the Private Sector Support Unit and WAEN with major donors and bankers interested in the region. The intent was to make this an annual event. Although the idea of the West African Enterprise Fund did evolve from these workshops, there was little other meaningful follow-up and the initiative was dropped.

84. More practically-oriented donor/Network coordination could produce useful results, provided there is real interest, translating into time and finances, from the Networks in the joint projects. Examples of areas where members continue to request synergies are mechanisms for leveraging domestic savings mobilization with external funds, formulas for developing local capacity building resources, especially in much-needed management and technical skills, and information on bilateral/multilateral trade negotiations and incentives (e.g. the Africa Trade Bill in the U.S., the future EU/ACP agreement and WTO provisions).

IV. Conclusions and recommendations

A. Conclusions

Trade is not (yet) a high government priority in Africa

85. Despite a wide variety of donor programs that tackle trade capacity from different angles-sectoral/cluster analysis, competitivity analysis, policy impact assessment, subsidized feasibility and consultancy services to individual firms, association capacity building, research, partnerships, etc.- there have been few success stories in trade development in Africa (South Africa, Namibia, Mauritius are examples). If donors are to assist effectively in promoting trade capacity in Africa, they must ascertain first if national governments are willing to make trade a significant issue on their agenda and second if they are serious about cooperating with other countries to create a regional market and with the private sector to develop exports. Without political will, there is little that can be done by either the donor community or the indigenous private sector to develop trade capacity, other than the pursuit of one-off transactions. If governments are serious about enhancing trade, there is a series of immediate measures which are needed to enhance industrial competitiveness. These include:

- integrating and upgrading the regional transport infrastructure (road and rail), power grids and port facilities;
- actively promoting a shift towards value-added manufactured exports through focused incentives;
- adopting reasonable taxation rates and removing import duties on capital and intermediates;
- developing credible legal frameworks that enforce property rights
- implementing transparent and market driven privatization programs;
- creating export processing zones in gateway areas to the rest of the world;

- maintaining realistic exchange rates and continuing to liberalize trade;

- promoting flexible labor markets with reasonable wages.

The* formal *private sector must lead the charge

86. Trade capacity development must rely on leadership from the modern private sector in every export sector- agriculture, tourism, light manufacturing, Given this necessary partnership with modern sector firms, certain development constituencies may object that poverty alleviation has not been factored into the equation. Trade and export initiatives, if successful, should lead to increased jobs, but donors must be prepared to respond to criticisms of neglecting the poorest in their trade programs.

Regional markets are key to the transition to globalisation

87. Cutting their "export teeth" on the regional market is a necessary and useful step for local industry and agriculture, before launching into global competition. This was the learning curve practiced in Asia well before the birth of SADC, COMESA or UEMOA. It is time to move forward rapidly with the regional integration agenda, and to involve the private sector as a full and welcome partner in a process to identify the necessary incentives and financing mechanisms to promote the sustainable development of regional markets.

Public/private partnerships must be real and regular

88. Public/private dialogue is the only route to achieving real progress in trade capacity development. These partnerships must go beyond incentives and finance in support of trade, to engage meaningful dialogue on the fight against crime and corruption, human resource development and technical training and the prevention of HIV/AIDS in every region of Africa.

Enterprise Networks can play a pivotal role in regional and international trade development

89. As regional organizations of new generation entrepreneurs, the Enterprise Networks constitute a unique private sector capacity to pursue regional and international business opportunities and to develop and implement a reform agenda targeting trade and investment. To be most effective in their mission, the Networks must seek strategic allies who will work in *active partnership* to identify and promote opportunities for joint technical, investment and commercial ventures, including offshore investment groups, investment fund managers, private sector divisions of donor agencies, regional economic institutions and their own national investment promotion agencies and ministries of trade and industry. To maintain their credibility, the Enterprise Networks must remain highly selective and results-oriented and should move as rapidly as possible to financial autonomy from the donor community. They must actively publicize the success stories in their midst and focus their energies on the challenge of mobilizing domestic savings for private sector investment in their home countries and in their regions. They have a special challenge to promote their region as an investment destination to the outside world.

B. Recommendations

90. Based on experience with the Enterprise Networks and their trade capacity development, the following summary recommendations are made for donor trade-capacity related programs and coordination:

Make regional integration a priority

91. Donors can provide useful value-added by urging and supporting acceleration and rationalization of the regional integration process in West, East and Southern Africa, through the following types of initiatives:

- Emphasize and reshape the ***process*** for achieving regional integration by focusing on strategic management of the reform agenda, involving all relevant stakeholders- government, private sector and civil society- in that process, sharing information on policy and proposals with stakeholders, and instituting a system for ongoing performance monitoring and evaluation.

- Assist in rationalizing the various regional integration programs, especially where significant inherent overlap occurs (UEMOA and ECOWAS; SADC, EAC and COMESA);

- Consistently and regularly involve the private sector (small, medium and large firms in the modern sector) in the design and development of regional integration strategies and programs (recognizing the private sector as an independent entity);

- Provide co-financing mechanisms to facilitate private sector involvement in the regional integration process, particularly for capacity building on technical issues and participation at meetings and conferences, and to promote organization of regional trade missions, trade fairs, inter-industry visits, etc., working through regional private sector organizations like the Enterprise Networks;

- Encourage informal regional clusters of private sector operators in sectors such as poultry, fisheries, horticulture, tourism, etc., to discuss production, marketing, transport issues in the region;

- For firm level support, focus on the modern firms who have the capacity to quickly increase competitiveness and subsequently to create jobs for others in the sector;

- Foster a regional approach to investment by developing tools, materials and training for investment promotion agencies (IPAs) and assisting them to implement campaigns to promote the regional market as an investment zone, thereby improving the market-attractiveness factor in investment evaluation and decision making.

On its end, the private sector can support trade capacity development for regional (and subsequently global) markets by taking the following initiatives:

- Investing in capacity building through education and training to develop a better skilled labor force and to increase management capacity;

- Adopting a regional outlook in corporate strategic planning, business development, and investment appraisal;
- Designing creative programs and financing mechanisms that generate economic benefits, productivity improvements, and enhanced competitiveness, while supporting SME development, such as:
  - Giving preference to MBOs when selling non-core businesses and allowing payments from future cash flows (keeping title over assets and dividends until the full purchase price is paid)
  - Creating SMEs out of non-core activities (e.g., cleaning, security, catering, repair and maintenance, etc.) while allowing for a captive-market period
  - Developing sub-contracting strategies that include mentorship and training elements and performance based compensation
  - Implementing employee share-ownership schemes based on profit improvement share-payment mechanisms coupled with productivity enhancement training;
- Assisting donors in designing private-sector development programs to ensure that programs are developed with a private-sector frame of mind and in the spirit of the private-sector's quest for efficiency and effectiveness;
- Creating a regional-deal pipeline mechanism that feeds investors and investment funds with regional investment-project opportunities.
- Bringing together financial sector representatives on the regional level to exchange ideas and propose solutions regarding financial institutions and instruments adapted to the needs of the regional African private sector..

Assist in increasing access to MT/LT financing

92. Private sector driven initiatives to mobilize domestic savings for investment in trade-related projects should be encouraged and means sought to assist groups such as the Enterprise Network to leverage additional external resources to complement the domestic funds which they have raised.

93. Regional investment funds, such as the West African Enterprise Fund, should be publicized, monitored and replicated.

94. Information on mechanisms for medium term lending for capital equipment purchases in support of trade projects should be made widely available, including mechanisms utilized by the various EXIM Banks.

95. Creation and expansion of leasing companies to finance capital equipment should be encouraged and case studies prepared on success stories (ulcMozambique).

Encourage private business/business linkages programs

96. Offshore private sector business organizations can make a meaningful contribution to the capacity development of their African counterpart organizations, particularly those which bring together African entrepreneurs who can work in partnership with offshore investors. The experience with the SAFRI (Southern African/German Business Initiative) and its “Entering Foreign Markets” workshop is a case in point. Another is the U.S. Corporate Council on Africa’s South African International Business Linkages program (SAIBL) and West African International Business Linkages Program (WAIBL). Donor support to assist other such bilateral private business to business programs on a cost-shared basis would be useful for groups such as MEDEF/France, BABA/U.K., MASSCORP/Malaysia, and networks of private business persons, such as the World Bank’s MEBIN, based in Paris. The same linkages can also serve to promote innovation in subcontracting arrangements between multinationals and smaller African firms.

Promote use of IT and facilitate information flows for trade

97. Allocation of donor resources to support and enhance the use of IT and to facilitate information flows for trade are excellent investments, especially as internet access and use grows in Africa. Website development for Ministries of Trade, regional economic integration institutions, private sector organizations and investment promotion agencies are critical. Programs to develop, catalogue and encourage links among sources of electronic information on trade and investment are needed. Subsidies which assist SMEs to purchase and utilize hardware and software for internet connections and to train staff on information searches and uses are also productive investments. Deregulation and liberalization of telecommunications and waiver of taxes on computers and software for businesses should be encouraged.

Encourage productive trade promotion forums

98. To build capacity to organize such events, government and donor officials responsible for trade programs should participate in business fora which focus on dealmaking, including Southern African Economic Forum summits, Southern Africa Enterprise Network regional conferences, International Herald Tribune Trade and Investment Summits, SMART partnership meetings in Southern Africa.

Strengthen multilateral trade negotiation capacity

99. Public and private officials need access to expertise which they often lack to analyze important policy issues. Donors could assist in organizing and conducting workshops on issues such as WTO compliance or the impact of proposed trade policies on trade in Africa. Representatives of the African private sector should be represented on all negotiating missions for WTO and EU-ACP

Publicize success stories

100. There are a number of success stories among African SMEs who have successfully engaged in exports or who provide services in support of trade. These success stories should be documented and publicized to encourage other entrepreneurs. From the Enterprise Networks alone, the following sampling of individuals have very successful ventures:

WAEN:

- Boureima Wankoye, Achat Services Interational, Niger (integrated gomme arabique operations)
- Ken Ofori-Atta, Databank Financial Services, Ghana (West African Enterprise Fund, Databank Ghana expansion to Nigeria, Mali and Cote d'Ivoire)

EAEN:

- Eskinder Joseph, Meskel Flowers, Ethiopia (horticulture)
- Peter Kibiriti, KENInvest (venture capital) and EnterpriseAfrica (business magazine), Kenya

SAEN:

- Jacinto Mutemba, Agro-Alpha, Mozambique (agricultural implements and construction)
- Kuf Munynida, NEXT Technlogoy, Zambia (software systems and solutions)

Create a donor/public/private sector focus group

101. A starting point for developing donor consultation and coordination is the creation of a focus group bringing together committed stakeholders in regional and international trade in Africa, to meet regularly to discuss and evaluate assistance mechanisms and to report to countries and private sector organizations on outcomes. Evaluation of programs such as Ghana's JITAP (Joint Integrated Technical Assistance Programme from WTO, ITC and UNCTAD), Mauritius' Joint Economic Commission and the EU's PRIDE for the Indian Ocean Rim (Programme régional integré de développement des échanges) would be useful first exercises. Useful recommendations regarding indicators for trade capacity development, process approaches for regional economic integration, and domestic savings mobilization for trade projects could be made by this group.

ANNEX

CLUB DU SAHEL

PRIVATE SECTOR DEVELOPMENT SUPPORT PROGRAMME

MEETING OF THE PSSP STEERING COMMITTEE
Paris, 28 and 29 October 1999

The Steering Committee of the Private Sector Support Programme (PSSP) met in Paris on 28 and 29 October 1999 under the chairmanship of Mr. Henri-Paul CART.

Present at the meeting were: 1) the Swiss, Belgian and French Co-operation authorities, the World Bank, USAID, the European Community, the Japanese Delegation to the OECD, 2) the members of the Executive Committees of the three African Enterprise Networks (WEAN, EAEN and SAEN) and 3) the Director of the Club du Sahel, the OECD Financial Controller and the acting head of the PSSP.

The following items were on the Agenda:

1. Report by Mr. BERBERAT

Following the liquidity crisis experienced by the PSSU in mid-1999 and the departure of its head, the Chairman of the Committee asked Mr. BERBERAT to conduct an analysis of the situation. To this end, the consultant met with representatives of the three Networks, of the co-operation agencies which supported the PSSU and of the business community.

The report that he produced very largely reflected the concerns expressed by the agencies and the Networks regarding the future structure of the PSSU and the body it was to be attached to administratively. On this point, the Networks expressed a preference for a lightweight structure which would absorb only a reasonable proportion of the Programme's resources (20%). On the second point, in the absence of any precise alternative, the Networks were in favour of maintaining the status quo (attachment to the Club du Sahel).

With respect to the Programme's future relations with the Enterprise Networks, the provisions of the written agreement signed in June 1999 between the WAEN and the Director of the Club du Sahel Secretariat were cited as an example, and it was recommended that relations between the PSSP and the other two Networks be based on the said agreement.

2. Report by the OECD Financial Controller

Having been asked for his opinion on the administrative and financial management of the PSSP, the OECD Financial Controller pointed out that the Programme was managed administratively by the Secretariat of the Club du Sahel and had, therefore, to comply with the OECD's rules, which it had not always done. The financial rules had not always been respected, expenditure having been committed without having been planned for in the budget, and evidence of expenditure having been produced after the event and needing better verification.

Generally speaking, the report confirmed the view that the Programme's past management had been rather too informal. It was recognized by both lenders and recipients that the project had suffered from the outset from a lack of clearly defined rules of the game. While the project had started off on an "informal" basis, its geographical extension and the increased number of institutional actors (new lenders, new Networks) meant that it now needed to adopt management methods which were more formal and in compliance with OECD rules (procurement for consultants' contracts, commitment of funds…).

The Financial Controller confirmed that the PSSP had from now on to be managed in a transparent manner and in accordance with the OECD's internal procedures; the administrative authority of the Club du Sahel Secretariat was altogether unambiguous in this respect.

3. Presentation of the three Networks

Prior to the meeting, the three Networks had met in early October in Bujumbura, where they discussed their respective experiences and decided to step up their co-operation over the coming months. A shared position was also arrived at concerning the future of the Programme.

On the basis of this first meeting, the representatives of the Executive Committees of the three regional Networks endeavoured to put together a common presentation. They discussed how the three Networks had developed, what they had achieved and what challenges lay ahead, particularly regarding the sustainability and future direction of the concept. Their presentation may be summed up as follows:

<u>Future of the Networks</u>:
- Ownership in the hands of the beneficiaries of the project;
- Organisation based on excellence;
- Continent-wide organisation.

<u>Future of the Programme</u>:
- Transparent implementation procedures;
- A means of supporting the implementation of the regional Networks' strategic action plans;
- No traditional technical assistance, but partnership based on demands expressed by the regional Networks;
- A Programme with a limited time horizon and with value added consisting of the transfer of the three regional Networks' know-how and the way they interface with the outside world.

Following the above presentation, discussion turned to the programme of work of the three Networks. The attention of the members of the Committee focussed on the main themes, and they asked that the latter be converted into action plans, with a reference to performance indicators. The three Networks promised that the documents in question would be ready by the beginning of December 1999.

4. Report on the activities of the PSSU

The acting head of the Programme gave an update on the different activities pursued since the Steering Committee's last meeting in June 1998. He highlighted both what had been achieved, and also the difficulties encountered because of the failure to pay certain contributions, and organisational shortcomings. The report did not elicit any special comments.

5. The 2000/2002 PSSU Programme of Work

Prior to its presentation, the Programme had been the subject of lengthy discussions with the different Networks, and naturally it was consistent with the Networks' strategic action plans. It was the last such Programme to be put in place at the OECD since, after phase 1 (1994-1997) and phase 2

(1998-1999), the PSSP would in 2002 be relocated in Africa. In summary, the Programme centred on the following activities:

- Implementation of measures meeting the direct requirements of members and of the Networks' organisational structures;
- Design of mechanisms for generating revenue so as to make the system financially independent;
- Interconnection between the three Networks and gradual introduction of an Africa-wide strategic action plan.

The Networks have been very much involved in drawing up the Programme, which attaches great importance to the priorities stressed by the Networks. This means that there is no longer any conflict of interest between the manager of the PSSP and the Networks.

Most of the agencies present were of the opinion that, while the Programme did reflect an overall view of the Networks' requirements, it was still too general. The Committee therefore asked that a detailed action plan for 2000 be submitted to it within 1 month; this plan would show: 1) the respective contributions of the agencies and of the Networks themselves (in financial terms and in kind) in the context of the implementation of their strategic action plans, and 2) the benchmarks to be used to measure the results achieved.

To this end, the Committee needs to have a workable document that can be used as a flexible tool with which to monitor the management of the Programme. Its presentation could be as follows:

Actions	Objectives	Resources used	Expected results	Costs
Benchmarks				in $ and in kind

The three Networks undertook to produce the document showing their contribution (in cash and in kind) by end-December, as part of their strategic action plans.

6. Budget, organisation and management of the PSSP

In budget terms, three scenarios had been proposed: a lower one based on 30 months and a sum of FF9.1 million, an intermediate one involving the same length of time but FF13.1 million and, lastly, an upper one involving a budget of FF15 million over a period of 36 months. It was the latter scenario that was finally adopted, i.e. FF15 million for 3 years:

(FF million)

	2000	2001	2002	**Aggregate**
1. PSSP costs	1.2	1.2	1.2	3.6
2. WAEN programme	1.3	0.9	0.7	2.9
3. EAEN programme	1.4	1.0	0,8	3.2
4. SAEN programme	1.8	1.4	1.1	4.3
5. Interconnection	0.3	0.3	0.4	1
Total	**6**	**4.8**	**4.2**	**15**

The scale adopted provides for a bigger concentration on the new regional Networks, with the WAEN's funding being more degressive. Even so, a number of agencies proposed that the level of mobilisation of internal resources should serve as allocation criteria.

Subject to the information requested by the Committee being forthcoming (detailed action plan for 2000, showing the respective contributions of the donors and Networks, as well as indicators of the results achieved), the position of each of the agencies may be summed up as follows:

- <u>Belgium</u>: commitment of BF7 million per year for the duration of the Programme, to be confirmed each year. Belgium's contribution for 2000 could be disbursed in late 1999;

- <u>Switzerland</u>: idem (SF300 000 per year for 3 years);

- <u>France</u>: agreement for three years, but for a smaller amount: FF300 000 for the first quarter of 2000 and 1.8 million at the end of the year for the remainder of the Programme;

- <u>World Bank</u>: the Bank's contribution for FY1999 ($300 000) has been approved, but it can only be paid once the 2000 action plan, which is to be proposed, has been accepted. The Bank's representative pointed out that its contribution could not be more than 15% of the total cost of the Programme

- <u>USAID</u>: 3-year financing is planned as part of the ATRIP programme and will be confirmed once the details requested have been accepted (amount unspecified);

- <u>European Union</u>: no participation in PSSP financing, but work carried out directly with the Networks;

- <u>Japan</u>: is interested in taking part in the discussion, but on condition that there is a detailed action plan, that the certified accounts for 1998 and 1999 are made available and that the Club du Sahel Secretariat formally undertakes to abide by its administrative responsibilities.

7. Functioning of the Programme (institutional attachment, Steering Committee, structure)

As far as institutional attachment is concerned, it was decided to continue with the present system, whereby the Club Secretariat has administrative responsibility.

Along the same lines, it was decided that the Steering Committee, which is technically in charge, should have actual responsibility rather than being merely an advisory committee. It was proposed that it meet whenever necessary, and at least twice a year - at the end of the first quarter to approve the accounts and towards the end of the year for the budget.

For 2000, the first meeting will be held in <u>late February</u> and deal with the detailed action plan. It will look at the situation regarding financial commitments and discuss the question of Mr. Cart's successor as chairman of the Committee. Another meeting is scheduled for the last quarter and will consider the 2001 programme of work. The 2000 financial report will be submitted in 2001, once the OECD accounts have been settled. Also, the three Networks and the PSSP will be required to submit quarterly reports.

The PSSP's management structure will have to be reduced to a maximum of two people, one person in charge of the Programme and a full-time administrative and financial assistant. A profile for the Head of Programme post was submitted to the Committee for its consideration. Candidates will be sought within the OECD and the agencies participating in the financing of the Programme.

The members of the Committee asked that the proposed draft profile be amended (so as to specify the place of work and establish that the Head of Programme does not have two immediate superiors) and a selection was set up to support Mrs. Damon in her choice. In addition to Mr. Cart, it is made up of representatives of Belgium and France (Mr. Frix and Mr. Humbert, respectively), of a representative of the three Networks, who will be appointed by them and, lastly, a private sector specialist from the OECD.

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DAC WORKSHOP: TOWARDS GOOD PRACTICES FOR DONORS ON CAPACITY DEVELOPMENT FOR TRADE

GHANA CASE STUDY

This document is submitted as background material for discussion at the Workshop, to be held in Paris on 29-30 May 2000 and should be considered together with the background paper [DCD(2000)10].

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TABLE OF CONTENTS

GHANA CASE STUDY

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Acronyms

ACP	African Caribbean Pacific
ACBF	African Capacity Building Foundation
AERC	African Economic Research Consortium
CEPS	Customs and Excise Prevention Service
CET	Common External Tariff
CSP	Country Strategy Paper
DFID	Department for International Development
EC	European Commission
ECOWAS	Economic Community of West African States
EPZ	Export Processing Zones
ESAF	Enhanced Structural Adjustment Facility
ETLS	ECOWAS Trade Liberalisation Scheme
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GoG	Government of Ghana
GEPC	Ghana Export Promotion Council
GSB	Ghana Standards Board
GTPP	Ghana Trade Policy Project (DFID)
IEPD	International Economic Policy Department (DFID)
IMF	International Monetary Fund
IMCC	Inter-Ministerial Committee on Competitiveness
IT	Information Technology
ITC	International Trade Centre
JITAP	Joint Integrated Technical Assistance Programme
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoTI	Ministry of Trade & Industry
NGOs	Non-Governmental Organisations
REPA	Regional Economic Partnership Agreement
TA	Technical Assistance
TC	Technical Co-operation
TBT	Technical Barriers to Trade

TRIPS	Trade Related aspects of Intellectual Property rights
UEMOA	Union Economique et Monétaire Ouest Africaine (West African Economic and Monetary Union)
UNCTAD	United Nations Conference on Trade and Development
URAs	Uruguay Round Agreements
USAID	United States Agency for International Development
WTO	World Trade Organisation

I. Review of Economic Performance and Policy

Macroeconomic Environment

1. The Ghanaian economy has grown at a steady rate of around 4% since the early 1990s (see Statistical Profile, Annex 1). Real GDP growth increased from 4.2% in 1997 to 4.6% in 1998, due in large part to increased production in the cocoa and mining sectors. Late in 1999, the government revised its forecast for GDP growth for that year from 5.5% to 4.4%, following declines in gold and cocoa prices and a doubling of oil prices (Economist, 1999). Since 1997, budgetary discipline has improved and current account deficits have been contained. The inflation rate, which reached 21% in 1997, declined to less than 16% by the end of 1998 (IMF, Letter of Intent, Nov. 3, 1999).

Structural Adjustment

2. The 1970s were disastrous years for the Ghanaian economy, prompting an aggressive program of stabilisation and liberalisation that started with the adoption of the Economic Recovery Program (ERP) in 1983 and continued with successive programs. The government's objectives during the 1980s were to control inflation (which had surged to over 100%) and to strengthen market incentives in the economy. Between 1987 and 1992, Ghana successfully reduced poverty and the economy grew at just under 5%. However, about one-third of the population still lives below the poverty line. The main incidence of poverty is in the north of Ghana, where access to employment is low and the climate is fragile. In recent years, poverty has increased in urban areas due to inflation and other factors. Government wages are very low, and many civil servants are paid less than what is required to meet basic living standards. Economic growth is the key to reducing poverty in Ghana.

3. After a period of fiscal instability, renewed efforts to restore macroeconomic balance were undertaken in 1997. The main objective of the current 1999-2001 ESAF is to create an environment that will encourage investment and productivity in the cocoa industries, primarily by promoting private-sector marketing and exporting, increasing the efficiency of financial services, and addressing social issues and infrastructural weaknesses. The plan's growth target is 4-5% per year during 2000-2001.

4. In broad terms, the macroeconomic performance of Ghana in 1999 was in line with the ESAF program targets. Some of the performance criteria for 1999 were missed, however, because of the economic shocks of declining export prices and increasing oil prices, as well as policy slippages (IMF Article IV Consultation with Ghana, 1999). During the Consultative Group meeting for Ghana in November 1999, the government announced plans to compensate for terms of trade deterioration with an increase in the VAT and expenditure cuts.

5. Ghana is now one of the pilot countries for the World Bank's Comprehensive Development Framework (CDF). The government has drawn up a comprehensive long-term development strategy paper, "Vision 2020," which was the basis of the CDF draft presented at the last Consultative Group meeting in November 1999. The strategy focuses on poverty reduction, sustainability, and the role of the private sector as the engine of growth.

Sectoral Reforms

6. Ghana has increased government expenditures on improvements in infrastructure for storage, transportation, and communications. The World Bank has recently approved three "adaptable program

loans" in the areas of water, public sector management, and natural resources management. The commission that regulates the energy sector has begun raising prices to international levels. A new civil service wage schedule, with a 22-level grade structure, was implemented in July 1999. Key privatisations are moving ahead and the cocoa sector has seen some incremental success. The IMF has expressed some concern, however, over the government's decision to hold the line on cocoa prices, despite the decline in world prices.

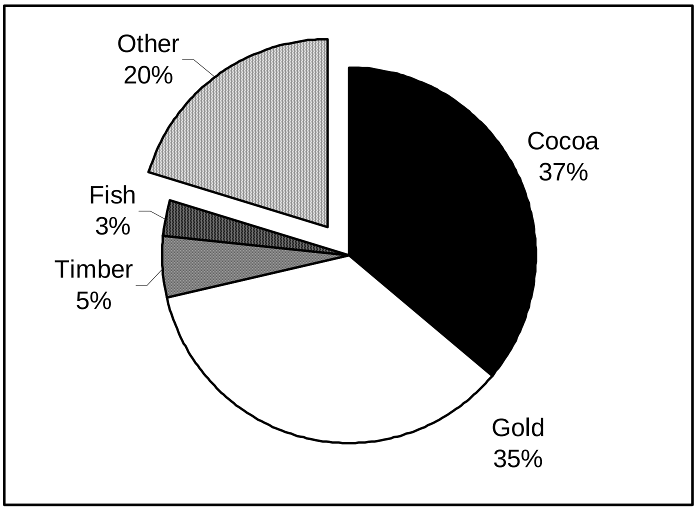
Private Sector

7. Privatisation has been particularly successful over the past decade. By 1997, Ghana had sold more than 180 of its state-owned enterprises. Since the adoption of the Investment Act in 1994, Ghana has recorded 250 new direct foreign investments. Joint ventures, in particular, have increased. From 1992 to 1997, foreign direct investment averaged $133 million per year. Foreign investment has decreased since 1998, however.

Foreign Trade

8. Ghana's competitiveness has increased with currency devaluations and the elimination of a non-market-based foreign exchange system. Exports of goods increased substantially from 1987 to 1997. This increase was to a large extent due to increased sales of traditional commodities (gold and cocoa), as well trade and exchange liberalisation. There was a sharp decline in exports of gold and cocoa in 1999, however, underscoring the country's great need to diversify its export sector. Cocoa accounts for about 40% of Ghana's exports in most years. Official figures for the first half of 1999 show that traditional exports still make up about 80 % of total exports (Figure 1). The direction of Ghana's exports has also been heavily influenced by the preferential access granted under the ACP-EU Lomé Convention. Ghana's most important markets are the EU and the United States, followed by Ivory Coast and Togo.

Figure 1 - Ghana Exports, 1999 (Jan-June)



Source: EIU, 1999.

The government of Ghana is concentrating development efforts on processing industries and non-traditional agricultural and horticultural exports, for which important markets exist in Europe (Project Document for the Follow-up and Implementation of the WTO Agreements, 1998). The government's "Gateway" program supports the promotion of exports and investment and the continued strengthening of policy reforms.

Trade Institutions

9. *Government.* The Ministry of Trade and Industry (MoTI) is the principal Government agency with overall responsibility for trade policy formulation, including for multilateral and bilateral agreements (e.g. ACP-EU). The Ministry's major objective is to "increase exports generally so that the country can finance its economic development effort without undue reliance on external sources of finance [through] the development and diversification of the export base, with particular reference to the development of the non-traditional export sub-sector in support of the private sector export-led growth strategy of the Government." The industrial policy of MoTI stresses export competitiveness and efficient import-substitution (by contrast with "the past import substitution strategy") (MoTI, 94). So far, by contrast with the Ministry of Finance (MoF), the MoTI has not received major support from donors. It suffers from inadequate resources, low wages, and poor equipment.

10. Other ministries play major roles in shaping Ghana's trade policies. The MoF, for example, is in charge of the country's dealings with the Economic Community of West African States (ECOWAS), which has an important trade component. The MoF sets budgetary policy and determines the levels of tariffs. The MoF is also the key player in the implementation of Ghana's Gateway strategy, and thus the Ministry receiving the bulk of donor support for the Gateway project (World Bank, USAID). The Ministry of Foreign Affairs (MoFA) takes the lead in actual trade negotiations, guided by positions prepared by MoTI and MoF.

11. The Ghana Export Promotion Council (GEPC) is the national focal point for export development and promotion. Under the supervision of MoTI, GEPC provides assistance and information to exporters, provides training in marketing, and is authorised to "recommend to government the necessary assistance and incentives needed by the Ghanaian exporter" (MoTI, *not dated*).

12. *Private sector institutions.* Major private sector institutions include the Ghana National Chamber of Commerce (GNCC), the Association of Ghana Industries (AGI, with more than 1,500 members from both the public and private sectors), and the Federation of Associations of Ghanaian Exporters (FAGE). The latter is an umbrella organisation of exporter and product associations (food crops, fisheries, agriculture, forest products, handicrafts and metals).

13. The Private Enterprise Foundation (PEF) was founded on the initiative of AGI, GNCC, the Ghana Employers Association and the FAGE (later joined by the Federation of Ghanaian Bankers) -- with support from USAID, DANIDA, and the government of Ghana. It aims to be the private sector's umbrella organisation, "primarily responsible for the development of the private sector as a whole and of the export sector in particular." It represents the interests of the private sector vis-à-vis the Government and provides services to firms (e.g., analysis and technical assistance).

14. The West African Enterprise Network (WAEN), a grouping of some 350 businesses across the whole region -- of which some 50 are in Ghana -- has its headquarters in Accra. It aims to improve business contacts among its members, and also plays an interface role with governments and donors.

Trade Policy and Strategy

15. *Vision 2020 and the "Gateway" strategy.* In the mid-1990s (in contrast with Senegal, the subject of the other African case study in this project), Ghana adopted a clear, export-led growth strategy, in order to achieve the goals set out in the Vision 2020 plan: a middle-income country with a thriving market-based economy attracting inward investment that supports economic expansion and diversification. Ghana's strategy seeks to make it a "gateway" location for inward investment, expanding access to the regional market. It aims to develop an internationally competitive agricultural processing and industrial base.

16. A vast Ghana Trade and Investment Gateway Project was launched to "attract a critical mass of export-oriented firms [...] to kick start export-led growth as well as facilitate trade" by removing the constraints to the development of exports and investment.[1] More specifically, the project -- whose secretariat is based in MoTI -- aims to modernise "frontline" institutions and agencies that deal with investors by "re-engineering them into trade facilitators." This includes the development of the Tema EPZ site infrastructures. It also includes an ambitious programme of capacity-building in trade facilitation, providing for:

- A profound overhaul of customs (CEPS), with training, equipment, etc.;
- The improvement of the Ghana Ports and Harbour Authority, involving the private sector in port operations;
- The institutional reform of the Ghana Civil Aviation Authority, in the framework of the government's "liberalised skies policy;"
- Limited support to Ghana Immigration Services;
- The strengthening of the Ghana Free Zones Board (which establishes EPZs).

17. By the end of the project, Ghana should "emerge as the key and preferred investment destination into West Africa, with cost of doing business brought to internationally best case levels."

18. *Trade agreements.* Ghana has been a GATT member since independence in 1957, and a member of the *WTO* since its inception in 1995. Ghana's trade policies were reviewed by the GATT Council in 1992. Ghana's Uruguay Round schedules of concessions on goods have bound tariffs between 30% and 99% for agriculture, and between 15% and 40% for industrial products. Ghana has notified the WTO about the implementation of Uruguay Round agreements on anti-dumping, pre-shipment inspection, subsidies and countervailing measures, safeguards, customs valuation, sanitary and phytosanitary measures, and technical barriers to trade.

19. Ghana is a member of ECOWAS, which it co-founded in 1975. ECOWAS foresees the establishment of a free-trade area and, ultimately, a Customs Union, but it has made little progress to date.[2] In 1990, in an attempt to revitalise the agreement, the ECOWAS Trade Liberalisation Scheme was established, with the goal of phasing out tariffs on specified goods within 5 years. Pursuant to this agreement, Ghana has provided tariff reductions of 20% on a few goods imported from countries granted Community Status. To help maintain competitiveness with neighbouring countries, the 2000 government budget provides for a reduction in the maximum tariff rate from 25% to 20%.

20. With regard to trade relations with the EU, Ghana finds itself confronted with issues similar to those which Senegal faces: Because it is not an LDC, Ghana will not be entitled to retain its current non-

[1] Government of Ghana, Brief on Ghana Trade and Investment Gateway Project, mimeo.

[2] See Jebuni, 1997.

reciprocal EU trade preferences beyond 2008 (See Annex 2 on the Post-Lomé IV trade agreement). Beyond that date, it may thus face a choice between granting reciprocal preferential access to EU products in exchange for keeping its own, or graduating to the EU's Generalised System of Preferences. In the latter case, of all non-LDCs in the ACP group, Ghana would be one of the biggest losers in terms of loss of access to EU markets.[3] Alternative WTO-compatible options have been explored by the EU and the ACP group (e.g. in the form of an "improved GSP"), but none of the parties has considered them thoroughly yet.[4]

II. Trade Development Needs

Trade Policy Challenges

21. Ghana's trade policy must address the issue of the country's excessive reliance on a few exports, which makes it highly vulnerable to external shocks, as demonstrated during 1999 by the impact of the collapse in world prices for cocoa and gold on the economy and government revenues. Increasing and diversifying the production and export of non-traditional goods, of processed cocoa products, and of pineapples and bananas are therefore priority goals for Ghana if it is to maximise the potential benefits from deeper integration into the world economy. Two main policy obstacles may prevent Ghana from achieving these goals: the lack of coherence between the trade policy agenda and the overall macro-economic strategy of the government; and difficulties adopting a coherent and efficient trade negotiating agenda in various fora.

Policy Coherence

22. Ghana may have a clear *overall*, outward-oriented trade and investment strategy -- by contrast, for example, with Senegal -- but macro-economic policies, especially exchange rate policies, are not fully conducive to the implementation of that strategy. Macro-economic instability, partly fuelled by the government's monetary and budgetary policies, is arguably "the fundamental problem hampering competitiveness."[5] By reducing real returns to exports, inflation has discouraged investment in outward-oriented activities. High interest rates have also penalised exporters. Achieving the trade objectives of the Vision 2020 plan will require sustained trade liberalisation, but that alone will not be sufficient, and could even be detrimental without continued regulatory liberalisation, privatisation, active inward investment promotion, and fiscal reform.

23. The gap between declared objectives and actual priorities is further evidenced in donors' current experience working with the government on trade issues. For instance, USAID proposals for a pre-Seattle training session did not meet significant interest among officials. The UK High Commission's proposed assistance on Lomé received a minimal response. Sigma One developed an index of competitiveness, but it received very little feedback from policy makers. The World Bank's proposal to revive the trade agenda-setting process initiated during a USAID-sponsored conference in North Carolina in 1997 was apparently resisted by MoF, allegedly out of concern that it would be required to disclose policies to non-governmental actors and to meet economic performance targets.

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[3] See Stevens, McQueen and Kennan, 1998.

[4] *Ibidem.*

[5] Sigma One Corp., 1997.

Adopting a Coherent Trade Negotiation Agenda

24. Integration into the world economy through a variety of trade arrangements is an essential element of the Gateway strategy. The government is keen to play an active role in the WTO, by implementing its commitments and through participation in the next multilateral round. The government also seeks to promote progress towards regional trade liberalisation (ECOWAS) and to participate in the negotiation of future ACP-EU trade arrangements. At each of these three levels, however, Ghana faces pressing short-run challenges.

25. *At the multilateral level*, Ghana has largely failed to meet its obligations, and it has not made use of the opportunity to exercise its rights (either defensively or offensively) in the multilateral system. Ghana has failed to meet several notification obligations contained in the WTO Agreements it has signed (see above). Along with other developing countries, it has complained about the complexity of these agreements and suggested that implementing them exceeds the capacity of governing institutions.

26. Ghana does not have an anti-dumping law and has never taken any anti-dumping measures, although the business sector claims there could be cases of dumping in the textile and garment sector.

27. Ghana has not taken part in any dispute-settlement proceedings in the WTO, nor participated actively in the setting of multilateral standards in its strategic export sectors, nor challenged notifications by other WTO members. This inactivity may have extremely serious adverse consequences for the business sector: at the time of this study, for instance, standards for pesticide levels that could negatively impact on Ghanaian cocoa exporters were due to be notified to the WTO, but Ghana had not participated in the standard-setting process, and had taken no action to protect its interests.

28. A sudden surge in interest in *regional integration* issues occurred in 1999. At the time the field work for this study was completed, Ghana trade officials and businessmen expressed great concern about the potential “break away” of UEMOA from ECOWAS. Beginning in January 2000, UEMOA members adopted a common external tariff (CET) for non-UEMOA members, including their ECOWAS neighbours. The potential threat to Ghana is obvious, as its Gateway strategy would make little sense if it were to appear enclaved in a free-trade zone to which it did not belong. This development has triggered a strong reaction from Nigeria and Ghana, which announced that they would jointly use their economic weight in the region to reinvigorate the ECOWAS trade protocol.

29. At the time of this study, there was some confusion concerning what might happen next. There are plans to establish a Nigeria-Ghana free trade area before mid-2000; others threaten trade retaliation against UEMOA members if they continue to use a CET. It is in this context that Ghana created a Ministry of Integration. Businesspeople seem to take a more pragmatic view on these developments, which they see as having been rapidly politicised,[6] and are keen to see Ghana opt for a collaborative, rather than confrontational, attitude towards its neighbours.

30. *At the post-Lomé level*, it can be argued that the preparations and negotiations for a new ACP-EU trade regime will be even more complex for Ghana than for Senegal. For Ghana, indeed, the free-trade agreement scenario remains very unclear: unlike Senegal, Ghana does not belong to UEMOA, the regional group with which the EU may sign a free-trade agreement in 2008;[7] and unlike Nigeria, Ghana has thus far

[6] Political aspects rather than trade policy considerations are obviously a key dimension of this debate, including the issues of leadership in the West African region after the return of Nigeria to civilian rule, and the dividing line between francophone and anglophone members of ECOWAS.

[7] The EC has stressed it was the ACP countries’ responsibility to eventually choose which region should proceed towards an agreement with the EU; nevertheless, UEMOA was the only West African regional group for which it commissioned a Regional Economic Partnership Agreement (REPA) feasibility study in 1998: see CERDI, 1998.

never been mentioned as a potential stand-alone signatory of a free-trade agreement with the EU.[8] Early in the ACP-EU negotiations, the European Commission (EC) seemed to consider the possibility of a free-trade agreement with UEMOA countries *together with* Ghana (implicitly suggesting that it did not believe the larger ECOWAS -- which includes UEMOA, Ghana, Nigeria and a few other countries -- could be a signatory to such an agreement with the EU). In the context of the tense relations between UEMOA and ECOWAS mentioned above, it is easy to understand how this would raise a number of economic, technical, and political problems. It is worth noting that Ghana's concerns over the problematic relationship between the UEMOA and ECOWAS were partly triggered by a report by Ghanaian consultants commissioned by the EC.

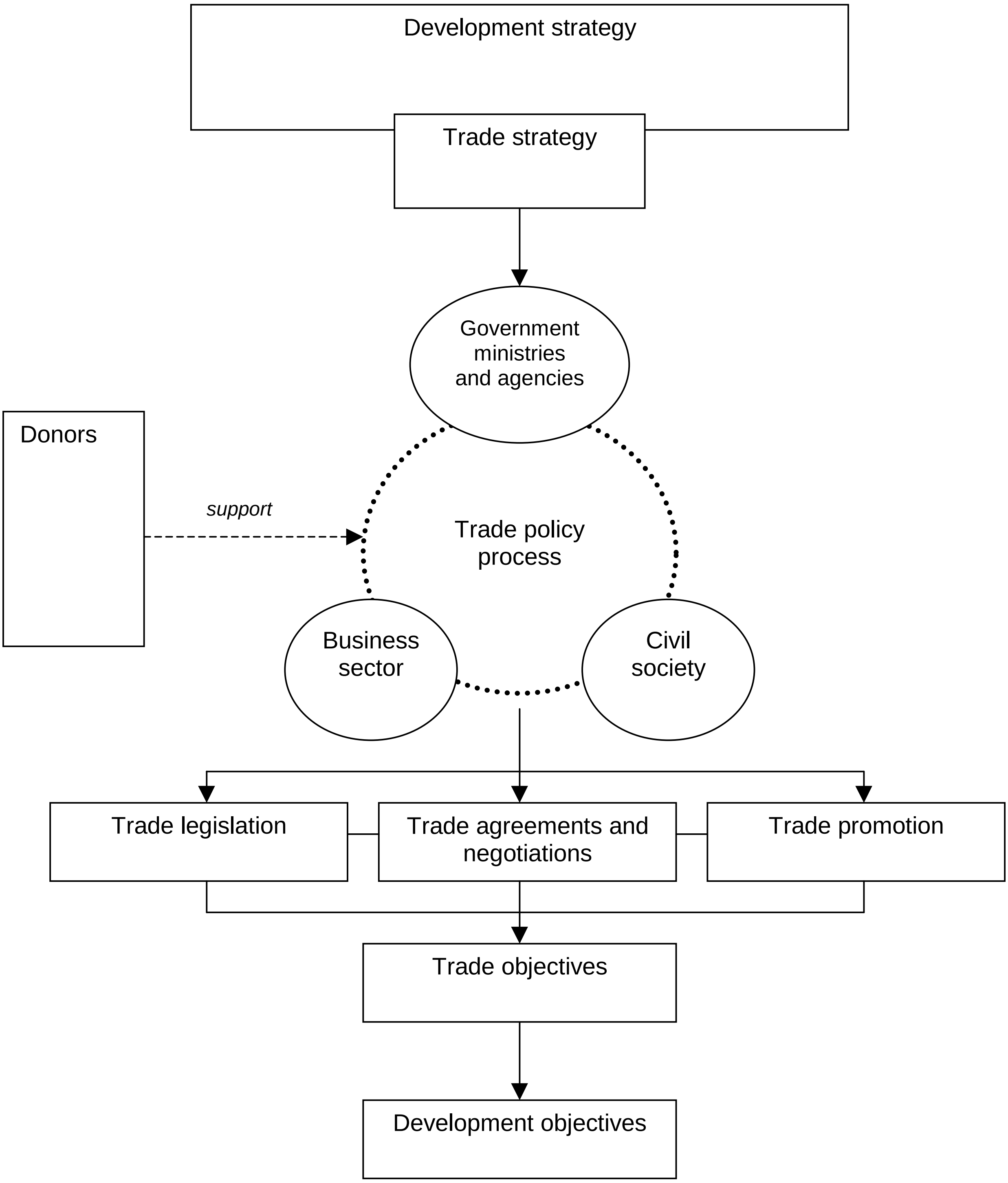
31. The challenge for Ghana is not only to tackle each of the three agendas above, but also to ensure it does so in a coherent and efficient manner. Obviously all negotiating fora are intertwined: the WTO has rules on regional agreements; the relationship between UEMOA and ECOWAS remains to be clarified; and future EU-ACP agreements may be signed with regional groups (e.g. UEMOA or ECOWAS) or with individual countries. Developing positions, forging alliances, and actively participating in the various negotiating fora will therefore be a complex exercise. Technical and political matters will need to be carefully assessed and weighed, through a decision-making process involving a wide range of players (including various ministries and private sector and civil society representatives). As we note below, however, Ghana is still largely ill-equipped to address these complex, interlocking negotiating agendas.

Capacity Gaps

32. Ghana has made the clear choice of an outward-oriented economic development strategy, of which a liberalised trade environment, active export promotion, and the integration into the world economy under multilateral, bilateral, and regional agreements constitute important elements. In implementing this strategy, Ghana faces important challenges over the coming years, as we have seen above. Ghana's weak point is arguably to be found in the insufficiently structured trade policy process by which this strategy is to be implemented -- i.e. trade interests identified and translated into positions and negotiating goals, resources allocated, etc. (see the simplified Figure 2 below). Below are some of the main capacity gaps that must be filled if Ghana is to successfully implement its strategy.

[8] The possibility of a separate EU-Nigeria FTA was mentioned in the EC's Green Paper on future ACP-EU relations (1996).

Figure 2 - From Trade Strategy to Trade Policy



Lack of Resources: Human,Institutional and Material

33. At the trade policy level, a key constraint is the general lack of resources of MoTI, readily observable from the limited access of officials to telephones, computers, e-mail, and other communication equipment. Access to information on trade issues relevant to Ghana is also extremely limited, in part due to the country's poor access to the internet. As a result, information tends to be disseminated in hard copy form. But paper-based material is often distributed to the wrong persons or in inadequate quantity, and photocopying can be a problem.

34. Moreover, there are insufficient resources to communicate and co-ordinate work across ministries (MoTI, MoF, MoFA) on multilateral and other trade issues; to raise stakeholder awareness of, and invite stakeholder participation in, the formulation and implementation of trade policy; or to commission research (e.g. on the impact of current or future commitments under WTO, Lomé, and regional trade agreements). For example, both the ambitious Ghana-Nigeria FTA, which is supposed to be established in several months, and the proposal for the adoption of a common currency by the two countries in 2003, were identified as high priorities by the government before any solid studies of their feasibility and impact were conducted. Lack of resources is also one of the major obstacles that prevent Ghana from exercising its rights in the multilateral system – for example, by making it impossible for officials to investigate eventual dumping cases.

35. As for external representation, Ghana has only one trade attaché in Geneva for WTO negotiations. With no trade specialist in Brussels to follow up on relations with the EU, Ghana has been described as a "silent partner" in the Lomé renegotiation, in spite of the potentially very important implications of the latter for the country. In addition, Ghanaian officials have very limited resources to travel to Europe or within West Africa, and thus little capacity to promote Ghana's interests by participating in discussions or building alliances in various negotiating fora. Similarly, inadequate resources and communications also cause great difficulty in developing negotiating positions and tactics.

36. Closely related to these resource deficiencies is the general problem of limited capacity among trade officials. First, few of the people working in the area of trade development -- in the administration or actually in firms -- have had basic training in trade economics or the management of international trade. Second, scarce resources leave officials dependent on information supplied by international organisations and/or donors, and most officials are not aware of many technical and economic aspects of the various agreements Ghana has contracted.

37. A case in point is the number of notification obligations under WTO Agreements. Trade officials are not familiar with them, and sometimes not even aware of them and their implications for Ghana. They lack the professional skills needed to interpret notification obligations and then respond by gathering the relevant information. There is no WTO reporting system, nor any formal co-ordination mechanisms among ministries for notifications. More generally, the trade policy priorities of sustained trade liberalisation (including reducing tariff escalation and tariff peaks) and export growth and diversification need to be better understood by officials responsible for trade negotiations if they are to secure better market access, improved differential and special treatment, or trade facilitation at the regional level.

Inefficient Co-ordination within the Administration

38. As explained above, the current architecture of trade policy-making in Ghana requires intense consultation among several ministries (MoTI, MoF and MoFA) if coherent positions are to be developed. But linkages among these ministries are actually quite poor, no formal mechanisms exists for co-ordination among officials, and the division of tasks among the ministries remains the subject of conflict.

39. Trade officials in the MoTI believe that, since they are in charge of trade policy, they should be more involved in meetings and negotiations in the region or overseas, which very often are attended by officials from MoFA and/or MoF. The delegation in Seattle included the Minister of Trade and delegates from Ghana's embassies in the United States and Switzerland, but officials of the MoTI were not present. At the Santo Domingo summit of ACP heads of state, ahead of the final ACP-EU negotiating session on Lomé, Ghana's delegation comprised officials only from the Ministries of Foreign Affairs, and Finance. This means that Ghana does not make the best use of its (limited) capacity in the area of trade, and occasionally relies on poorly-equipped officials to deal with technical aspects of trade negotiations.

40. The establishment of a new Ministry of Integration does not seem likely to be a step toward improved efficiency and co-ordination. Although its functions were still unclear at the time of this study, it seemed likely to take the place of the existing ECOWAS Unit in the Ministry of Finance. This would require MoTI to establish links with a third ministry in the effort to adopt a coherent approach to trade negotiations in the region and with the EU.

41. The Inter-Ministerial Committee on Competitiveness is formally designated as the forum for common decisions on improving policy and the regulatory environment, but it is hardly effective, mostly because of the weak leadership exercised by the Ministry of Finance. More generally, there are few if any "operative" staff below the Chief Director level in the ministries, and the latter have often more pressing priorities (of which, some are linked to political activities). Finally, links with other relevant departments -- e.g., the Ministry of Agriculture, the customs agency, embassies abroad, the Ghana Standards Board (GSB) -- or with the business sector and civil society are also underdeveloped. An Inter-Ministerial Committee for the implementation of UR results was established, but it failed to meet more than four or five times.

Insufficient Consultation with Stakeholders

42. In spite of its formal inclusion in public/private consultative processes, the business sector still plays a very limited role in the process of trade policy formulation and implementation in Ghana. Private exporters and the various institutions representing their interests have a limited capacity to *independently* identify obstacles to their competitiveness that stem from Ghana's macro-economic policies or to assess the risks and opportunities associated with the country's participation in regional, post-Lomé, and multilateral negotiating fora. There is, however, a wide scope for them to contribute to identifying Ghana's defensive and offensive interests in those various negotiating fora. For example, the participation of the business community (in Ghana and neighbouring countries) in the debate over the path towards regional integration would probably help develop more pragmatic ways of reconciling the ECOWAS and UEMOA processes than would leaving this issue to be dealt with entirely at the government level.

43. Similarly, at the level of the WTO, the business sector should be pushing Ghanaian authorities to actively participate in the setting of standards (e.g., SPS, TBT) before they become barriers to their exports, or to use anti-dumping or trade remedy measures in response to unfair trade practices by other WTO members. But limited knowledge and capacity prevent the private sector from playing that role.

Independent Analytical Capacity

44. The availability of independent analytical capacity at the national level is crucial if the trade policy process is to achieve overall trade and development objectives. A case in point is the complex agenda of regional integration. Improving the prospects for regional integration in Western Africa and ensuring successful negotiations with the EU require that economic and technical issues be thoroughly assessed before political considerations are weighed (which at the time of the study remained to be done). Ghana's capacity in this area mostly resides in the Centre for Policy Analysis (CEPA) and the University

of Ghana. The former has a track record of informing the policy debate, as in the case of the introduction of VAT.

III. Donor Activities and their Relevance

Overview

45. It is striking that, although the Government of Ghana's Vision 2020 plan largely hinges on an export-led growth strategy, very few donor projects actually support Ghana's capacity in the area of trade. For instance, despite being focused on priorities defined in Vision 2020, the UN Development Assistance Framework does not include any trade-related activities by agencies in the field.[9] Beyond several projects aimed at private sector development by bilaterals, the main donors involved in trade capacity development were the Geneva multilaterals (UNCTAD, WTO, and the ITC), with support from the Swiss government, USAID, the World Bank (through the Gateway project), and, to a lesser extent, the EU. DFID was also about to launch a new programme. Table 1 sums up the main donor trade capacity development (TCD) activities by level of intervention.

Table 1: **Main Donor TCD Activities in Ghana**

Level of intervention	**Donor**	**Project**
Trade analysis	IDRC	Research networks on trade
Policy formulation / dialogue and implementation	Switzerland – WTO, ITC, UNCTAD	Joint Integrated Technical Assistance Programme (JITAP)
	USAID	Trade and Investment Reform Programme (policy components)
	World Bank	Gateway project
	EU	Support to regional bodies and processes (ECOWAS)
	DFID	Ghana Trade Policy Programme*
Export competitiveness	USAID	TIRP (private sector components)
	EU	Upgrading of Ghana standard boards
	DANIDA	Private Sector Development programme (Denmark/Ghana enterprise partnerships)
	NL	Programme for Cooperation with Emerging Markets (NL/Ghana enterprise partnerships)
	GTZ	Subsidies to German-Ghanaian enterprise partnerships
	CIDA	Support to small enterprises
	JICA	Training for officials

(*) Due to start mid-2000.

[9] See UN Country Team, 1998

46. Since the beginning of 1999, Ghana has been participating in the **Joint Integrated Technical Assistance Programme** (JITAP), an initiative sponsored by the **WTO**, **ITC** and **UNCTAD**, that provides assistance in the follow-up and implementation of Uruguay Round agreements.[10] This $1.4 million project is due to run until mid-2001. It is the only donor project that brings together relevant ministries and government agencies specifically to discuss trade policy. It also seeks to raise awareness of WTO agreements in the business community. JITAP helped set up a resource centre for firms in the Ghana Export Promotion Council, and funded workshops on public/private sector dialogue -- for example, a pre-Seattle seminar to produce recommendations on the government's agenda for a new global trade round.

47. In the past, the ITC had assisted GEPC under an Export Trade Planning and Promotion technical assistance project, in collaboration with projects supported by the **EC** (wood-based products), the **Commonwealth Secretariat** (jewellery) and **Norway** (horticulture). The ITC also helped establish the Ghana Export School, a training programme led by GEPC that is now performing on a cost-sharing basis. More than 5000 people have attended export management courses. The WTO has also provided technical assistance and training to trade and customs officials.

48. **USAID** has one major programme aimed at private sector growth, centred on improving competitiveness, several components of which are trade-related. The five-year Trade and Investment Reform Programme (TIRP) is designed to serve the government and private sector, involving both in identifying reform needs (primarily in laws and regulations) and implementing change. This project follows an attempt by USAID to improve the coherence of the Vision 2020 project by fostering involvement of the private sector. The 1997 North Carolina Conference, sponsored by USAID, brought together Ghanaian public and private sector actors to achieve a collective understanding of priorities and economic reforms.[11]

49. The TIRP process follows a dozen steps, from the identification of needed reforms to the "performance payment," budgetary assistance (also called "Non-Project Assistance") that rewards the successful implementation of reforms. It involves an Inter-Ministerial Committee on Competitiveness (IMCC), comprising representatives of the various ministries, under the leadership of MoF, as well as the private sector (PEF). Four US implementing agencies (contractors) based in Ghana operate this project. One is dealing with the policy and regulatory environment and financial intermediation, while the three others work at the firm level (e.g., management capacity, technology, information), including the strengthening of business associations and the promotion of tourism-led growth in one specific region. The project totals $50 million, of which $10 million is earmarked for the performance payment and $40 million for the project. USAID also indirectly contributes to TCD through financial support to private sector organisations (PEF).

50. At the time of this study, **DFID** was designing a major Ghana Trade Policy Project (GTPP), in response to a formal request for assistance from the government of Ghana during annual development talks in August 1999. This two-year, £743,000 technical co-operation programme aims to support trade policy formulation and preparations for multilateral, regional, and bilateral trade negotiations. The goal is for Ghana to be able to secure its objectives in trade negotiations and thereby increase its participation in international trade. The GTPP has been described as a significant and strategic response to Ghana's limited capacity to undertake the range of analysis, consultation, and alliance-building necessary for successful participation in WTO, ACP-EU, and ECOWAS negotiations.

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[10] Other beneficiaries of JITAP include: Benin, Burkina Faso, Côte d'Ivoire, Kenya, Tanzania, Tunisia and Uganda. WTO/UNCTAD/ITC, 19998.

[11] See Sigma One Corp., *ibidem*.

51. The GTPP will seek to help the government of Ghana prepare for negotiations; increase awareness and participation by the private sector and civil society in trade policy formulation; help the government fulfill its WTO notification obligations; and enable the private sector to comment on standards and regulations notified to the WTO by other WTO members. The project will work principally with MoTI, but the private sector will also be involved. Technical assistance provided under the project will include project management, consultancy, communications, and funding for participation.

52. The **EC** focuses its efforts at the macro-economic level, including support to structural adjustment. Few EC activities have been trade-focused.

53. As in Senegal, the EC established a short programme to strengthen the Ghana Standards Board for the inspection of fisheries. This helped Ghana become one of the first ACP countries to qualify under the EU’s phyto-sanitary requirements. This project mostly included capacity-building missions and training.

54. Other projects at the micro-economic level aim to directly or indirectly improve the competitiveness of firms, including a scheme to improve product quality in the wood-working sector through technological upgrading; a contribution to the GRATIS programme (See CIDA); and support for the preparation of business plans by Ghanaian companies.

55. The EC also provides assistance to the government on a case-by-case basis to clarify issues pertaining to EU regulations (e.g., on bananas). The EU, which sees its comparative advantage as a donor in promoting regional integration, also supports the ECOWAS Secretariat (in Nigeria). Through its Regional Indicative Programme (RIP) for Sahelian and Coastal Western Africa, it has provided financial support to the second ECOWAS trade fair at the end of 1999.

56. The Centre de Développement Industriel (CDI), jointly operated by EU and ACP institutions in Brussels, has an antenna based at the Ghana Investments Promotion Centre (GIPC). A new trade and private sector development strategy is being implemented, largely through instruments based in Brussels or at the sub-regional level.[12] Among them, the European-ACP Business Assistance Scheme (EBAS), a matching grant fund that co-finances consultancy services to ACP private firms and business associations, has an office based in Côte d'Ivoire for the whole of Western Africa and has just started operating. DIAGNOS identifies obstacles to trade and private sector development to help prepare EC support programmes and has completed reports for Senegal and for UEMOA. On the whole, though, the EC's new strategy and its many instruments were not fully operational, and the Delegation in Ghana was not yet well-informed about their modalities.

57. The **World Bank** does not have any trade-focused activities in Ghana, but it supports the government in its private sector development strategy through privatisation; reform of the legal framework and business environment; support for regulatory agencies in sectors such as electricity, water, etc.; and support for the Gateway project. It is mainly through the latter that the Bank is involved in trade-related activities (e.g., support to customs reforms so as to make them “business-minded”). Smaller activities include support and training sessions for structures such as WAEN. In preparation of the next round of negotiations in the WTO, the World Bank Institute is also funding a study, together with the African Economic Research Consortium (AERC), of the implementation of Uruguay Round agreements in Ghana.

58. **IDRC.** This Canadian agency has its West and Central African office based in Dakar. Its activities cover the whole sub-region. Beyond general support to research activities on the continent (e.g.,

[12] See Van Hove and Solignac Lecomte, 1999.

through AERC),[13] it has three trade-specific projects that apply, *inter alia*, to Ghana, for which Laval University (Quebec) provides scientific support. IDRC funds two research programmes related to trade -- the Trade, Employment and Competitiveness (TEC) project and the Micro Impact of Macro Policies (MIMAP) project -- through research institutes and universities in the different countries (including CEPA in Ghana). It also supports a regional network of agriculture ministers. Its aim is to strengthen analytical and negotiating capacities relating to agricultural trade. Studies are either co-financed (e.g., with ACBF) or funded by IDRC alone.

59. Finally, IDRC Dakar has initiated the CICERA project, which aims to provide financial and scientific support to economic research centres. No research programme is imposed. Funding was obtained mainly from USAID and the EC.

60. At the time of the study, in addition to its support for JITAP, the **Swiss** Government was about to fund a study by the Centre for Policy Analysis highlighting problems with the implementation of the ECOWAS trade protocol, with particular emphasis on the need to streamline trade procedures between Ghana and Côte d'Ivoire.

61. For 6 years, **DANIDA** has been running a Private Sector Development project (PSD) aimed at facilitating contacts between Danish and Ghanaian entrepreneurs, mainly in the form of technical assistance, training, and eventually grants and loans, some of which can support export promotion activities. Twenty-five such partnerships are active, with about 20 more in the pipeline. DANIDA is also sponsoring a three-year collaborative agreement between AGI and the Confederation of Danish Industries, designed to help AGI restructure itself and strengthen its expertise.

62. The **Netherlands** has a Programme for Co-operation with Emerging Markets (PSOM) -- with goals similar to those of DANIDA's PSD -- which contributes two-thirds of the cost of joint projects between a Ghanaian and a Dutch firm focusing on rules of origin and technical requirements.[14] Four projects were in horticulture for exports.

63. Over the last few years, **CIDA** has been refocusing its activities on basic human needs and poverty alleviation, and thus has almost pulled out of trade and private-sector development activities, apart from support for the MIMAP research project and for the development of organisational, managerial, and financial skills in the Ghana Regional Appropriate Technology Service (GRATIS) and the Intermediate Technology Training Unit. Officials noted that the more extensive involvement of CIDA in Senegal's trade strategy project should be regarded as an exceptional circumstance related to its experience in that particular country.[15]

64. **JICA** does not have specifically trade-related activities in Ghana. Over the last year, two experts have been dispatched from Japan for a short consultation mission on investment promotion and quality and inventory control in food processing, and one official of the Ministry of Finance participated in a one-month JICA training programme in Japan on investment. Japan also provides grant aid to port infrastructure.

[13] Today, IDRC's support to AERC is minimal (around 5 per cent through the TEC project).

[14] "The hardware to be exported should have a Dutch content of at least 60 percent in terms of production and components and comply with Dutch environmental standards."

[15] Canadian aid-sponsored private sector facilities also include the CESO Enterprise Project (support to private sector through the provision of Canadian executive volunteers and youth linkages) and the Enterprise Support Services for Africa (ESSA, to reinforce the capacity of the local management consulting firms).

Assessment of Donor Performance

65. The general picture of TCD in Ghana that emerges is one of a country that has substantial trade potential and a formal commitment to exploit that potential. Yet trade policies have thus far yielded modest results, due in part to the fact that the government's main priorities appear to be elsewhere. In addition, donors, although relatively keen to help, actually do not do much.

A Gap in TCD Aid

66. The most remarkable point about TCD in Ghana may be how few donors actually engage in it. Several donor projects contribute to the strengthening of institutions that have important indirect roles in the implementation of Ghana's trade policies (e.g., support to Gateway project), help enhance the competitiveness of exporters (e.g., port and airport infrastructure, or private sector development), or support macro-economic policies that have links to Ghana's trade policy (e.g., structural adjustment). But it is somewhat striking that in Ghana, a country with a high potential for exports that has clearly adopted an outward-oriented strategy, only one project (JITAP) is entirely and specifically dedicated to helping the country come to grips with the risks and opportunities of integration in the world economy. This leaves a double gap:

67. JITAP partly addresses capacity problems at the level of ministries and agencies. JITAP and previous ITC activities in this area have been very well-received by all beneficiaries, many of which considered them the "most useful" assistance projects in which they have participated. But JITAP does not cover in a comprehensive manner the whole spectrum of negotiating fora in which Ghana will have to articulate strong and coherent positions, as it mainly focuses on multilateral issues.

- In addition, no current activities are directly aimed at helping Ghana's private sector to increase its involvement in the trade policy process. For instance, given the recent moves by the EU (Ghana's main agricultural market) to set higher standards for agricultural products, Ghana's negotiating positions would be usefully informed by private sector comments on standards and technical regulations.[16] Similarly, no formal associations of consumers or other civil society bodies are represented in trade policy discussions.

Technical Assistance vs. Capacity Building

68. Among private sector development projects, classical aid-tying issues arise within schemes promoting "North-South" commercial partnerships when a requirement exists for a certain amount of equipment to be purchased from a supplier in the donor country or a large quantity of technical assistance originating from the donor country is "offered" as part of the assistance package. ODA funds are apparently still used by bilaterals for such activities under the assumption they are in the mutual interest of both parties. In some cases, the tied element is explicit (as in the Dutch private sector programme), while in others it is not. In spite of a few successes -- based on the exploitation of local resources, with minor participation by the local partner -- firm-to-firm partnerships have a limited impact because, in the words of a business specialist, "the Ghanaian partners that foreign firms are looking for do not exist," and entrepreneurs usually prefer to conduct their activities on their own, rather than tie themselves to a scheme which "does not include all they need, but provides things they do not need."

69. The issue of aid-tying is not confined to donor activities promoting firm-to-firm partnerships. Policy-focused projects also often include substantial technical assistance delivered by consultants or NGO

[16] JITAP is planning a regional seminar on trade remedies and anti-dumping, primarily aimed at trade officials.

representatives from the donor country. Recipients (officials in ministries and in trade promotion bodies) argue that this is not always justified on the ground of efficiency or local needs. Projects like these thus represent a sub-optimal use of funds, while not allowing for enduring capacity-building and transfer of knowledge. Aid-tying issues must be put in the political context in which each donor agency actually operates, in particular the criticism many face at home that they are "spending money overseas."

Tackling the Tricky Issue of Incentives

70. A key obstacle to the success of several projects in Ghana stems from the set of incentives beneficiaries (especially civil servants) are confronted with: very low salaries make participation in donor-sponsored activities dependent on the fringe benefits accompanying them (training, travel, etc.). Some donors have responded by paying "participation/sitting fees" -- for example, for participation in co-ordination meetings. By contrast, USAID's difficulties in getting major actors around the table have been worsened by its refusal to pay such "sitting fees."

71. Obviously, the risk of an *ad hoc* approach to enhancement of incentives is that there will be competition between donors "bidding" to attract participants, and that beneficiaries will choose to participate on the basis of expected immediate personal benefits rather than the relevance of the activity. In the long run, better salaries are the only answer. In the short run, explicit co-ordination among donors, in the context of an open dialogue with the government, may help clarify issues and harmonise practices. In addition, some immediate improvement in the working environment (a limited budget for communications, for example, or some IT equipment), as proposed in the DFID project, can improve the credibility of the project. Some civil servants also suggested that temporary postings in a better-paid position (e.g., one year on a project, or in a parastatal agency benefiting from donor support) could help improve participation incentives.

Donor Co-ordination

72. Because of the overlap between development objectives and trade interests, it has been argued that donor co-ordination in TCD could be even more difficult than in other areas. Evidence from Ghana suggests a complicated reality:

- Little co-ordination occurs on specifically trade-focused projects, mostly because few donors are involved in such projects and there are no consultative groups on trade. North-South partnership projects on the boundary between trade promotion and aid are, by definition, isolated from one another.

- Dialogue does nevertheless take place among donors in various consultative groups. Representatives of EU member states and of the EC, in particular, insist that they want their activities to be complementary, or at least not to overlap.

- There is still a general lack of transparency on aid flows. Various recipient agencies and organisations do not disclose their sources of funding. There is no compendium of "who does what."

- Problems also exist within donor agencies themselves, where information is not always shared between capitals and managers in the field (e.g., EC, USAID).

73. Officials in the GEPC have expressed concern that donors to some extent contribute to the fragmentation of Ghana’s trade development programme by setting up projects running in parallel to those implemented by the government, rather than supporting existing initiatives.

IV. Lessons and Recommendations

74. As noted above, the most remarkable aspect of TCD in Ghana is that not much of it is taking place. This calls for a clarification of the government’s will to use donor support in this area, and for tackling obstacles at the level of donors themselves.

Clarifying Ghana’s Trade Agenda

75. Ghana’s trade performance may be good by comparison with that of other countries in the region (see the case of Senegal), but it remains weaker than that of many other developing countries (see the cases of El Salvador and Vietnam). In particular, although the objective of export diversification has been high on Ghana’s agenda for several decades, it is obvious from Figure 1 that hardly any progress has been made. Among the many factors that may explain this situation, the lack of coherence among Ghana's policies can not be overlooked. The lack of coherence between monetary policy and the objective of promoting exports was stressed above. Before further TCD activities are undertaken, it may thus be useful for Ghana and donors to clarify and refine the trade agenda in the context of Vision 2020. The next steps could then be to review the trade policy process, rather than assessing static needs, and to identify gaps more specifically than this report has.

Filling TCD Gaps: The Need for Consultation Among Donors

76. There seems to be a convergence in the explicit goals of donors with regard to trade-related activities, with a strong focus on improving competitiveness (e.g., USAID, EC, World Bank). In terms of strengthening the trade policy process, however, many gaps remain. That goal is at the core of DFID's planned Trade Policy Programme. It seems unlikely, however, that this programme could *on its own* support the genuine involvement of all actors in this process, while providing adequate information and technical assistance to them. This is obviously a long-term objective, to which several other projects already contribute at the national or regional level. Consultation, rather than heavy co-ordination, could therefore help donors fine-tune their interventions.

Tackling Internal Obstacles at the Donor Level

Trade and Development: The Case Still Needs to be Made

77. A fundamental question for trade capacity development is whether, and how, African countries can industrialise, and whether and how industrial growth can foster development and reduce poverty. These issues are still extensively debated, even within donor agencies in Ghana. Mainstreaming trade development requires that the case for the connection between trade, development, and poverty reduction be made more clearly within the donor community. This will require further work by the research community. For the case to be made convincingly, it is important that the development community recognises the complexity of these links.

Tackling the Issue of Donor Capacity

78. Many donor agencies -- especially bilaterals, and especially in the field -- are not in a position to identify and start TCD projects due to inadequate incentives and capacity. Trade expertise does not always exist at the policy level, in capitals, and almost never exists at the implementation level. None of the staff working for bilateral donor agencies in Ghana are trade specialists. The concentration of many donors on basic needs has reinforced this “anti-trade bias.” A few donors are currently developing new internal mechanisms that they hope will guide them on how to improve this situation. For example:

- DFID’s International Economic Policy Department, which is based in London, provides technical and financial support to DFID aid managers for the design of TCD projects (such as DFID’s Ghana Trade Policy Project) and for the monitoring of these projects once they have been launched.

- In the context of the Lomé Convention, and its soon-to-be-named successor, the EC has put in place a range of new instruments to promote private sector and trade development in ACP countries. One of the “upstream” instruments, DIAGNOS, based in Brussels, is entirely dedicated to preparing projects for specific countries or regions that take account of the macro-economic environment, how well-structured the private sector is, and the status of firms (i.e., the macro, meso and micro levels). DIAGNOS has a light structure, with few permanent staff; an external agency is conducting its studies.

TCD as a Process

79. There seems to be a case for approaching TCD as an exercise that goes beyond transferring capacity: it is not only about strengthening the capacity of each actor, but also about developing adaptable and sustainable mechanisms for actors to collectively define their interests and priorities and then defend them in various fora.

Process-Oriented Approach to Private Sector Participation in Trade Policy

80. Strengthening the capacity of professional organisations to engage in a dialogue on trade, and supporting corresponding institutional dialogue mechanisms (committees, meetings, etc.), can be only one aspect of a general effort by donors to promote public/private partnerships at the domestic level on development policy issues. Ideally, donor support should be granted to legitimate and representative bodies created by the stakeholders themselves. Otherwise, there is a risk of creating a “market” for organisations and associations seeking ODA funds as rents. Ghana can offer several encouraging examples; bodies like PEF have apparently been quite effective in giving a single voice to the private sector, including in the IMCC. Nevertheless, it is worth stressing that PEF still relies on donor support (USAID), and is not yet able to finance itself through its members.

81. Strengthening private sector institutions and public/private partnerships is a lengthy process that goes beyond narrowly-defined trade capacity development activities. The approach should be to make sure that trade issues are included on the agenda of donor activities supporting the building of partnerships between the government and private sector or civil society bodies. A prerequisite for donor activities in these areas is a government, like Ghana’s, that is prepared to engage in a genuine dialogue with stakeholders on policy issues -- including sensitive matters, like corruption -- in a democratic setting.

82. Finally, it is worth stressing that donors wishing to promote the participation of all actors in the trade policy process may find that they need to help private sector representatives organise themselves into

associations and then identify and articulate their concerns and priorities. Put differently, to ensure that trade development strategy is "demand-driven," a goal that most donors share, donors may first need to help the private sector figure out what it needs. This is a tricky process, where donors' success will depend upon many factors beyond their control, especially the response of private sector representatives.

Monitoring TCD

83. Previous DAC analyses have emphasised that results are likely to be less tangible in TCD assistance than in "spending" sectors such as health or education.[17] Assessing the impact of TCD projects may indeed be particularly difficult for process-oriented (rather than output-oriented) activities. This may be a problem for donor agencies, which are often under great pressure to spend funds quickly and with visible impact.

84. *Outputs*. The impact of TCD on the recipient country's capacity to formulate and implement a coherent trade policy, or to negotiate in international fora, may be assessed through indicators such as the fulfillment of WTO notification obligations, the preparation of background papers for international negotiations, the use of trade remedy or anti-dumping measures, the preparation and eventual achievement by the government of a set of goals in international negotiations, etc. DFID's planned programme for 2000 uses some of these indicators

85. *Process*. Investing in the institutional capacity of public and private actors to engage in a constructive dialogue on trade-related issues cannot produce visible, let alone quantifiable, results in the short run. The fact that meetings take place may be considered as a positive result, but it does not imply that the objective of genuine consultation on trade policy is achieved, and even if genuine consultation were to take place, its impact would, again, be hard to measure.

[17] Whalley, J., 1998, *Partnership Approaches For Building Poor Countries' Trade Capacity*, Paper for the Universities of Warwick and Western Ontario and NBER.

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Appendix 1 - Ghana: Statistical Profile

	Ghana	Sub-Saharan Africa	Year
Poverty & Social Data			
• Population (m.)	18.4	-	1998
• Life expectancy (years)	59	51	1998
• Adult illiteracy (%)	36	42	1998
• HDI value	.544	.463	1997
• % Below national poverty line	31	-	1998
Key Economic Data			
• GNP ($US bn.)	7.2	-	1998
• Real GDP growth	4.6	3.4*	1998
• Average GDP growth (%)	4.3	-	1988-1998
• GNP per capita	390	480	1998
• ODA as % of GNP	8.3	4.4	1997/98
• Public & private debt ($US bn.)	6.4	-	1998
• Net private capital flows ($US m.)	203	-	1997
Trade-Related Data			
• Exports ($US bn.)	2.03	-	1998
• Export growth (%)	14.4	-	1998
• Average export growth (%)	9.7	-	1988-1998
• Goods trade as % GDP (PPP)	17	17.8	1997
• Current account balance ($US m.)	-324	-	1997
• WTO member since 1995; GATT member since 1957			

Major Export Markets (1998)	% of total
United Kingdom	11.5
Togo	11.4
Italy	11
Netherlands	7.5
United States	7
Germany	6

Major Export Products (1997)	$US m.
Gold	37.6
Cocoa beans & Products	34.3
Timber & Products	9.5

* data refer to Africa

Sources: World Bank, World Development Indicators, 1999; World Bank, Country Profile; IMF, World Economic Outlook, 1999; IMF, Direction of Trade Statistics Quarterly, September 1999. DAC Journal Development Co-operation 1999 Report; UNDP, Human Development Report, 1999; Economist Intelligence Unit 4th Quarter Country Report, 1999.

Appendix 2 - The Post-Lomé Trade Agreement between the ACP and the EU

(to be signed in Fiji in June 2000)

Agreement	**Comments**
A framework agreement will come into force in 2002 at the earliest, opening a formal negotiation period of 6 years.	Existing preferences will be rolled over during a preparatory period of 8 years (instead of the 5 years foreseen in the EC mandate), until January 2008. With implementation lasting 10 to 12 years, the new trade regime would be in place in 2018 or 2020 at the earliest.
Both parties commit to "remove progressively barriers to trade" between them.	After calling for the maintenance of non-reciprocal preferences, the ACP finally explicitly committed themselves to introduce a reciprocal trade regime, and open their markets to European products -- for non-LDCs at least (see below).
After the transition period, "economic partnership agreements" building on "regional integration initiatives of ACP countries" will be concluded with "ACP countries or groups of ACP countries who choose to do so."	Formally, the trade regime would not need to be in the form of "REPAs" -- the acronym is not actually mentioned and the word "regional" was dropped. However, this subtle change in the wording hardly alters the spirit: any such alternative agreement between the EU and a group of ACP countries, if it were to be reciprocal and WTO-compatible, would indeed display most of the characteristics of a REPA.
Alternative trade arrangements for those "not in a position" to enter into the above would be "examined." (A joint assessment of the particular situation of the non-LDCs by the EU and the ACP will be made in 2004). Such arrangements would have to be WTO-compatible, and provide a level of market access equivalent to current preferences.	One tricky point of the EC mandate is re-affirmed here. As of today, and technically speaking, a WTO-compatible regime providing a level of market access equivalent to current preferences for non-LDCs that would not wish to enter into a free-trade agreement with the EU would not be possible, unless the EU's MFN tariffs (its minimum tariff for WTO partners such as the United States) or its GSP were brought to the same level as Lomé preferential tariffs. Both parties know that is impossible, which is why some EU member states are critical of this

provision. It does, however, provide a “hook” for the ACP to bargain upon from 2002.

The 39 least developed countries (LDCs) of the ACP -- which make up more than half of the ACP group and two-thirds of Sub-Saharan African ACP countries (see Table 1) -- are guaranteed free access to the EU market for “essentially all” their products by the year 2005, at the latest. In other words, they are entitled to “keeping Lomé,” or even a slightly improved version of it, without having to reciprocate by opening their own markets to EU products after 2008. By contrast, non-LDCs, which would not enter into reciprocal trade agreements with the EU from 2008, could be transferred into the EU's Generalised System of Preferences (GSP), a non-reciprocal arrangement that is less generous than Lomé.

Appendix 3 - List of Persons Contacted

Organisation	**Person**	Met
CEPA Centre for Policy Analysis (AERC) No. 30A Josif Broz Tito Ave., Switchback Road P.O. Box 19010 ACCRA-NORTH, Ghana Tel.: (233)-21.77.93.64 / 77 93 65 Fax: (233)-21.77 36 70 Http://www.ghana.com.gh/cepa/	Joseph Abbey, Executive Director	X
	Dr. Charles D. Jebuni, Research Fellow Tel 78 80 35 E-mail: charles@cepa.org.gh	X
	Tony Osei, Research Fellow	
University of Ghana Department of Economics P.O. Box 57, LEGON, ACCRA, Ghana Tel.: (233-24) 363 962	Ms. Abena Oduro, Lecturer E-mail: oduro@libr.ug.edu.gh	
World Bank Ghana Office P.O. Box M. 27 Accra, Ghana Tel: 233-21-229-681 / 221-724 Tel: 233-21-232-070 / 220-837 Fax: 233-21 227-887	Peter C. Harrold (Secretary Paula) Pharrold@worldbank.org	
	Kofi Agyen Boateng – Operations officer / private sector finance Kagyen@worldbank.org Secretary: Lydia	X
UNDP Switchboard – Tel 77 38 90 Resident 77 78 31 Deputy Resident Representative 77 52 07 Operations Manager 77 55 39	Mr. Franklin	
	Prgrm assistant – Mme Charlotte Bernklau Charlotte.bernklau@undp.org Secretary: Sheila	
FAO 183/6 North Labone PO box 1628 Tel 76 04 82, 66 96 42, 23 40 03 Tel 66 68 51-4		
Canada High Commission, 42, Independence Ave P.O. Box 1639 Accra, Ghana Tel 22 85 55, 22 85 66, 77 37 91 Fax 77 37 92 Firstname_lastname@acdi-cida.gc.ca	Rhonda Gossen, Head of Aid rhonda_gossen@dfait-maeci.gc.ca	X
	Baljit Nagpal, Officer 011-233-21-77-60-55	
	Mark Mostovak, Officer 011-233-21-77-52	

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EL SALVADOR CASE STUDY

This document is submitted as background material for discussion at the Workshop, to be held in Paris on 29-30 May 2000 and should be considered together with the background paper [DCD(2000)10].

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TABLE OF CONTENTS

EL SALVADOR CASE STUDY

Report prepared by: James W. Fox, Independent Consultant

I. El Salvador's Trade Policy and Institutions

A. Background

1. The relevant background for El Salvador's trade policy and institutions goes back to the establishment of the Central American Common Market (CACM) in 1961. At that time El Salvador was a very poor, agriculturally-based country. The country was the most technically advanced in coffee production in Central America, but this was based on production by large estates. These estates were the historical legacy of the Spanish conquest. Population growth over time had produced the most densely-populated country in Latin America, many working as an agricultural proletariat on the large estates. Government social programmes were limited, and a large fraction of the rural population was illiterate. The country's infant mortality rate, about 130 per thousand births, was one of the highest in Latin America. Coffee was the primary export crop, accounting for about 70% of all merchandise exports.

2. The creation of the CACM in 1961 was thought at the time to provide an opportunity for the country to outgrow its historical dependence on agriculture. Establishment of a high tariff wall around the five Central American members did produce substantial investment in industry during the 1960s, of which El Salvador was one of the principal beneficiaries. Its export base diversified substantially, and exports of manufactures – almost entirely to Central America – became important.

3. The Economic Commission for Latin America of the United Nations, led by Raul Prebisch, had believed that an initial period of import-substitution behind high tariff walls could be followed by exports of manufactures. The tariff walls would be gradually reduced to spur competitiveness of the manufacturing sector, which would gradually emerge from its "infant-industry" status. The tariff reductions sought by regional economic theorists in the late 1960s did not materialise, however, for two reasons. First, the leaders of the newly-emerged manufacturing sector, now politically influential, saw them as threatening to the continued existence, or the profitability, of local manufacturing. Second, a brief war between El Salvador and Honduras in 1969 effectively ended the shift toward closer regional integration among the CACM members.

4. Slow economic growth during the 1970s, with a narrowing of opportunities for political expression under successive military governments, produced societal polarisation. This broke out into civil war in 1979. A reformist coup later that year led Jose Napoleon Duarte, one of the earlier reformers, to power, first as a member of a ruling *junta*, later as sole leader, and subsequently in 1984 as elected president. Duarte undertook a land reform programme that seized and redistributed the largest estates in the country, nationalised banks, and established government agencies to control exports of coffee and cotton. He also instituted a variety of measures to broaden popular participation in government and to promote democracy. But Duarte's policies did not end the polarisation, and the civil war continued past the end of his term of office.

5. A reformist conservative government, led by Alfredo Cristiani, was elected in 1989. The Cristiani government quickly reversed most of the economic policy changes instituted by Duarte. The banking system was re-privatised, the multiple exchange-rate system was abandoned for a market-based rate free of capital controls, and foreign trade institutions were returned to the private sector. The Duarte land reform programme and many of the Duarte initiatives in health and education were maintained.

6. Like his predecessor, Cristiani sought to negotiate an end to the civil war. Though the ideological gulf with the left was far wider for Cristiani than for Duarte, a final peace agreement between the Cristiani government and the FMLN leadership was signed in Mexico in January 1992. The former guerrillas began to participate in the political process, which has continued to be democratic. Subsequent victories in presidential elections in 1994 and 1999 consolidated the conservative control over national economic policies, though the left became a major force in the congress after the legislative elections of 1996. The left won 29 out of 84 seats in the March 2000 national elections, becoming the largest party in the legislative assembly.

B. Economic Policies

Evolution and Current State

7. Historically, El Salvador followed economic policies that were largely laissez-faire. The government was small, providing only limited government services to rural areas. The country’s central bank was private until 1961, and maintained a passive monetary policy that kept inflation at the level of the country’s major trading partner, the United States.

8. Although subsequent governments during the 1960s and 1970s began to take a more activist stance, the Duarte period was still a sharp departure from the past. As mentioned above, the government took a central role in the economy, nationalising banks and foreign trade in the main commodities. Government spending rose sharply, both because of increased defense spending due to the insurgency and because of expanded government programmes in health, education and other social sectors. Monetary policy became active, supporting government spending, and controls were imposed on foreign exchange transactions to prevent depreciation of the currency.

9. The Cristiani government that took power in 1989 moved to restore the basic free-market orientation of productive activity. Commercial banks were privatised, foreign trade transactions were returned to private hands, and the exchange rate was allowed to depreciate to a market level. The government’s social policies, however, continued the orientation of the previous government, seeking to expand access to education and health, maintain the agrarian reform, and generally to promote broad-based development. The World Bank is effusive in its praise of these efforts (World Bank 1996, p.1):

> "Since 1989, El Salvador’s policymakers have accomplished three remarkable achievements: end the civil war; implement a coherent economic strategy leading to the stabilisation of the economy and the reactivation of growth; and initiate a systematic attack on poverty…The country’s economic performance during the last six years is a remarkable success story. During the 1990s, El Salvador has registered among the highest growth rates in the hemisphere and this has occurred despite the migration of the best of its labour force to the United States."

10. The principal goals for macroeconomic policy had been achieved by the mid-1990s, and the government turned to some sectoral problems. Government enterprises in electricity and telephones were privatised. The privatisation of telephone service in particular had dramatic results. In the last year, the total number of telephones in the country has doubled to about 900,000, due to expansion of the cellular

network and the use of pre-paid cards for cellular users. Telephone rates have fallen dramatically, with calls to the U.S. now below 20 cents per minute. The country's overall economic growth rate fell in 1996, and averaged only 3% during the 1996-99 period, compared to 6% during 1991-95. Inflation was brought under control during the first half of the 1990s, and inflation since 1997 has averaged less than 2%, with a slight price decline in 1999.

11. The major macroeconomic problem at present is evident in very high levels of real interest rates. Lending rates are on the order 15% for borrowers in local currency, and 10% in dollars. The tight monetary policy is required by the conjunction of two economic circumstances: the tendency for government to run fiscal deficits; and the massive inflows of remittances from Salvadorans living abroad.

Assessment

12. Overall, Salvadoran economic policy is very favourable for economic growth and for trade development. There are no obvious policy gaps. While the exchange rate (as discussed below) is seen by many as overvalued, this is a product of market forces and not of government policy action. There are obstacles to faster economic growth in the country, but these are less due to policy than to environmental conditions. The two most obvious ones are poor infrastructure and lack of education of the labour force.

13. The road infrastructure, particularly in rural areas, suffered during the civil war, both from lack of maintenance and the failure to make the new investments that would have occurred in peacetime. Ports are inadequate. The low average level of education of the labour force limits the opportunities for skills development and the upgrading required by higher-skill export industries. These problems are only susceptible to long-term solution through appropriate investments. Donors can support such activities, but their payoff will be gradual.

C. Trade Policy

Evolution and Current Situation

14. Since 1990, successive Salvadoran governments have striven to establish and maintain a very open and transparent trade policy, viewing liberal trade as important for the long-term economic growth of a small country like El Salvador. A related feature is a very liberal policy towards inward foreign investment, particularly investment intended for export. There seems to be very broad support for these views in the country. The main features of policy relevant to trade are given below.

15. Tariff structure. El Salvador undertook a major reform of its import tariff system in the early 1990s, sharply reducing maximum tariffs. The government had proposed moving to a uniform tariff of 6% on all imports in order to eliminate distortions that would result from variation in effective rates of protection for different commodities. Faced with resistance from industrialists and from other members of the CACM, a new tariff structure with rates ranging from zero to 15% was approved, which went into effect in January 2000, and all Central American countries have adopted the same rates. There is tariff escalation, with capital goods and raw materials not produced in Central America with zero or low rates, and consumer goods at the 15% rate. Nevertheless, this is a dramatic reduction from the very protectionist common tariff of the CACM, under which consumer goods were subject to 40-80% tariffs.

16. Exchange rate policy. The Salvadoran colon has been informally pegged at 8.75 colones per dollar since 1993. Inflation averaged 10% per year during 1993-96, so the real exchange rate appreciated considerably vis-à-vis the U.S. dollar. Because inflation since 1997 has approximated the U.S. rate, no further appreciation of the real exchange rate has occurred since then. Nevertheless, exporters have argued that the rise in the real exchange rate has damaged their competitiveness abroad. The major notable factor behind the rising real exchange rate has been the steady inflow of remittances – estimated at $1.5 billion in 1999, or an amount equivalent to more than 12% of El Salvador's GDP – from Salvadorans living in the United States. Banks lend and borrow in both dollars and colones, the national currency. The substantial "dollarization" of the economy has led some, including leading figures in the banking community, to propose complete elimination of the national currency and its replacement by the U.S. dollar.

17. The one step that the government has taken in this area is that of providing a "drawback" for non-traditional exports of 6% of the value exported. It is not available for coffee, sugar, shrimp, or export processing zone (EPZ) exports, but is provided automatically for all other products. While the drawback is marketed as reimbursement for taxes paid, it is a simple direct subsidy to exports: the exporter receives a check from the government for 6% of the value exported. As a consequence, exporters receiving it are vulnerable to countervailing duty actions in foreign markets.

18. *Foreign investment.* El Salvador enacted a liberal foreign investment law in 1990, and has actively sought foreign investment as a major part of its export promotion programme. Although some domestic firms operate in the country's EPZs, most firms there are foreign. The policymakers believe that foreign firms bring important technology and marketing advantages that can increase export dynamism. The country has been able to attract substantial amounts of investment in the last several years for both exports and domestic infrastructure. Both the national power system and the telephone company were sold to foreign firms, leading to a net foreign investment inflow of more than $1 billion in 1998-99. Nevertheless, any potential foreign investor visiting the country is sure to note the presence of armed guards in front of most businesses. The high level of crime and personal insecurity is likely to be an important obstacle to foreign investment.

19. *Position on trade negotiations.* Many developing countries see multilateral trade negotiations (MTN) as arcane and beyond their capacity for influence. This has not been the case with El Salvador or the other Central American countries. All have participated actively in MTN. Both Salvadoran officials and private-sector leaders were unambiguous in their support for closer ties with the world economy – and particularly with the major export partner, the United States. There was general agreement that free trade with the United States was the major goal for trade policy. This might be achieved through the Free Trade Agreement of the Americas (FTAA), which the United States and 34 other Western Hemisphere governments established as a goal to be achieved by 2005. The general perception in El Salvador was that achievement of an FTAA had become less certain because of changes in U.S. views on trade, evident in recent U.S. trade policy and manifested in the Seattle WTO conference.

20. As a near-term alternative to the FTAA, Salvadoran policymakers and private groups have pressed for approval by the U.S. Congress of "NAFTA parity" for countries of the Caribbean basin – extension of the same access to the U.S. market enjoyed by Mexico and Canada, but without either a U.S. commitment to permanence or reciprocal obligations to market liberalisation by the recipient countries.

21. Within Central America, El Salvador has sought closer economic integration as a tool for reducing costs, increasing competitiveness, and promoting exports.[1] It has pressed for liberalisation of intra-regional trade in services, for improvements in regional road and port infrastructure, and for simplification of border crossing procedures. Recently, El Salvador and Guatemala agreed to seek a customs union. Under the proposal, for which a target date of 2002 has been established, the two countries would first replace their border customs posts by a single jointly-managed post, later to be eliminated

[1] Central American regional trade was dealt a setback in November 1999, when Nicaragua unilaterally (and in violation of treaty obligations) imposed a 35% tariff on imports from Honduras. The action followed Honduran ratification of a maritime territorial rights treaty with Colombia, which the Nicaraguan government viewed as impinging on Nicaraguan sovereignty.

entirely. This process has moved quickly at the technical level, with agreements reached on procedures for sharing customs revenues on imports from outside the union, but much remains to be done to complete the planned integration. One attraction of the customs union for El Salvador is the fact that its access to Guatemala's Caribbean ports would be eased.

22. El Salvador appears to be moving to meet most of its commitments to the WTO. Its investment regulations appear to provide for national treatment of foreign investment, including in insurance and management of the new Salvadoran pension funds. The country has modernised customs procedures, permitting electronic filing of customs forms and self-declaration of duties. Salvadoran law still reserves large government procurement projects for national firms, but the government has introduced legislation to conform to WTO obligations.[2] El Salvador's WTO commitments regarding intellectual property appear to be uncontroversial. The leading San Salvador newspaper reported recently that the government of El Salvador had missed a January 1 deadline for enforcing copyright procedures for musical performances and recordings, but expected to be in compliance by June 1.[3] New trademark legislation was to go to the legislature in February, along with a treaty of co-operation on patented materials. An accompanying article identified a new association of Salvadoran composers who intended to see that the new law protected their work. They identified a song by a Salvadoran composer that had been widely distributed in Central America and the United States, but the composer never received any royalties.

Assessment

23. Like the overall policy environment, trade policy is generally favourable for trade development. The Salvadoran government has a clear sense of policy direction, and has worked to put it into practice.

24. The technical capacity of the government appears to be satisfactory, and the country has entered into its WTO commitments with a clear idea of their implications. As discussed below, donors have done an effective job of making specialised technical assistance and training available to strengthen the capacity of the Salvadoran institutions. Nevertheless, it seems to be the seriousness of purpose of the Salvadoran government that makes effective technical assistance easy to provide.

25. Exchange rate policy is the most problematic factor in trade policy. It clearly has a "Dutch Disease" element, with the profitability to the economy of the remittances from "exported" workers so large that the exchange rate may be unfavourable for other export activities.[4] Successive governments have predicted that this inflow would gradually begin to decline, but there has so far been no abatement. Macro policy has prevented further deterioration of the real exchange rate for the last three years, but El Salvador needs to find ways to increase productivity or to develop other ways to compensate for its relatively high costs compared to the past.

26. There has been some backsliding on trade policy, as with the retreat from a government commitment to a uniform tariff to acceptance of one with escalation. More recently, negotiations with Mexico for a free trade agreement have included Salvadoran requests for exceptions for five specific sectors in which major Salvadoran firms had obvious interests in limiting competition.

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[2] The U.S. government concluded (U.S. Department of Commerce 1999) that present law does not constitute a significant barrier, because most large projects are financed by multilateral banks, which require international competitive bidding.

[3] *Prensa Grafica*, January 25, 2000.

[4] The term comes from the experience of the Netherlands after the discovery of oil in its sector of the North Sea. The subsequent oil exports caused the Dutch guilder to appreciate, making many traditional Dutch products no longer competitive in foreign markets.

D. Trade Institutions

Evolution and Current Situation

27. El Salvador has a developed set of institutions – public, private, and non-profit – providing information and other services for the export sector. A few organisations have long histories of support for technology development and export promotion for particular products (e.g., coffee, cotton, and sugar). For non-traditional exports, however, most of the institutions that support exports have been established during the last fifteen years.

28. Salvadoran Association of Clothing Industries (ASIC). This association includes producers of clothing, notably including the EPZ clothing firms. Among other activities, ASIC has promoted the substitution of Salvadoran cloth for imported material in garment exports, apparently with some success. ASIC has also worked with human rights groups to establish a code of conduct for the apparel industry and to monitor compliance with commitments on child labour and working conditions.

29. Coexport. This institution, the Corporacion de Exportadores de El Salvador, was originally set up during the early 1980s as a Committee of the Association of Salvadoran Industrialists (ASI). During the mid-1980s, USAID provided financing to help Coexport establish itself as a separate entity to give an institutional voice for non-traditional exporters. It provides a range of services for exporters and for foreign buyers, including a web page, a directory of exporters and a variety of specialised services. It receives funding for basic operations from its 299 member firms, and uses donor funding for a variety of projects to promote exports. It has received funding from USAID, the IDB, and the European Union, among others.

30. FUSADES. Fusades, the Foundation for Economic and Social Development, was established in 1983 as a private non-profit organisation to provide progressive leadership on national problems. It quickly became the vehicle for USAID to channel much of its assistance to El Salvador. The diverse activities of FUSADES include:

- An economic studies department. A central focus of FUSADES at the outset was research on the country's economic problems and strategies for solving them. This unit provided most of the "brain trust" for the Cristiani government's economic reform programme, and the institution has continued to be a major factor in economic debates in the country.

- An investment promotion unit (Pridex). This unit was established in the mid-1980s to promote foreign investment in El Salvador, receiving substantial amounts of USAID funding to operate offices abroad and to bring potential investors to El Salvador.

- Export financing and support. One department (Fidex) provides export financing to medium-sized and large businesses, while another (Propemi) provides financing and technical assistance to small firms and micro-enterprises.

- Agricultural technology and export promotion. Another unit previously provided technical assistance for non-traditional agricultural exports, and now operates a large farm that both exports and does research on agricultural technology. A separate quality control laboratory provides soil testing and other agricultural and environmental-related services to Salvadoran firms.

31. Ministry of Economy. The Ministry of Economy has primary responsibility within the government both for trade negotiations and for export and investment promotion. The Ministry reacquired this responsibility after the abolition of a separate Ministry of Foreign Trade during the 1990s. One vice-minister is responsible for trade negotiations and Central American regional integration and another is responsible for export and foreign investment promotion. This appears to provide greater coherence in trade policy than when responsibility was divided between two ministries.

- *Trade negotiations*. The government maintains an active trade negotiating agenda. Within Central America, there is an ongoing process aimed at reducing barriers to trade within the region. The country has also actively negotiated free-trade agreements with Mexico and with several other Latin American countries. The Mexico agreement is expected to be concluded during 2000. Salvadoran trade negotiators appear to have had access to significant amounts of technical assistance from a variety of donors.

- *Export-Investment promotion*. The ministry has a limited programme for export promotion, and also works to co-ordinate with the various private associations and other government agencies working in this area. The ministry also works with a number of sectoral groups, or clusters, aimed at improving the competitive conditions for the sector. These groups resulted from a series of studies, financed by the World Bank, along lines suggested by Michael Porter of Harvard. The ministry's investment promotion activities are to be moved to a new organisation that is expected to begin operations in March 2000. The new institution, the Investment Center, is to operate as a quasi-private institution, overseen by a board of directors representing both the private and public sectors. The Center is seen as a vehicle for substantially increasing the level of government spending on investment promotion.

32. Ministry of Foreign Relations. Salvadoran Embassies abroad also participate in both export and investment promotion, and provide broad policy guidance for trade negotiations. Collaboration between key Salvadoran embassies abroad and associations of exporters appears to be relatively good, with e-mail providing rapid communication on important issues.

Assessment

33. Over the past fifteen years, El Salvador has developed a set of useful institutions supporting trade development. They provide a means for the views of various actors in the export sector to communicate and interact. Private sector groups can identify obstacles to exporting and have vehicles to seek action by government. The main private groups have shown a capacity for sustainability, and a hard-headed focus on delivering services at minimum cost.

34. The largest gap at present in the country's arsenal of institutions and programmes appears to be in the area of foreign investment promotion. Investment promotion is inherently more of a "public good" than export promotion. In export promotion, the sharing by potential exporters of the costs of technical assistance, trips to trade fairs, or other market development services helps ensure that assistance is properly targeted. If the right firms are targeted for such assistance, they will benefit directly from increased exports and profits, and they should be willing to share the costs.

35. Investment promotion is different. Foreign investors in a particular sector typically exhibit a considerable amount of herd behaviour. Once the ability of foreign investors to operate successfully in a sector (e.g., in apparel in El Salvador) has been demonstrated, new foreign investors will explore the country on their own. But apparel investment will not attract investors to new and more technologically-advanced areas. Such potential investors typically view the country as risky: if the country has the right conditions, why have others not invested in that sector? Such investors need to be lured to the country in order to discover that conditions are more attractive than they expected. They will not be willing to pay to explore the country on their own. Such attraction efforts thus require funding from governments or donors.

36. Fusades provides a modest level of assistance for this activity at present, but has very limited funding. The government has recognised the problem and is moving to establish an Investment Promotion Center to attract foreign investment. International experience with government-managed investment promotion is quite mixed. Such institutions have typically been less flexible than private-sector counterparts, at least partly because of procedural requirements, and they have typically become more attuned to intra-government policy debates than to the needs of potential investors.

II. Salvadoran Trade Performance

A. Overall Trends

37. El Salvador's exports have grown rapidly over the past decade. Chart 1 and Table 1 show the trend since 1980 in current dollars. There was a steady decline during the1980s, reaching a nadir in 1989, followed by a steady rise during the following decade.

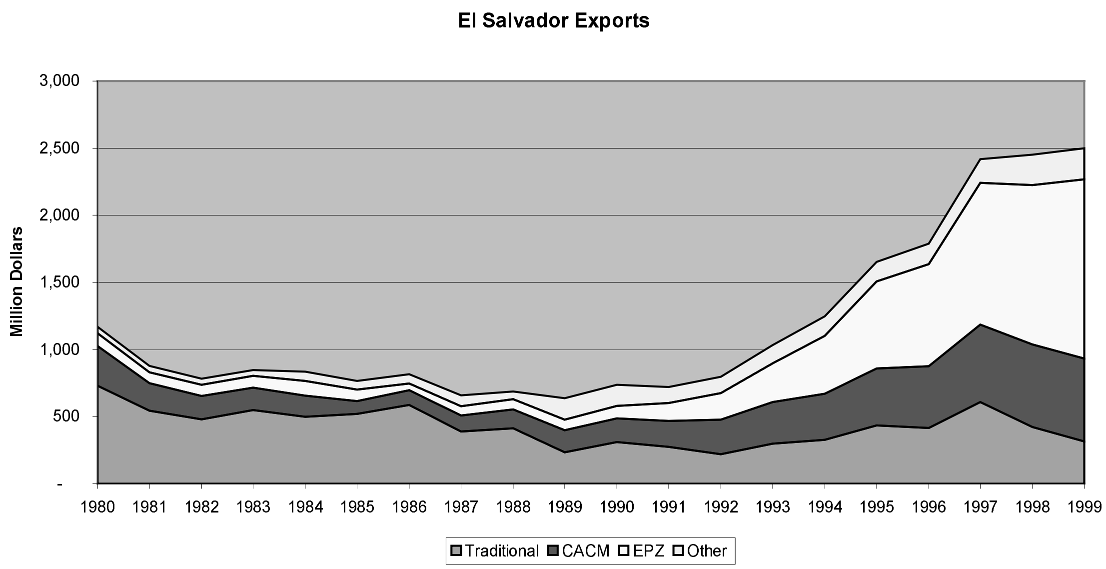

Chart 1

38. The categories shown in the chart require some explanation. The base grouping, traditional products, includes coffee, sugar, cotton, and shrimp. Coffee dominates this group, and is responsible for its steady decline. The second category, labelled CACM, represents exports to the Central American Common Market. These are almost entirely manufactured exports. Central American trade declined during the 1980s when the intra-regional payments system collapsed, but regional trade first recovered to previous levels and subsequently reached new highs. The third category, EPZ, represents exports from export processing zones in El Salvador. This is mostly apparel exported to the United States. Apparel exports to the United States rose from $11 million in 1986 to $1.2 billion in 1999[5] -- a spectacular rise that

[5] Until recently, exports from EPZs were excluded from export statistics, but current practice is to include them. This obviously creates a comparability problem, as the level of domestic value added – typically 20-25% for apparel – is far lower than for most exports. Because manufactured exports to the CACM have often been produced largely from imported components, this problem is not new for Central America

paralleled export gains by El Salvador's Central American neighbours. The final category is non-traditional exports to countries outside the CACM.

Table 1

El Salvador Exports, 1980-1999

(Million Dollars)

Year	Total	Traditional	CACM	EPZ	Other
1980	1,170	730	296	95	49
1981	878	544	206	80	48
1982	785	479	174	85	47
1983	848	550	165	90	43
1984	836	499	156	110	71
1985	764	520	96	85	63
1986	817	586	109	52	70
1987	660	387	120	70	83
1988	686	413	140	75	58
1989	637	234	163	80	160
1990	739	310	175	95	159
1991	720	273	195	132	120
1992	796	218	258	198	122
1993	1,032	296	310	290	136
1994	1,249	328	343	430	148
1995	1,652	433	427	647	145
1996	1,789	417	456	765	151
1997	2,416	606	579	1,057	174
1998	2,452	422	616	1,189	225
1999	2,500	318	627	1,333	222

Source: Adapted from Banco Central de Reserva and IMF

B. Trends in Specific Sectors

39. *Coffee.* Throughout the 1960s and 1970s, El Salvador was the largest coffee exporter in Central America, and Salvadoran coffee typically sold at the highest prices in the region. This changed during the 1980s. Coffee production in El Salvador first stabilised and then gradually fell. In contrast, Guatemala, Costa Rica, and Honduras all increased their production. El Salvador gradually lost its lead in coffee technology, as yields in other countries rose while they fell in El Salvador.

40. During the 1980s and 1990s, other countries were replanting with higher-yielding varieties while little such investment was taking place in El Salvador. Both the agrarian reform and the civil war, which was primarily fought in rural areas, likely contributed to the loss of Salvadoran competitiveness. It is noteworthy, however, that this loss of competitiveness continued through the 1990s, even though the civil war had ended, the land tenure situation stabilised, and government policies made exporting more profitable. This experience suggests – at least for a long-lived tree crop like coffee – that serious disruptions in production that lead to deferred investment and loss of skilled workers may have long-term consequences. Once the technological edge is lost, it may take a long time to regain it. It is unfortunate that, again perhaps mainly as a consequence of the civil war, the redistribution of wealth to farm workers resulting from the agrarian reform was accompanied by a reduction in the productivity of the land, and thus in the amount of rural wealth. Recent trends in world coffee prices exacerbate these problems. The sharp fall in coffee exports over the past two years is due mostly to a fall in world prices.

41. *Other traditional products.* Besides coffee, three other products – cotton, shrimp and sugar – are classified as "traditional" exports. Cotton exports are of little consequence, having virtually disappeared during the 1980s from the combined effects of low world prices, land reform, and civil war. Sugar is an export industry only because of El Salvador's preferential access to the protected U.S. market, and exports are determined by the level of U.S. quotas. Shrimp ($25 million in 1999) has shown moderate growth.

42. *Central American Common Market (CACM).* El Salvador exports a wide range of manufactured goods to Central America, with food products, textiles, and light consumer goods the main articles exported. Exports to Central America have been a dynamic element of Salvadoran trade. Policymakers argue that the expansion of trade within Central America during the 1990s differs importantly from the growth during the 1960s. Because all of the Central American countries have adopted maximum external tariffs of 15% or less, they argue, there is far less likelihood of trade diversion and of production using highly inefficient methods. There has also been a shift in El Salvador's regional exports away from final consumer goods towards intermediate goods. The Salvadoran private sector notes another major difference between the 1960s and the 1990s in Central America – the presence of substantial Central American foreign investment. During the 1960s, most of the foreign investment in Central America came from outside, mostly the United States. These foreign companies were the major actors at the regional level. In recent years, in contrast, Central American-owned firms have begun to operate beyond their home country. This is particularly the case with retailing, supermarkets, and banking. Salvadoran entrepreneurs are particularly active. The Salvadoran airline, TACA, has also swallowed most of the national airlines from the other countries, and substantially improved regional travel schedules, using San Salvador as a hub.

43. *Export processing zone products.* The El Salvador EPZ exports are nearly entirely of apparel. Of all manufactured imports by the United States (the primary market for EPZ exports), 95% consists of apparel and other textile products. This has continued to be the case since the first private free zones were established around 1990. The growth in these exports has been spectacular, resulting from a combination of several factors: improved access to the U.S. market due to the Caribbean Basin Initiative; Salvadoran government policy changes that eliminated obstacles to the development of EPZs; and a change in competitive strategies by U.S. firms, leading them to compete with apparel imports from Asia by a shifting labour-intensive operations from the United States to Central America.

44. Other countries that made EPZs a major part of their export strategy, such as Costa Rica and the Dominican Republic, have been able gradually to diversify production in their EPZs. This typically involved movement from apparel into a variety of other assembly sectors, including electrical appliances, medical supplies, and other products. In the case of Costa Rica, it eventually led to the construction of a computer chip manufacturing facility by Intel. This diversification has brought several advantages. First, a more diversified production structure reduces vulnerability to demand trends in a particular sector. Second, these new assembly sectors typically require a more skilled labour force. They thus provide a mechanism for upward mobility for workers who acquire basic skills in apparel. In El Salvador, this

mechanism cannot operate, because firms in other sectors have not come to El Salvador. At the same time, El Salvador's EPZs appear to be using steadily more domestic value-added. The ratio of imports of the EPZ sector to exports has steadily fallen, from 81% in 1991 to 71% in 1998.

45. The reasons for El Salvador's inability so far to attract foreign investors in other sectors are unclear. NAFTA may be a factor, leading companies to look no farther than Mexico. Costa Rica and the Dominican Republic had started to shift away from apparel when El Salvador was still being viewed as a risky investment target. If this is correct, it is another cost of the prolonged civil war: it made El Salvador unattractive when the opportunities for attracting foreign investment were most propitious.

46. EPZ firms, particularly those in the apparel sector, have become controversial in recent years because of concerns about the use of child labour, lack of worker rights (including the rights to organise and bargain collectively), and the quality of working conditions. "Sweatshops" has become the catch-all term for this combination of abusive practices. In El Salvador, human-rights groups have long been active in raising questions about working conditions in the EPZs and in pressing for governmental action to prevent abuses. U.S. apparel importers have also become concerned about this issue.

47. Perhaps because of the considerable attention to these issues, the Salvadoran EPZs seem to be models of good practice in all respects but one, the exception being unionisation. The U.S. Embassy makes regular visits to the plants and reports on working conditions. It reports (1998a) that "working conditions and worker benefits meet legal standards under Salvadoran law and are higher than the private sector average for comparable work." Legal standards require retirement and medical care benefits, and two weeks of paid vacation. In cases of individual firms that violate legal requirements, human rights organisations have been empowered by ASIC, the apparel industry association, to monitor the company's subsequent performance.

48. *Other non-traditional products*. Donors and the Salvadoran government have promoted a number of other potential export sectors, including winter fruits and vegetables for the U.S. market, artisan products, and ethnic foods for Salvadorans living abroad. None of these sectors has yet shown substantial results. In the case of winter fruits and vegetables, El Salvador had some initial success with melons, sesame and okra. After several years of growing exports, however, exports of individual products have begun to fall off or disappear entirely. Since exports of these products from its Central American neighbours have continued to grow rapidly, El Salvador appears to be at a competitive disadvantage. Its lack of a Caribbean port for exporting to the U.S. east coast may be a contributing factor.

49. *Services.* No quantitative data is available on Salvadoran exports of services, but the country has sought to establish itself as a leader in this area. The country is promoting tourism, though it lags behind most of its neighbours in this sector. Moreover, the high incidence of crime and large number of armed guards probably limits the country's tourist appeal in the near term. El Salvador has the most robust banking sector in Central America, and Salvadoran banks have established affiliates in several other countries. The Salvadoran airline is now dominant in the region. Salvadoran investment promotion efforts are now being aimed at establishing the country as a "call center" for services by telephone. Several companies have begun operating in the country in this sector. The Salvadoran government has also been promoting the country as a center for software development. The government training institution financed a year of study in computer software training centres in India for 120 Salvadoran students in the hope that this might create a critical mass of trained technicians for the sector.

C. Trends in Geographical Distribution

50. The change in geographical destination of exports for the 1994-98 period, disaggregated into primary products and manufactures, is shown in Table 2. Trade with the Western Hemisphere has risen sharply, while trade with Europe has grown only modestly. The United State is not shown separately, but

it accounted for 96% of the exports to NAFTA shown in the table, and for all of the growth between 1994 and 1998 in exports to NAFTA. The great bulk of this growth was from the EPZs.

51. Most exports to OECD countries other than USA and Canada are primary products, mainly coffee, and – at least according to Salvadoran statistics – exports of manufactures to other OECD countries are insignificant. OECD *import* statistics (available only through 1997) give a somewhat different picture. That source reports that imports of manufactures from El Salvador increased from $23 million in 1994 to $34 million in 1997. Discrepancies between Salvadoran and OECD sources also exist for primary products. The fact that shipments to Europe usually move via a port in Guatemala may be one source of error.

52. Trade with Latin America, particularly in manufactured goods, did rise sharply between 1994 and 1998. Trade with Panama and the Dominican Republic, in particular, showed rapid growth

Table 2

El Salvador Exports, 1994-98

By Trading Partner and Type of Product

(Million Dollars)

A. 1994 Exports

	Total	Primary Products	Manufactures	EPZ
NAFTA	638	139	75	425
CACM	343	72	272	0
OTHER LATIN AMERICA	54	25	29	0
OTHER OECD	212	203	4	5
OTHER COUNTRIES	2	1	0	0
Total	1,249	440	379	430

B. 1998 Exports

1998	Total	Primary Products	Manufactures	EPZ
NAFTA	1,454	182	102	1170
CACM	618	175	443	
OTHER LATIN AMERICA	84	26	58	
OTHER OECD	249	226	4	19
OTHER COUNTRIES	38	35	2	
Total	2,443	644	609	1,189

C. Change in Exports from 1994 to 1998

	Total	Primary Products	Manufactures	EPZ
NAFTA	816	44	27	745
CACM	274	103	171	-
OTHER LATIN AMERICA	30	1	29	-
OTHER OECD	37	23	0	14
OTHER COUNTRIES	36	34	2	-
	1,193	205	230	759

D. Geograpical Distribution of Exports, 1998

	Total	Primary Products	Manufactures	EPZ
NAFTA	60%	28%	17%	98%
CACM	25%	27%	73%	0%
OTHER LATIN AMERICA	3%	4%	10%	0%
OTHER OECD	10%	35%	1%	2%
OTHER COUNTRIES	2%	5%	0%	0%

Source: Adapted from El Salvador export statistics; EPZ exports are estimates.

D. Impacts of Trade Growth

53. *Poverty and wages:* After 1991, the Salvadoran economy recovered quickly, and the country had four consecutive years of growth exceeding 6% per year. This was also a period of rising real wages. Based on household survey data, the Ministry of Economy reports that the average wage rose from 99% of the cost of the basic consumer budget ("canasta basica") to 144% by 1998. The most recent UNDP national development report (Rivera Campos, 1999, p. 118), reports that the percentage of the population in poverty fell from 59% in 1992 to 48% in 1997. Wage growth seems to have been particularly rapid at the lower end of the wage structure, and the share of the population in extreme poverty fell by more than one-third over the same period, from 28% to 18%. Two factors probably contributed to this encouraging trend. First, the continued departure of relatively unskilled workers for the United States would have reduced competition for jobs at the lower end. Second, the rapid growth of employment in the EPZs during the 1990s probably helped tighten the labour market. The official unemployment rate, about 7.3% in 1999, appears to have fallen only slightly over the past five years, though it is significantly lower than during the 1980s.

54. *Exports vs. production for the domestic market.* During the import-substitution period, when barriers to imports were quite high, the distinction between production for export and production for the domestic market was quite clear. The quality of products for export had to be relatively high and predictable, while production for the domestic market was typically lower. Exporters had to pay attention to trends in technology and closely monitor cost, delivery schedules, and quality.

55. Production for the domestic market, on the other hand, was typically more comfortable. Cost-consciousness was lower, because price competition was less intense. Styles were often dated because consumers had little choice, and the materials used in production were of a lower quality, but the goods were sellable because of the lack of import competition. Today, with a maximum tariff of 15% on finished goods, shops are filled with imported products. Producers for the domestic market have been forced to behave like exporters. There is no longer a place for products with low quality in relation to price.

56. In effect, the trade liberalisation should blur some of the distinctions that have existed in the past between the export and the import-substituting sectors. Both now face the same challenges – to improve productivity, quality, and reliability of production.

E. Assessment of Trade Performance and Challenges

57. Salvadoran trade performance during the past decade has been good, reflecting the improvement in the enabling environment. The end of the civil war, the elimination of a large number of procedural obstacles to exporting, and the establishment of a stable macroeconomic environment were all important. The steady deterioration of exports during the 1980s was reversed, and a major new export sector – apparel assembly in EPZs – was developed. Some progress has been made in finding new markets for Salvadoran goods, particularly in the rest of Latin America. Salvadoran policy helped reactivate the CACM, this time on a basis much closer to world prices.

58. Despite this progress, the sources of future export growth are not obvious. The apparel sector is likely to slow down because of various factors, including competition from lower-wage neighbours in Central America and the end of the Multi-Fibre Agreement, scheduled for 2005. El Salvador is too dependent on apparel, and has not yet developed a wider range of manufacturing sectors that can compete on global markets. Finding such sectors is important.

59. Four challenges seem to suggest themselves from the recent Salvadoran experience.

- Addressing the exchange-rate issue so that Salvadoran products will be more competitive;
- Finding means to restore El Salvador's technological capability in the coffee sector;
- Attracting new investment in other sectors into the EPZs, so that the labour-intensive, export manufacturing sector is not so narrowly-based; and
- Finding products or means to access European markets, so that the dependence on the U.S. market is not so extreme.

III. Donor Activities and their Relevance

60. This section discusses donor programmes of assistance for trade development It is divided into two sections. The first describes and assesses donor activities. The second looks at donor support for the sector with respect to co-ordination and host country ownership.

A. Donor Assistance Programmes

61. There are two distinct phases of donor support for Salvadoran trade development. In the first phase, running from the early 1980s to 1992, USAID was the dominant player. For that period, USAID provided about 85% of all ODA disbursements. The situation changed abruptly in 1993, with USAID assistance beginning a steady decline, and other OECD donors and the World Bank sharply increasing their disbursements. The European Union and its members gradually became the dominant source of foreign aid.

USAID Dominance, 1984-93

62. The magnitude and pervasiveness of USAID assistance during the pre-1992 period needs to be emphasised. It totalled more than $3 billion, not including substantial military aid given to the Salvadoran government. The Salvadoran government had limited capacity to collect taxes while the war was going on, and the economy failed to produce enough foreign exchange earnings to meet the country's needs. USAID assistance played a dominant role in keeping imports flowing and permitting the government to carry out basic social and economic functions.

63. USAID was particularly active in trade development, which it saw as a central part of its strategy. It took the view that El Salvador's long-run growth would depend heavily upon the development of new products for export on world markets. In particular, the elimination of permanent dependence on continued flows of U.S. assistance required that alternative sources of foreign exchange needed to be found.

64. The USAID strategy was to work both at the national policy level and at the institutional level. The former involved two main elements: dialogue with the Duarte government over economic policy; and promotion of research and debate on economic issues – particularly through funding of studies and seminars at Fusades. The institutional-level activities involved creation or strengthening of a series of organisations and associations thought important for expanding export capacity.

65. The USAID work on policy produced little in direct results. Despite the heavy dependence on U.S. funding, the Duarte government took little heed of U.S. economic policy prescriptions. USAID saw devaluation of the currency, and elimination of the complex system of exchange controls and multiple exchange rates, as critical to export development, yet the Duarte government successfully resisted such

pressure. The Salvadoran government's main priorities were domestic – implementing the land reform, carrying out social programmes, and fighting the civil war. Since support for the Duarte government was the overriding political objective of U.S. policy, U.S. assistance could not be made contingent on export policy reforms.

66. The basic approach pursued by USAID at the institutional level was the creation of a set of private organisations or associations that could act as intermediaries between USAID assistance and individual exporters. The approach was based on the experience that government export promotion agencies had seldom been effective. (Keesing and Singer (1990) provide a good summary of this experience.) Private associations were thought to more accurately understand the problems of exporters, and joint efforts by the private sector could identify for government the most critical problems that needed resolution. The USAID approach included substantial financing in four areas: Fusades, export processing zones, Coexport, and non-traditional agricultural exports.

67. *Fusades.* The variety of activities pursued by Fusades has already been mentioned. These roles were developed largely through the interaction between the Fusades leadership and USAID during the 1980s. Altogether, USAID provided more than $120 million in assistance to El Salvador through this institution.

68. *Export processing zones*. USAID support was important to the initial establishment of the EPZ sector. USAID promoted legislation, passed in 1991, permitting the creation of private free zones, and provided a $26 million loan for development of such zones. This stimulated rapid growth of labour-intensive exports, particularly of clothing.

69. El Salvador had established a government-owned export-processing zone in the early 1970s. The zone had only limited success. A large electronics firm exporting capacitors and a few small firms exporting apparel were attracted to the zone, and their experience did not encourage others to invest. Exports from the zone stagnated at $95 million between 1980 and 1990. (This has been typical for government-owned zones in other countries. Foreign investors have tended to be sceptical of the quality of services in such zones, whose sites are frequently chosen more for political than for economic reasons.) The creation of the private zones, together with the investment promotion effort carried out by FUSADES, quickly brought new investors to El Salvador. Free zone exports rose from $95 million in 1990 to $1,335 million in 1999, and free-zone employment rose from several thousand to 65,000.

70. USAID initiated no new activities in either EPZs or investment promotion after October 1992, when the U.S. Congress passed legislation effectively prohibiting use of USAID funds for such purposes. The EPZs in El Salvador had been the subject of a U.S. television programme, which suggested that American workers were losing jobs because American companies were moving to El Salvador. This became a political issue during the 1992 presidential campaign. Nevertheless, the rapid growth of the sector even after USAID assistance ended suggests that further aid was not necessary. Six private free zones, along with the original government-owned zone (which is in the process of being privatised) are now operating in El Salvador, employing an estimated 65,000 workers.

71. *Non-traditional agricultural exports.* A third area in which USAID sought to promote export growth was in new agricultural products. As in other Central American countries, USAID sought to increase rural incomes in El Salvador by helping small farmers switch from low-value crops, like corn and beans, to high-value ones, like melons and winter vegetables, that required substantially higher amounts of labour per hectare, and that could be exported to the United States.

72. USAID used several vehicles for promoting such exports. Fusades established a division to provide technology to small farmers wanting to export. Clusa, the international affiliate of the U.S. National Cooperative Business Association, was a second conduit. Another set of activities was carried

out through the National Reconstruction Project, which provided land and other assistance to ex-combatants and others affected by the warfare in the countryside.

Impact of USAID Trade Development Programmes

73. In retrospect, the USAID activities of a decade ago appear to have stood the test of time relatively well.[6] At the policy level, the directions that USAID had promoted through support for research at Fusades and through financing of external technical assistance during the 1980s were incorporated into policy during the 1990s. It is, of course, impossible to say with certainty what caused a particular policy outcome in the real world, but the evidence shows that USAID was a major participant, pushing in the direction that policy moved.

74. At the institutional level, permanent results also seem to have been achieved. Despite the heavy dependence of Fusades on USAID support in the early 1990s, and the abrupt reduction of that support, Fusades survived, and has continued to play an important role. Its economic studies department continues to exert a major, and positive, influence on the national policy debate. Its investment promotion programme, though very modestly funded, appears to be quite effective. Other Fusades programmes have succeeded in obtaining support from other sources, and continue to play a catalytic role in Salvadoran economic and social development. Coexport has also continued to grow and to improve the quality of the services it offers to exporters. Both organisations have had to live under austere budgets, drawing most of their core resources from members and receiving money from various donors for specific programmes.

75. Export-processing zones grew rapidly after the initial USAID support, and have continued to be at least a significant contributor to El Salvador's integration into the global economy. The non-traditional agricultural export programmes have fared much less well. This may be due to a lack of comparative advantage in such products for El Salvador, or to the land ownership and property issues that have been a feature of Salvadoran agriculture for the last several decades. Whatever the cause, USAID's substantial investment (perhaps $30 million) in funding for non-traditional agricultural exports has yielded very modest results, and surely a low return on the investment.

Other Donor Programmes, 1993-99

76. The level of donor support for trade development in recent years pales in comparison with the USAID activities during the late 1980s and early 1990s. In part, this must be due to an obvious reason: USAID had done such a wide variety of policy and institution-building activities for export promotion that there were no obvious gaps that later donors could identify that would justify large-scale programmes.

77. Table 3 provides a summary of donor activities since 1993. It is organised into three categories: trade policy, implementation, and competitiveness. These categories are notional. The table also includes assistance to El Salvador from regional projects. Data for expenditures in El Salvador for these regional projects are not available (the region in question is either Central America or all of Latin America, depending on the donor.) In addition, the line between projects that promote trade and those that do not is often unclear. Projects for small and medium enterprises, for economic policy, or for economic infrastructure will have significant consequences for the trade sector in a small, open economy like El Salvador.

6 This is not to say that the USAID programs were cost-effective. More analysis would be required to answer that question, given the massive sums provided by USAID.

78. Overall, donors have devoted very little attention to trade development in their programmeming for El Salvador in recent years. Donors have been providing about $400 million per year to El Salvador, so the amount linked to trade development – less than $40 million over six years – represents less than 2% of total donor activity. The principal focus of donor assistance in recent years has been post-conflict and social-sector issues. Providing land and services to ex-combatants in the civil war has been one preoccupation. Promoting improvements in health care, education, and economic infrastructure in rural areas – where the conflict halted investment for a decade – is another major use of donor funds.

79. Briefly, the activities for which information could be obtained include the following: *World Bank--Competitiveness.* This was the largest project aimed at improving trade policy and private-sector competitiveness. The biggest activity under this project was a national competitiveness study by Fairbanks Associates, a firm associated with the ideas of Michael Porter of Harvard. The basic concept is that export competitiveness comes not from comparative advantage but from the existence of “clusters” of firms, including competitors and ancillary firms like suppliers, buyers and providers of services, linked

Table 3

Trade and Development: Donor Activities Since 1993

Country	Activity	Funding ($)
1. Trade Policy Formation and Negotiations		
World Bank	Competitiveness	$16,000,000
IDB	Preparations for FTAA, WTO	Regional
OAS	Preparations for FTAA, WTO	Regional
USAID	Preparations for FTAA, WTO	Regional
2. Policy Implementation and Agreement Implementation		
UNDP	SIDUNEA – Customs computerisation	$710,000
IDB	Modernisation of commercial legislation:	$662,000
UNDP	Automated customs system	$70,000
Canada	Web based trade information system	Regional
3. Export Competitiveness		
USAID	Non-Traditional exports via Cooperatives	$9,000,000
IDB	Agricultural Cooperatives – Proexsal	$3,000,000
IDB	Small enterprise competitiveness	$2,800,000
EU	Gourmet coffee	$990,000
Canada	Productivity-diversity-markets For small producers	$860,000
EU	Promotion of non-traditional exports	$725,000
EU	Strengthening Exports to the EC	$660,000
EU	National Commercial Information Center	$660,000
EU	European importers visit Central America	$330,000
EU	Foreign Investment Promotion	$300,000
Spain	(NGO) Marketing for Shrimp co-operative	$115,000
Spain	Hotel management training	$107,000
Total	**$36,329,000**	

Source: UNDP and individual donors

to educational institutions and government. Only when this entire cluster of actors is able to operate in a mutually-supporting way, the theory goes, will the country have a sector that is really competitive. The Fairbanks effort sought to identify a half-dozen potential clusters for future concentration by El Salvador. The government then built upon this analysis to establish a set of committees for the chosen sectors – coffee, apparel, tourism, software, ornamental plants, plus several others – that would provide the public-private co-operation needed to establish long-term competitive advantage.

80. There were mixed reviews of this project's impact on competitiveness. A number of private sector interlocutors believed that most of the clusters had achieved little, both because the government participants sought to control the process, and because clusters represented interests that were too diverse to have common agendas. Government interviewees took a more positive view of this activity.

81. *IDB/OAS/USAID--trade negotiation preparations.* This was a series of activities in training and technical assistance to help El Salvador with WTO accession and later with preparations for the FTAA. The three donors operated separately, but in close co-ordination. There was some division of labour in technical areas.

82. *UNDP--customs modernisation.* This activity included installing modern computer software for customs management and an automated customs system. Firms report that the customs-clearance process has improved considerably in recent years, with computerisation and automated clearance procedures. USAID also contributed to this effort.

83. *Canada--web-based trade information system.* Under this regional project, Canada provided support to SIECA, the Secretariat for Regional Economic Integration of the CACM, to build an internet-based information system for the five member countries. It is being used by both the Salvadoran government and private sector. The information system is of very high quality, and provides documentation on Central American economic integration, as well detailed trade statistics for the Central American countries. This system has apparently been of significant value in trade negotiations, and is said to be a model for the FTAA information system being financed by the IDB for use at the hemispheric level.

84. *USAID--non-traditional agricultural exports.* This project was intended to develop export markets for non-traditional agricultural exports, primarily for the U.S. market, through agricultural co-operatives. It is a follow-on to an earlier co-operatives export project, and was expected to produce co-operatives with sustainable export markets in the United States, primarily for winter fruits and vegetables. Altogether, USAID spent about $20 million attempting to promote exports of melons and other perishables to the United States. Melon exports reached several million dollars per year, but then fell back to zero because the Salvadoran producers could not establish a marketing chain that permitted profitable operation. Export of perishable products is a difficult business, particularly when channels are not well-established. The co-operatives proved unable to master these complexities and lacked the flexibility necessary to adapt to rapidly-changing markets. Exports, initially successful with substantial subsidies, were uncompetitive without donor support.

85. *IDB--agricultural co-operatives marketing.* This new project uses the institutions strengthened in the USAID project mentioned above, but with a change in market focus away from exports to production of organic fruits and vegetables for the Salvadoran market. It has just begun operating, and it remains to be seen whether the shift to the domestic market will provide a better base for sustainability.

86. *IDB--small enterprise competitiveness.* This IDB project seems to have begun a useful process of transferring technology to smaller enterprises with export potential.

87. *EU—promotion of non-traditional exports.* This project, with Coexport, funded a variety of activities, including a directory of Salvadoran exporters and handbooks for exporters.

88. *EU--European importers visit to Central America.* This EU project was thought by Coexport to have been extremely successful. About $20 million in firm export sales were said to have resulted from the project. The success of the project was attributed to very careful preparation prior to the visit. Identification of the appropriate firms on both the European and Salvadoran sides was the major element of this.

89. *EU--investment promotion.* This new project, which is not yet underway, will support the work of Fusades to promote export-related foreign investment in new sectors, in order to diversify away from apparel.

B. Donor Effectiveness Issues

Donor Co-ordination

90. A shared vision on the part of donors is the easiest form of donor co-ordination. When donors agree on a country's development problems and what should be done about them, the "donor co-ordination" problem is very manageable. No such shared vision exists within the donor community in El Salvador. Rather, there is a dichotomy between those donors (the World Bank, the IMF, and sometimes the IDB and USAID) that have a basic concern about macroeconomic policy and private sector development, and most other donors, whose focus is mainly on post-conflict issues and on expanding social programmes to address the wide gaps in education and health. Both sets of problems are important for El Salvador's future, and there is no reason that donors need to work on the same issues. But complaints that other donors are ignoring the country's "real" problems are more frequent, when, as in El Salvador today, donors have different emphases.

91. Donors reported that a modest amount of co-ordination took place in El Salvador during the last few years. (In the 1980s, the requirements for co-ordination were more clear cut: other donors needed to know what USAID intended to do, and adjust their activities accordingly.) At present, UNDP prepares an annual compilation of donor projects, which serves as an information source of some value in identifying the activities of other donors. For the most part, donor co-ordination consists of information exchange. Donors do not attempt to co-ordinate programmes: rather, they use the knowledge of what another donor is doing to make appropriate adaptations in their own plans.

92. As mentioned earlier, trade development is only a small part of donor activity in El Salvador, and most donors are doing little in this area. Among those that are active in trade development, there has been a limited amount of explicit division of labour. In trade, USAID has provided technical assistance in the area of intellectual property rights, while Canada and other donors have provided technical assistance and training in other aspects of WTO undertakings. The regional information system managed by SIECA, which was mentioned earlier, provided another case of division of labour. Canada provided the software system, while the IDB and USAID provided some hardware to make the system work.

93. The most effective locus for co-ordination of donor projects is the implementing institution. Where these institutions are strong and have a clear vision of their goals, they can fit donor programmes into their overall conception. In El Salvador, the main institutions responsible for export promotion have usually had a fairly clear idea of their goals, so fitting donors into their strategy has been reasonably straightforward.

Host Country Ownership

94. It is clear that Salvadoran political leaders have exerted primary control over policy relating to trade. During the 1980s, USAID – then the principal donor – continually pressed the Duarte government to devalue the currency, without success. When the Cristiani government did devalue in 1989, this reflected the commitment of the government to market-based economic policies and not primarily donor encouragement. The decision to reduce import duties unilaterally was similarly a national decision.

95. The first World Bank Structural Adjustment Loan in 1991 also illustrates this pattern. Nearly all the conditions established for disbursement under the loan had been completed by the time that the World Bank board approved the loan. The Bank essentially accepted the programme that the Salvadoran government had designed and implemented for its own reasons.

96. El Salvador has carried out a series of strategic exercises relevant to the export sector over the past decade. The first of these was a national export strategy, developed with the help of USAID consultants at the outset of the Cristiani government. This strategy identified exports as the basic pillar of economic reactivation in the country. The export plan was an effort to provide concrete steps to implement the government's overall approach, and was developed by a joint government/private-sector working group. It identified five sectors for near-term export emphasis: apparel assembly, coffee, the Central American common market, textiles and apparel, and non-traditional agriculture.

97. A second effort at national consensus took place at the beginning of the Calderon Sol government, when a wide-ranging series of roundtables and public discussions – reportedly including about 35,000 people covering the whole spectrum of Salvadoran economics and society – sought to promote debate and consensus on national problems. This exercise seems to have been successful in promoting debate, but it produced no consensus. Perhaps some of the perspectives uncovered in the effort helped the Calderon Sol government in its policymaking, but the contribution seems to have been modest.

98. The third effort has been the "clusters" exercise funded by the World Bank, which was intended to bring the various actors in export development together and to create a consensus on the key issues. This effort at sectoral collaboration still continues, though it has come to be viewed with considerable scepticism by many in the business community. Some have come to believe that efficient clusters cannot be produced by collaboration; rather they emerge from fierce competition, combined with flexible institutions and entrepreneurial behaviour.

99. Of these three efforts at strategy, only the first can be considered an unqualified success. Most of the actions in this case were concrete and fairly immediate, and the locus of responsibility for them was also clear: government action.

100. The second consensus-building effort seems to have produced agreement mainly on issues of a very general nature. At bottom, there may be a basic inconsistency between the idea of national consensus and the fact of political governance by political parties. The party in power will usually seek to vest its actions with the mantle of national purpose, but the role of opposition parties is precisely to prevent this from happening.

101. Finally, the "cluster" effort seems to have had mixed results, though the reasons for this are not totally clear. Since this effort has now been underway for several years, a careful analysis of what this approach has and has not done would be useful at this point.

102. The above discussion of host-country ownership deals with general policy issues. One could also view it from the perspective of individual donor-supported projects. In general, the situation is largely similar. Salvadoran implementing institutions were committed to the projects they were implementing, and appeared to have participated in the design process. The only instance observed where this was not the

case related to research on trade issues conducted by one of the multilateral donors, in which the research topics were not considered important, nor the researchers particularly able. The funding involved appears to have been small.

Sustainability

103. There appears to be no serious sustainability issue in the donor activities in the trade development sector. Most activities are small, and they do not create institutions or bureaucracies that will have difficulty continuing beyond the donor project.

Private-Public Sector Consultation

104. There is a fair degree of co-ordination between the public and private sectors in El Salvador. At the level of general principles, government leaders see their role as overseeing a market economy, where the important economic decisions are made in the private sector. In practice, the tendency of government to want to direct and manage everything happening in the country sometimes wins out. Several businessmen complained that the "clusters" effort was less a joint private-public effort than an opportunity for the government to try to control the agenda.

105. The World Bank project that developed the clusters was only recently completed. No evaluation of this has yet been conducted. An evaluation could be of considerable value in determining the extent to which such collaborative approaches can improve the policy environment by strengthening the dialogue between government and business. The trade statistics themselves do not offer cause for much optimism, since export growth has been slower during the last several years, when the clusters have been operating.

IV. Conclusions and Lessons Learned

106. The Salvadoran case is an interesting one. The country has had considerable success in exporting, particularly in apparel, but future sources of export growth are not obvious. Economic policy has provided a stable and favourable environment for economic growth, but the exchange rate is an obstacle for exporters. The main findings of the study are:

107. **Salvadoran producers still have much to do to meet the requirements of export markets.** El Salvador and its Central American neighbours have had good access to the U.S. market, even in the quota-restricted apparel sector. Exports of two of El Salvador's neighbours, Guatemala and Costa Rica, have grown faster both in value and diversity than those of El Salvador. Many Salvadoran firms wanting to export are unable to meet the quality and timeliness requirements of the international market.

108. **The biggest gap in current donor programmes is in investment promotion.** As discussed earlier, investment promotion is inherently a "public good." If found to be important in a national context, it deserves to be subsidised. The government of El Salvador recognises this problem, and has been moving to establish a government-managed investment promotion office. International experience suggests that such agencies are usually less effective than private institutions. Donor funding for investment promotion through private institutions like Fusades is one answer.

109. **Donor assistance to help diversify El Salvador's export markets is also useful.** El Salvador depends too much on the U.S. market for its manufactured exports. Exports to Europe and Japan have grown little in recent years. Donors from these regions might look for ways to support greater market access for Salvadoran products.

110. **Institution-building played a key role in Salvadoran trade development.** The creation of Fusades, in particular, has been of substantial benefit to Salvadoran trade development efforts.

111. **Exporting through co-operatives is risky**. USAID and other donors have sought to promote exports of non-traditional agriculture through co-operatives. The basic idea is that co-operatives provide low-income farmers with the means for substantial increases in income. Substantial funding for such efforts has been provided both in El Salvador and in neighbouring countries, but with only modest – and sometimes negative – results. The main reason for failure seems to be the enormous complexity of managing an export business for perishable products. Great flexibility, speed, and entrepreneurial skill are required, particularly before organised channels of export and of export services have developed. To expect co-operatives, with their need for consensus among members, to do well in such circumstances is unrealistic.

112. **Export Processing Zones have made a significant contribution to Salvadoran export development**. EPZs can provide an opportunity for rapid growth in employment of relatively low-skill workers, helping to reduce poverty and to overcome a variety of obstacles to exports of other types. But they are no panacea, and governments need to be pro-active by continually pushing for higher-skill products and towards integration of the EPZs with the domestic economy.

113. **Multilateral trade obligations have not placed an excessive burden on El Salvador**. The Salvadoran government has made a basic commitment to an open trade regime, and technical assistance from donors has helped provide specialised expertise when required. Senior government officials have taken the position that they know enough to be able to decide what trade policy is appropriate for El Salvador, and that El Salvador intends to be a full participant in the world trading system, accepting the obligations that this involves.

114. **Donor support for trade negotiating capacity has been effective and co-ordinated**. There has been some division of labour among donors with respect to technical areas. Nevertheless, the principal reason for the effectiveness of donor support in this area seems to have been the strength of the Salvadoran (and Central American) side. Adequate capacity and seriousness of purpose on the part of the recipient government are the best prescription for effective donor technical assistance.

115. **Neo-liberal economic policies provide no panacea for the country's foreign trade situation.** The shift in Salvadoran economic policies and institutions toward domination by free markets during the 1990s has been dramatic. In view of the magnitude of the policy changes, the performance during the last several years in both economic growth and export growth seems disappointing. It may be that the primary source of these slowdowns is the country's "Dutch disease." Even if this is the case, it demonstrates that developing country governments cannot assume that free markets will always produce the right outcome. The Salvadoran government must find some means to prevent the large capital inflows from being a drag on the export sector.

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Appendix 1: Chronology of Major Events in El Salvador

1961	Central American Common Market is established
1969	War with Honduras; massive repatriation of Salvadorans living there
1979	Civil war begins
1980	Jose Napoleon Duarte joins the ruling *junta*
March 1984	Duarte is elected president
June 1989	Inauguration of President Cristiani
January 1992	Peace Accords signed
June 1994	Inauguration of President Calderon Sol
June 1999	Inauguration of President Flores
March 2000	Mayoral and Legislative Elections

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DAC WORKSHOP: TOWARDS GOOD PRACTICES FOR DONORS ON CAPACITY DEVELOPMENT FOR TRADE

SENEGAL CASE STUDY

This document is submitted as background for discussion at the Workshop, to be held in Paris on 29-30 May 2000 and should be considered together with the background paper [DCD(2000)10].

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TABLE OF CONTENTS

SENEGAL CASE STUDY

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Acronyms

ACP	African Caribbean Pacific
ACBF	African Capacity Building Foundation
AERC	African Economic Research Consortium
CEPS	Customs and Excise Prevention Service (Ghana)
CET	Common External Tariff
CSP	Country Strategy Paper
DFID	Department for International Development
EC	European Commission
EDF	European Development Fund
ECOWAS	Economic Community of West African States
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GoS	Government of Senegal
IEPD	International Economic Policy Department (DFID)
IMF	International Monetary Fund
IT	Information Technology
ITC	International Trade Centre
NGOs	Non-Governmental Organisations
OHADA	Organisation pour l'Harmonisation du Droit des Affaires en Afrique
REPA	Regional Economic Partnership Agreement
TA	Technical Assistance
TC	Technical Co-operation
TRIPS	Trade Related aspects of Intellectual Property rights
UEMOA	Union Economique et Monétaire Ouest Africaine (West African Economic and Monetary Union)
UNCTAD	United Nations Conference on Trade and Development
URAs	Uruguay Round Agreements
USAID	United States Agency for International Development
WTO	World Trade Organisation

I. Economic Performance and Policy Review

A. Macroeconomic Environment

1. The Senegalese economy has responded positively to the 1994 CFA franc devaluation and subsequent structural reforms, with GDP growth above 5% from 1996 to 1998. The economy retains structural weaknesses, however. High transaction costs and weak infrastructure have undermined the competitiveness of the private sector. Education and health systems are very limited and foreign investment rates are too low to stimulate sustainable growth.

2. There was a surge in inflation immediately following the devaluation. Within a few years, however, inflation had dropped below 3%, thanks to prudent monetary policy conducted at the regional level by the Central Bank of the West African States. The real GDP growth rate was held above 5% from 1996 to 1998. The fiscal deficit has been reduced and there have been budget surpluses in recent years. The current account balance (excluding aid) improved throughout the late 1990s. Paris Club debt restructuring concluded in 1998 has contributed to this improvement, as have the increase in revenue collection and greater control over expenditures.

3. *Structural adjustment.* The CFA franc had substantially appreciated against the US dollar between 1986 and 1993, contributing to Senegal's poor export performance. The 50% devaluation in 1994 marked the beginning of a period of substantial reform for the government. Senegal was the first franc zone country to sign a stand-by agreement with the IMF following the devaluation. In 1994, the government and the IMF agreed on an ESAF loan program, which expired in 1998.

4. In April 1998, the government and the IMF signed an ESAF agreement for a three-year (1999-2001) program which totals SDR 107 million ($142 million). Multilateral and bilateral donors subsequently pledged almost $2 billion to support the ESAF program at the fourth Consultative Group meeting. Senegal's reform efforts are concentrated on restoration of the external balance, consolidation of public finances, and strengthening competitiveness. The IMF has praised Senegal for its reform record, but has urged the government to improve social indicators, most notably in health and education.

5. The World Bank has 18 ongoing IDA-financed operations in Senegal, valued at $682 million, in the areas of agriculture, education, population/health/nutrition, power/energy/water, transportation/urban development, industry and private sector development.

6. *Governance*. A court of financial discipline has been established to monitor the management of public resources and sanction negligent offices. A civil service reform program has also been launched. It aims to improve government services and efficiency by linking promotions to merit.

7. *Sectoral reform.* Some of the key sectoral reform measures centre on privatisation of state-owned enterprises. In particular, the government plans on accelerating and deepening sectoral reforms in the agriculture, energy, and transport sectors.

8. *Private sector.* The business climate, in general, improved significantly during the 1990s. Privatisation started in 1994, with an ambitious program that targeted 22 government-owned enterprises for privatisation during the following three years. Concerns on unemployment and labour action interrupted the government's privatisation plans. By 1998, 12 privatisations had been completed. The government is now scheduled to withdraw completely from the private sector by the end of 2000, through total or partial liquidation of state-owned enterprises. In addition, steps have been taken to improve the

legal system through business law reform and the establishment of an arbitration court in the Dakar Chamber of Commerce.

9. Senegal has many professional organisations representing the business sector.[1] Aside from the large, inward-oriented, mostly foreign-owned industrial firms, a new generation of entrepreneurs is emerging, with looser links to the government than the former. However, their professional organisations, while quite vocal, remain relatively weak.[2] Professional associations, not firms, are members of the Chamber of Commerce.

10. Following the devaluation, the government became conscious of the piecemeal and bureaucratic nature of its framework for private sector development. Among other initiatives,[3] a private sector capacity-building project (Projet de renforcement des capacités du secteur privé), was established. It had three components:

- The Private Sector Foundation (Fondation Secteur Privé, sponsored by the World Bank; see below*)* to support firms.
- The Legal Reform Committee (Comité de réforme juridique, CRJ).
- The Reflection Group on Competitiveness and Growth (Groupe de Réflexion sur la Compétitivité et la Croissance, GRCC; see below).

Despite the establishment of these institutions, implementation of the capacity-building project has been slow. A strategy paper was eventually published in 1999.[4]

B. Foreign Trade

Trade Structure and Performance

11. The 1994 devaluation favoured leading export industries like chemicals and fisheries. These industries are replacing exports of groundnuts and groundnut products as the chief source of foreign exchange. The tourism industry has gained as well from the devaluation. But higher levels of foreign investment did not materialise, as expected. Non-traditional exports for which Senegal may have a comparative advantage (e.g. fruits and vegetables) also failed to benefit from the devaluation.

12. The current account and trade balances have registered negative figures almost continuously since independence. The size of the trade deficit, which used to depend a great deal on the groundnut harvest, today fluctuates somewhat less due to the export diversification mentioned above. The current account balance has improved during the last half of the 1990s.

13. Senegal relies heavily on imports, including for basic staples, such as rice, which is mostly imported from Asia. Over the years, and partly due to the peg between the CFA franc and the French franc, consumption habits have been largely biased in favour of imported goods. This means that strong vested interests have been established in the importing sector. Exports remain concentrated in three main sectors. Fish accounts for 25 per cent of export earnings. Some 50 firms export it (fresh, frozen, conditioned),

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1 See République du Sénégal, 1999b.

2 They are reported to cover only 50 per cent of their costs; see the 1999 Diagnos report on Senegal.

3 Other government initiatives include a Lettre de Politique de Développement du Secteur Privé (LPDSP) was adopted in 1995, and a Projet d'Ajustement et de Compétitivité du Secteur Privé (PASCO).

4 République du Sénégal, 1999b.

mostly to Europe, and especially to France. Senegal's assets on these markets include proximity, with frequent flights allowing for high value-added fresh products to be regularly shipped by air. While Senegal's share of Europe's fish market may seem insignificant, it is a major supplier of certain types of fish (shrimp, tropical sole, rouget).[5] Phosphates (rocks and processed) account for 22 per cent and groundnut products for some 10 per cent of exports.

Trade Institutions

14. Within the Ministry of Trade, the Directorate for External Trade (Direction du Commerce Extérieur, DCE) is in charge of defining Senegal's trade policy. Co-ordination with other ministries seems to have been boosted by preparations for the Seattle WTO Ministerial meeting. An Inter-Ministerial Committee was set up under the presidency of the Ministry of Trade (DCE), with six sub-committees covering agriculture, services, intellectual property, environment, goods, and investment. Meetings were held at the national and sub-regional level (in Burkina Faso), with the support of several donors (including the FAO and France).

15. Several public institutions in charge of promoting trade and investment have flourished over the years. There are four agencies in charge of investment promotion:

- Centre de Formalités des Entreprises (Guichet Unique, or "one-stop shop" for investors);
- SODIDA (Société du Domaine Industriel de Dakar);
- SONEPI (Société Nationale d'Etudes et de Promotion Industrielles);
- ZFID (Zone Franche Industrielle de Dakar),for export-oriented firms.

16. All four suffer from inadequate human and financial resources, as well as a passive attitude vis-à-vis investors.[6] The Guichet Unique, for instance, which should have simplified and unified procedures is actually reported to have merely added another step on the investors' path. The ZFID dramatically failed to attract investors, and firms based in the SODIDA park hardly ever make it beyond its fences. Two other organisations are more specifically dedicated to trade promotion and facilitation:

- CICES (Centre International du Commerce Extérieur), which has been mainly active in organising trade fairs and exhibitions.
- The Trade Point Senegal, under responsibility of the DCE, which aims to facilitate procedures, ensure co-ordination among the many departments exporters have to deal with, and provide exporters with all necessary information. A major objective of the Trade Point program is to computerise all import and export procedures. Progress has been slow, however, due to the difficulty in implementing changes at the level of customs.

17. Finally, there are two institutions in charge of promoting quality and standards:

- Institut Sénégalais de Normalisation (ISN), which defines and controls national norms in each industry, assesses needs, and disseminates existing norms); limited impact is mainly blamed on the lack of an effective national policy in these areas.
- Institut de Technologie Alimentaire (ITA), which conducts R&D, controls products for local consumption, and trains in quality control; tends to focus on service delivery to food processing firms.

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5 De Reviers et al., 1998, p.10.

6 See Document de stratégie du secteur privé, 1999, and FIAS, 1999.

Trade Policy and Strategy

18. Like many other developing countries, Senegal lacks a clear trade policy, embedded in a coherent development strategy. This is partly due to the fact that decisions in the area of trade policy have for a long time largely been a by-product of decisions made in other policy areas, a residual either of Senegal's monetary policy (the CFA/FF peg) or its financial and political priorities within the framework of the Lomé Convention. Trade policy decisions have also been made *ad hoc*, on the basis of particular challenges confronting private or state monopolistic firms in traditional sectors, either inward-oriented (cement, sugar, etc.) or outward-oriented (groundnut, phosphates, etc.). Finally, an overvalued CFA franc meant that the concern with food security did not need to be addressed through the active development of foreign exchange-earning activities. Trade therefore was not viewed as part and parcel of a general strategy aimed at fostering growth and alleviating poverty, and the set of incentives confronting domestic and foreign investors was strongly biased against exports.

19. Arguably, though, incentives may be changing: trade promotion and development started making more sense for policy makers after the January 1994 devaluation, and the subsequent reduction in the anti-export bias. Between 1996 and 2000, the debate over the renegotiation of Lomé, in the early phase of which the simple dismantling of ACP-EU trade agreements seemed a plausible scenario, and the run-up to the WTO Seattle meeting, helped push trade higher on the agenda of the government. Current thinking in the Ministry of Trade emphasises two main directions: an active promotion of export growth and diversification, and the gradual integration in the world economy through trade agreements at the sub-regional, regional (post-Lomé) and multilateral levels.

20. *Export promotion and diversification.* Senegal's IXth Plan calls for reconciling competitiveness and sustainable human development. Striking an optimal balance between the traditional objective of food security and seizing the largely under-tapped opportunities in world markets requires that more emphasis be put on encouraging small- and medium-sized enterprises (SMEs) to export. To that end, the DCE currently aims to streamline its trade promotion instruments by setting up a single agency that would absorb existing bodies. Controversies have arisen among the varied vested interests associated with the existing institutions (e.g., over whether investment and trade promotion should be separated), and these disputes are slowing down the process. The government has turned to CIDA and the ITC for support in designing and implementing this strategy (see below).

21. *Multilateral agreements.* Senegal has been a member of the WTO since 1995. It was one of the first African countries to accede to the GATT in 1963, and has participated in several major global trade rounds. During its most recent WTO Trade Policy Review, in 1994, Senegal was congratulated on its significant market access and services concessions during the Uruguay Round.

22. *Regional agreements.* Senegal is a member of two regional integration schemes, ECOWAS (created 1975) and UEMOA (created 1994; see box), both of which aim to establish free trade areas. Progress towards intra-regional trade liberalisation has been very slow within ECOWAS (see Jebuni, 1997), while UEMOA has proceeded speedily with its own agenda. UEMOA countries already have a common currency (the West African CFA franc; see Annex 2) and a common business legal framework set up under OHADA (Organisation pour l'Harmonisation du Droit des Affaires en Afrique). On January 1, 2000, UEMOA countries implemented a Common External Tariff, lowering the maximum tariff from 25% to 20%. The resulting revenue loss for Senegal will be partially compensated by the imposition of a 19% VAT in July 2000.

23. *ACP-EU trade agreements.* As an ACP Senegal has been enjoying non-reciprocal trade preferences from the EU for 25 years under the Lomé Convention. Senegal is no exception to the general observation that these preferences have had little impact on the integration of ACP economies in world

trade, mostly because pervasive supply-side constraints have prevented ACP exporters from taking advantage of preferential access to EU markets. One exception is the fisheries sector, where preferences arguably have been most useful; by contrast, exemption of MFA quotas did not help the textile and clothing sector. Moreover, the relative value of these preferences has been eroding in the face of multilateral trade liberalisation and the multiplication of preferential agreements between the EU and third countries. Unlike Mauritius or some Caribbean islands, Senegal has not benefited from any of the four, sometimes lucrative, commodity protocols attached to Lomé. Of all West African countries' exports to the EU, only bananas and a few products listed under Annex XL of the Lomé Convention are not liberalised. Among the latter are tomatoes, for which Senegal has a quota -- largely under-utilised -- of 560 tonnes.[7]

II. Trade Development Needs

Box 1

Regional integration:
UEMOA and ECOWAS

Originally a monetary agreement, the UMOA (Union Monétaire Ouest-Africaine) turned itself into UEMOA (Union Économique et Monétaire Ouest-Africaine) in January 1994, with the aim of establishing a customs union. A common external tariff was put in place on January 1, 2000. The Union has regional institutions to coordinate economic policies, mainly through the adoption of budgetary convergence criteria.

UEMOA comprises two non-LDCs (Côte d'Ivoire and Senegal) and six LDCs (Benin, Burkina Faso, Guinea Bissau, Mali, Niger, and Togo).

Ghana and Nigeria -- together with most other West African countries -- belong to ECOWAS (Economic Community of West African States), a larger grouping set up in 1975, that has achieved very little success so far in implementing its economic integration agenda.

24. In designing and implementing a pro-active trade development strategy, Senegal will be confronted with several challenges, both at the level of policy-making, and at the level of the competitiveness of its exporters.

A. Policy Challenges

Defining a Strategy

25. While some steps have been taken to define an active trade strategy, most observers and actors acknowledge there is still a long way to go before this materialises. In particular, there does not seem to be real leadership on trade development, nor is it a shared priority among various government departments. This contrasts with Ghana, the other Sub-Saharan African country examined in this project, where a clear choice of an outward-oriented strategy has been made. Several studies aiming to identify strategic sectors in which to direct scarce capital resources have been undertaken, and a lively debate over alternative institutional architectures is taking place, but there has been no strong political signal from the highest political level to engage in an active trade development strategy.

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7 That is 28 per cent of the 2000 T. ACP quota specified by Annex XL of the Lomé-IV bis Convention (1995-2000). See CERDI, 1998, p.58.

Following up on Trade Agreements

26. At the multilateral level, Senegal lacks the capacity to fully implement its WTO commitments and has not really started defining and defending its national interests, although some progress is noticeable. For instance, the debate over the regionalisation process (UEMOA) seems to have helped raise awareness among the business community on the issue of transaction values, for which Senegal requested a delay in implementation. As for multilateral negotiations, while some intense preparation and consultation had taken place in Senegal before the Seattle WTO meeting,[8] the Senegal delegation was not as high-powered as those of other countries, such as Mauritius or Zimbabwe. From the business community, only individual executives from large import-substitution firms went to Seattle out of personal interest. Finally, inter-ministerial dialogue needs to be strengthened and sustained: many civil servants outside the Ministry of Trade (e.g., in the Ministries of Agriculture, Finance, and Foreign Affairs) are unaware of the implications of being a WTO member.

27. At the sub-regional level, an initial challenge relates to the implementation of commitments made in the framework of UEMOA, which some consider as proceeding faster with trade reforms than national countries can cope with. For instance, it remains to be seen how far the CET set up in January 2000 is actually being applied, and whether customs agencies have adequate capacity, equipment, and incentives to apply the new tariffication system. Other problems may emerge due to remaining disparities in protection levels and the budgetary costs of removing intra-regional tariffs. A second set of issues concerns the relationship between UEMOA and ECOWAS and the status of Nigeria and Ghana, which are members of the latter but not the former grouping.[9] Handling this politically sensitive issue will require strong technical support, if concrete and realistic solutions are to be devised for implementing both regional schemes.

28. Finally, the post-Lomé agenda needs to be clarified quickly. Although Lomé IV-bis expired in February 2000, non-reciprocal trade preferences should be rolled over until 2008, provided a second WTO waiver is granted to the EU.[10] Negotiations over a WTO-compatible, reciprocal trade agreement with the EU are due to take place between 2002 and 2008. Implementation would start in 2008. This gives Senegal until 2002 to prepare its position. The EU's position is known: it intends to sign free-trade agreements with ACP countries, preferably grouped within regional trade areas themselves. UEMOA could be the West African partner of the EU, but many questions remain (see Annex 3). While LDCs may choose to keep non-reciprocal, Lomé-equivalent tariff preferences, non-LDCs that would not wish to enter into free trade agreements with the EU would be “transferred” into the EU’s Generalised System of Preferences (GSP). The latter is due to be revised in 2004, but it will probably by then be far less generous than Lomé in terms of market access. As a developing country that is not an LDC, Senegal, like Ghana, is one of the ACP countries that stands to lose most in terms of absolute and relative access to the EU market.[11]

29. Obviously all three negotiating fora are intertwined: the WTO has rules on regional agreements that apply to UEMOA, ECOWAS, and any agreement between these and the EU. The possibility of a

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8 See République du Sénégal, 1999a.

9 Nigeria and Ghana reacted strongly to the setting up of UEMOA's CET, which they fear may undermine the wider process of regional integration.

10 Article I of GATT requires WTO members who offer to lower a trade barrier to one member to extend the favour to all other members. Special preferences for developing countries are allowed —without having to be extended to developed countries— providing all developing countries benefit from them. By providing special treatment to the ACP *without extending it to other developing countries of similar levels of development,* the Lomé trade regime violates the Most Favoured Nation (MFN) principle. A first waiver was granted to Lomé IV-bis (1995-2000), which expired with the current Convention. See Solignac Lecomte, H.B., 1998, *Options for future ACP-EU Trade Relations,* Working Paper No. 60, Maastricht:ECDPM.

11 See Stevens, C., M. McQueen and J. Kennan, 1998, After Lomé IV: A Strategy for ACP-EU Relations in the 21st Century, Commonwealth Secretariat - IDS, London.

future EU-ACP agreement with a regional grouping will depend on the progress made by UEMOA or ECOWAS. Finally, future developments in multilateral negotiations may alter the strategy of the EU (and of its ACP partners) with regard to ACP-EU trade relations. Analyses and negotiations at these three levels must be closely co-ordinated or centralised in Senegal, which is not the case at the moment, since the Ministry of Finance traditionally plays the leading role in matters relating to Lomé and regional integration.

Monitoring Trade Issues

30. A key implication of the preceding is the need for adequate technical back-up, with good connections between decision-makers and trade policy analysts, both inside the ministries and in independent institutions. Analytical capacity within the ministries is limited, especially in the Ministry of Trade where, unlike Finance and Agriculture, no special task force -- such as Unité de Politique Economique (UPE) and Unité de Politique Agricole (UPA) -- has been set up. For example, since Senegal is a net food importer, to take positions on issues such as the opening of agricultural markets, or the phasing out of agricultural subsidies, a proper assessment of risks and opportunities is needed.

A Structured Dialogue on Trade Policy

31. To identify, promote, and defend the interests of Senegal with regard to trade in various negotiating fora requires mechanisms for a permanent exchange of information and dialogue among stakeholders in the public and private sectors. One justification for this is efficiency in a context of limited capacity: officials can simply not follow all technical, sector-specific issues. The experience of the Seattle Ministerial preparation in Senegal laid the groundwork for consultation mechanisms that can be refined and made sustainable. The capacity of various stakeholders -- professional organisations, trade unions, consumers -- to take part in a structured dialogue with the government needs to be strengthened.

B. Constraints on Competitiveness

32. As highlighted in the many reviews of the limited impact of Lomé trade preferences on ACP countries, pervasive supply-side constraints rather than obstacles to market access are to blame for the poor export performance of Senegal. However, market access barriers in OECD countries do exist, and barriers now emerging pose unprecedented threats for certain sectors of the Senegalese economy.

Supply-Side Constraints

33. *Factor costs and availability* (e.g., for water, electricity, labour, etc.) have been earmarked for a couple of decades as a major impediment to the competitiveness of Senegalese firms.[12]

34. *Poor infrastructure* prevents exporters from easily accessing regional and extra-regional markets. Within UEMOA, Senegal finds itself paradoxically “enclaved,” sharing few borders with other member countries, and linked only to Mali by poor railway facilities. As for access to non-regional markets, substantial progress has been made in rehabilitating the harbour, but a lot remains to be done at the airport. For instance, due to inadequate handling facilities, fresh food products wait 4 to 6 hours between cold storage and air shipping, compared with 15 minutes in Kenya.

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12 See Berthélemy et al., 1996, pp.107-116.

35. *Access to finance* remains the most frequently cited obstacle by entrepreneurs running SMEs. Commercial banks are in a situation of over-liquidity and interest rates are only moderately high (especially when compared to Ghana), but collateral requirements prevent smaller enterprises from accessing credit. The collateral issue is worsened by the absence of private property rights on land. Larger firms are not confronted by this problem, nor are importers.

36. On the whole, however, it should be noted that Senegalese exporters are much less exposed than are their Ghanaian counterparts to the negative consequences of macro-economic instability.

Market Access

37. Thanks to Lomé tariff preferences, Senegal benefits from very favourable terms of access to its main market, the EU. But Senegalese exports are increasingly being affected by NTBs, mainly in the form of technical requirements (norms and quality standards). Some of these are legal requirements; others are imposed by importers and reflect the weak bargaining power of Senegalese exporters.

38. *Legal norms and quality standards* can be a major obstacle to Senegalese exports. While public *safety* considerations are widely acknowledged as legitimate criteria for restricting imports, some exporters consider other quality requirements more questionable. Two examples follow, one where donor assistance helped exporters meet standard requirements and secure their position on the European market (fish), and another where risks are high and have not yet been tackled (fruits and vegetables).

- *Fisheries*. A new European sanitary regulation was put in place in 1993 (when the Single Market was created). Based on the French model, it requires not only that the characteristics of products (both domestic and imported) conform to specified norms, but also that they are produced and manipulated following methods, and in premises, that themselves conform to norms specified in European directives. Regulatory and control departments in exporting countries must be acknowledged as equivalent to their European counterparts by inspection missions from the EC. With strong support from European donors, Senegal obtained its certification in 1996, which was renewed in 1999.

- *Fruits and vegetables*. In the process of harmonising pesticide limits among EU members, maximum residue levels (MRL) for most pesticides used by countries exporting fruits and vegetables to the EU have been -- or will be, by July 1, 2000 -- substantially reduced, and in some cases brought down to zero. All products for which exporting countries have not supplied information establishing a positive MRL will see the latter automatically established at zero. This will be the case for most products, because exporting countries -- including Senegal -- did not supply the relevant information promptly. This means that ACP producers are banned from using pesticides on many products they wish to export to the EU, which, in practice, prevents them from reaching the quality standards required for substantial export volumes.[13] A failure of ACP exporters and European importers to comply with these regulations can result in significant fines.

39. *Information and bargaining power.* Other difficulties encountered by Senegalese exporters in terms of market access are their weak capacity to control the marketing of their products and their limited bargaining power vis-à-vis importers.

[13] PPEA, Bulletin I-Flex No.1, Janvier 2000, Dakar, p.7.

40. Typically, in the case of horticultural products, European importers will deduct all charges that apply at their end, plus a high commercialisation charge (10 per cent), from gross sales, thus reporting insignificant or negative profit margins to Senegalese exporters.[14] With better information and control of the price structure, exporters could bargain for better prices. Another difficulty for some exporters (again, of fruits and vegetables) is that, having difficulty accessing credit, they depend on their clients to pre-finance production, which again considerably limits their bargaining power. Restrictions can also be imposed by importers on the use of commercial brands and names, such as in the case of fish (see Box 2).

Box 2: Non-Tariff Barriers to Trade on OECD Markets: the Case of Fish Appellations in France

Under the Lomé Convention, Senegalese and other ACP fish exporters benefit from special tariff preferences. Unlike many other products, for which the actual margin of preference vis-à-vis competing countries is low or rapidly eroding, fish products from the ACP still enjoy a substantial tariff advantage over non-ACP exporters.

In addition, the EU has been granting assistance to fisheries in the countries with which it has special cooperation agreements, mainly in the form of support to: (i) efforts to achieve greater coherence through rule-setting and enforcement, and improving information; (ii) the private sector, to increase competitiveness; (iii) research; and (iv) resource conservation and protection. In addition to technical and financial assistance, a specific budget line was created in 1993 for international fisheries agreements (B7–800). While developing countries (and Greenland) are the recipients of these funds (nearly 1.3 billion euro for 1993–8), this has not been counted as EU aid since the funds represent compensation for access by EU vessels to their waters. The main beneficiaries of these funds in 1998 were Morocco, Mauritania, Angola, and Senegal (See Cox and Chapman, 1999).

In spite of all these preferences and aid, Senegalese producers report being confronted with non-tariff barriers on the EU market in the form of restrictions on the use of appellations by importers. For instance, *mostelle* is not accepted by French importers and must instead be called *brotule*. Similarly, *turbot tropical* must become *ronclavele indo-pacifique*. Using an appellation less known than the traditional European equivalent gives importers an argument for paying lower prices to Senegalese exporters, and avoids potential conflict with European producers. This is detrimental to Senegalese exporters, who receive a lower price than they would if they were able to use the traditional appellation; inevitably face additional, costly marketing efforts to promote their non-traditional appellation; and find themselves confronted by a form of unfair discrimination. These requirements are imposed by European operators in the context of their commercial relations with their suppliers, rather than by law, thus reflecting the gap in negotiating power between the European firms and Senegalese exporters. These practices are also not unified across the EU; they were reported as applied by France, but not by, say, Italy.

41. In addition, a trend that clearly worries exporters and specialists interviewed for this study is the adoption by importers and retailers in OECD markets of codes of good conduct regarding hygiene, wages, etc. Indeed, ‘ethical’ considerations seem likely to play an increasing role in the buying decisions of importers (e.g. centrales d’achats). To some, this means that certain kinds of labour standards may be directly or indirectly imposed on exporters from developing countries in the future -- not through multilateral regulation (e.g. the WTO or the ILO), but through markets.

42. These and the other barriers noted above represent great actual and potential challenges for Senegalese exporters, and point to the need for them:

- to monitor information on markets in a preventive manner;
- to seek alliances at the national and regional levels to strengthen their bargaining power; and

[14] Thiam Inter-Consult, 1997, p.14.

- to engage actively in a structured dialogue with the government (and possibly at the UEMOA level) so as to defend Senegal's interests vis-à-vis its main trade partners.

43. At the moment, awareness, capacity, and incentives seem largely inadequate, both within professional organisations, and within the administration, and platforms for public/private dialogue have so far not been used to develop a negotiating agenda within the WTO or in the Lomé framework.

III. Donor Activities and Their Relevance

A. Overview

44. None of the donors in Senegal has made trade capacity development a priority sector of intervention, but private sector development is high on the agenda of the French, the World Bank, USAID, and the EU. Via private sector-oriented projects, they are the only donors involved in substantial trade capacity development activities in Senegal (except USAID). In response to a request from the Senegalese government, the Canadian government (CIDA) also recently became involved in a major project aimed at designing a trade development strategy for the country. Other bilateral donors merely provide one-off support to bilateral trade and investment operations. Table 1 sums up the main donor trade capacity development (TCD) activities by level of intervention.

Table 1: Main Donors' TCD Activities in Senegal

Level of intervention	Donor	Project
Trade analysis	IDRC	Research networks on trade
Policy formulation / dialogue and implementation	Canada – CIDA (through ITC)	Interactive trademap for Senegal's exports
	World Bank	Groupe de Réflexion sur la Compétitivité et la Croissance (GRCC)
	USAID	Several specific trade-related short-term activities, including: study on administrative obstacles to investment, two training sessions in preparation of Seattle*
	EU	Support to regional bodies and processes (UEMOA, ECOWAS)
	France – Coopération Française	Technical assistance: Ministry of Agriculture policy unit, fisheries department (veterinary services), Customs
Export competitiveness	France – Coopération Française France – AFD	Restructuring and upgrading of the fisheries sector
	France – Coopération Française	Projet d'Encadrement et de Structuration de l'Artisanat sénégalais (PESAS)
	World Bank	Promotion and diversification of horticultural exports (PPEA)
	World Bank	Fondation secteur privé
	EU	Promotion of horticultural exports (SEPAS)*
	EU	Centre de Développement Industriel (CDI)
	EU	Support to groundnut producers (PAI / CNIA)
	GTZ	Subsidies for German-Senegal partnerships

Note: (*) Project completed.

45. **IDRC**, the Canadian development foundation, has its West and Central African office based in Dakar. Its activities cover the whole sub-region. Beyond general support to research activities on the continent (e.g. through the African Economic Research Council, AERC),[15] it has three trade-specific projects that apply, *inter alia,* to Senegal, for which Laval University (Quebec) provides scientific support:

[15] Today, IDRC's support to AERC is minimal (around 5 per cent through the TEC project).

- It supports two research programmes related to trade -- the "Trade, Employment and Competitiveness" (TEC) program and the "Micro Impact of Macro Policies" (MIMAP) project -- through research institutes and universities in the different countries (including in Ghana).
- It also supports a regional network of agriculture ministers, with the aim of strengthening analytical and negotiating capacity on agricultural trade issues. Studies are either co-financed (e.g. with ACBF) or funded by IDRC alone.
- Finally, IDRC Dakar initiated the CICERA project, which aims to provide financial and scientific support to economics research centres. No research programme was imposed. Funding was obtained mainly from USAID and the EC.

46. The **World Bank** supports several projects aimed at private sector development, with more or less explicit trade components.

47. Set up for 5 years in 1995, the Fondation pour le Secteur Privé aims to enhance the competitiveness and growth of the private sector by strengthening the capacity of firms and restructuring professional organisations so that they can provide better services to their members. It subsidises between 50% and 75% of the cost of a wide array of consultancy and training services for firms or organisations by local or foreign service providers. From 1996 to 1999, 473 projects were funded, of which 28% aimed to increase (mostly foreign) market penetration, accounting for 15% of funds disbursed.

48. Directly geared towards export promotion, the Projet de Promotion des Exportations Agricoles was established in response to a request by the government for support in developing agricultural exports, with a focus on horticulture, where Senegal has a strong comparative advantage due to its climate. The project has three components:

- Promotion and diversification of exports (improve quality and presentation; find new outlets beyond Benelux);
- Support to professional organisations of exporters (capacity building; training in production, marketing, etc.; information on markets);
- Rehabilitation of infrastructure (production, storage, packaging, handling facilities at airport).

49. Subsidies are granted to individual projects (60-80%) and exclude investment in equipment other than small items. The subsidy element is to decline over time. Performance is assessed against a target of annual export growth (15%), which was overtaken in the first year (17% actual growth). However, many factors influencing export growth may have little to do with the performance of the project.

50. The Groupe de Réflexion sur la Compétitivité et la Croissance (GRCC) was established by the Senegalese government after the devaluation, with support from the World Bank, as a platform for dialogue with the private sector. Its mission includes the building of consensus around concrete recommendations to enhance competitiveness and growth. For example, concrete steps were formulated for the reform and privatisation of the telecoms sector. GRCC has actively contributed to the ongoing definition of an export strategy through its work on industrial clusters.[16]

51. In the framework of its National Indicative Programme with Senegal for 1995-2000, the **European Union** focused its activities on public services restructuring (health, transport) and the promotion of private sector activities with a large social impact in terms of job creation and income generation (agriculture, small enterprises, and farmers' organisations). With respect to the latter objective,

[16] See Performances Management Consulting, 2000.

particular emphasis was given to the groundnut and horticulture sectors, through two projects: Projet d'Appui Institutionnel au Conseil National Interprofessionnel de l'Arachide (PAI/CNIA), and Assistance Sénégalaise d'Exportation de Produits Agricoles et de Services (SEPAS, now completed). Although trade development is one of the sectors that receives a significantly larger share of EU aid than that allocated by OECD donors in general,[17] only the latter project clearly had a trade capacity development focus. Its failure may serve as an illustration of the difficulty of reconciling poverty alleviation and export promotion within a single project (see below). Beyond these specific projects, the EU also co-financed (with the French) elements of the restructuring of the fisheries sector.

52. A major contribution of the EU to Senegal's trade policy is the support for the UEMOA Commission (based in Burkina Faso) and the ECOWAS Secretariat (in Nigeria), under its regional Indicative Programme (RIP) for Sahelian and Coastal Western Africa. The EU, which sees its comparative advantage as a donor in promoting regional integration among its developing country partners, is the main supporter of UEMOA (euro 2 million in EDF#8).

53. The Centre de Développement Industriel (CDI), jointly operated by EU and ACP institutions in Brussels, has had an antenna in Dakar for several years. Originally based in the SONEPI, it has recently been incorporated in the FSP (see Box 3). It supplies basically the same kinds of services and financial support as the FSP. A new trade and private sector development strategy is being implemented, largely through instruments based in Brussels or at the sub-regional level.[18] Among them, the European-ACP Business Assistance Scheme (EBAS), a matching grant fund that co-finances consultancy services to ACP private firms and business associations, has just started operating an office based in Côte d'Ivoire that will serve the whole of Western Africa. *Diagnos* identifies obstacles to trade and private sector development to help prepare European Commission (EC) support programmes and has prepared reports for Senegal and for UEMOA. On the whole, though, the EC's new strategy and its many instruments are not yet fully operational, and the EC delegation in Senegal was not yet well aware of their modalities.

54. The **French** are traditionally the main bilateral donor in Senegal. Their trade-related development co-operation activities are split between two institutions:[19]

- The Coopération Française provides technical assistance to various bodies, including the Ministry of Agriculture (the policy unit and the veterinary services unit of the fisheries department) and Customs. It has provided assistance in two main areas: policy formulation and implementation (e.g., support to inter-ministerial and public/private dialogue, including on preparations for Seattle); and support for the restructuring and quality upgrading of the fisheries sector.[20]

- The Agence Française de Développement (AFD) and its private sector subsidiary, Proparco, provide pre-investment incentives -- either from their own resources or from funds delegated by other agencies (e.g. CDI) -- for investment in production or basic infrastructure. Its

17 See Cox A. and J. Chapman, 1999, *The European Community External Cooperation Programmes -- Policies, Management and Distribution*, Overseas Development Institute, London.

18 See Van Hove and Solignac Lecomte, 1999.

19 This is excluding the Poste d'expansion économique of the Embassy, which promotes French commercial interests in Senegal.

20 Other French cooperation activities indirectly contribute to trade capacity development, e.g. technical assistance in the normalisation institute, co-funded with AFD and the EU. Similarly, other activities aim to support the private sector, e.g. the financial support to one professional organisation (SPIDS) to set up sector-specific post-graduate training modules.

activities are concentrated on commercially viable, medium- to large-scale projects. The AFD group participated in the restructuring of the fisheries sector.

55. The major recent trade-related activity of the French in Senegal is the restructuring of the fisheries sector, which included several projects: the upgrading to EU standards of fish product exporters; multipurpose support to traditional fishermen (e.g., infrastructure for processing); and improving the surveillance of fishing activities in Senegalese waters. The first project concluded in 1999 and eventually resulted in Senegal (and Senegalese firms) being certified for its exports to the EU. Firms and standards bodies have made the required investments in equipment and capacity, and operators are confident these results will be sustained.

56. **Canada/CIDA** is funding a study by the International Trade Centre (Geneva) that is designed to help Senegal develop a national trade strategy (Interactive Trademap for Senegal's exports). The objective is "to enhance the capacity of the Trade Ministry and the Senegal business community to undertake strategic market research for export development." Based on studies prepared by the GRCC and interviews with the business sector, a detailed analysis of international demand patterns for 6 selected "clusters" will be made. The choice of strategic clusters will then be submitted to private and public operators by the end of 2000.

57. **USAID** activities focus mostly on private sector development, decentralisation/governance, and health and education. USAID does not support specific trade capacity development activities in Senegal. Its private sector programme aims to:

- improve the legal, regulatory, and policy environment;
- improve access to financial services; and
- increase the use of best technical and managerial practices (including strengthening professional organisations).

58. The foundation for these activities is the comprehensive "investors' roadmap" study (see FIAS, 1999), which USAID commissioned in collaboration with the World Bank, and which analyses in great detail the administrative obstacles to investment in Senegal, including a section on international trade procedures. Recent projects targeting the private sector and touching upon trade issues include training of some 200 justices in the context of the OHADA treaty; trade missions from/to the United States; financial assistance and training for the Trade Point; and two seminars by US consultants to prepare the WTO Seattle meeting.

59. **UNDP** and **UNIDO** do not have trade capacity development projects at the national level. Capacity-building activities are undertaken at the regional level (including support for the network of national Trade Points). The activities of the Senegal bureau in support of private firms "stop at the gate of the factory." Staff were sceptical that a trade development strategy aiming to integrate Senegal in the world economy would be the best way to foster growth and reduce poverty.

60. **Germany/GTZ** activities in Senegal do not have a substantial trade or private sector component and instead focus on natural resources, health, decentralisation, etc. Nevertheless, GTZ may occasionally extend a small subsidy to a German private firm "with a development project" in the country.[21] The

[21] For instance, a German firm dealing in 'bio' products and buying cotton from farmer cooperatives in the province of Linguère benefited from a DM 100,000 subsidy.

managing staff considered trying to combine the interests of such firms and development objectives, but did not know about similar past experiences.

B. Assessment of Donor Performance

61. Over the last years, there have been a few trade development (or related) projects in Senegal, but they are sometimes difficult to trace, because institutional memory is often weak within donor agencies (and only one evaluation report is typically available for review) and trade capacity development is not a recognised category of assistance, by contrast with support for private sector/SME development or the health or education sectors.

Donor Bias

62. A case has been observed in which a US-funded training package for policy makers and private sector actors in the run up to the Seattle WTO Ministerial strongly emphasised issues that were negotiating priorities for the donor country (e.g., the need to do away with agricultural subsidies) while overlooking issues on which the interests of Senegal may well conflict with that of the United States (e.g., intellectual property rights). Other forms of bias are more subtle. European donors (EC and France), for example, have emphasised support for Senegalese fish exports, which do not pose a threat to EU products, to meet EU requirements, but have not put the same emphasis on tackling the challenges of pesticide notifications for Senegalese exporters of fruits and vegetables, some of which compete more directly with EU products. This is not to suggest that there is a deliberate effort to discriminate against one sector, but incentives are naturally higher for these donors to support Senegal's fish exports than they are to support fruit and vegetable exports.

63. Some officials in recipient administrations think it is inevitable that there will be some bias in donor assistance for trade capacity development, as in the case of information and training supplied in preparation for the Seattle meeting. The solution, according to these officials, is both to diversify and to confront sources of information and assistance. Preparations for Seattle revealed that domestic stakeholders themselves have conflicting interests regarding trade. For example, with respect to agriculture subsidies, some Senegalese farmers themselves could not do without them, and they bring the prices of some food imports down. By contrast, other producers may be penalised in terms of unfair competition on EU markets.

64. At the end of the day, in the view of these officials, donors belong to the “trade policy process” in Senegal; they are one of the parties that contributes to shaping Senegal’s trade policy, and like any stakeholder, they have their own interests to defend. As the trade policy process gradually matures, becoming more transparent and bringing in more actors (e.g., the private sector), and as long as no single donor is in a position to shape the country’s trade policy, the government should be able to make its own decisions.

65. Others are more pessimistic and believe multilateral institutions like the WTO, UNDP, and the World Bank are better placed to support trade policy formulation and implementation than bilaterals, due to their “neutrality.” According to this view, it is not legitimate that bilateral donors, who are also trade partners, should be shaping the country’s trade policy, adding interference through aid to commercial superiority.

Donor Co-ordination

66. Donor projects aimed at the private sector on the whole have tended to be supply-driven and dispersed, although donors do communicate with one another, and some cases of co-ordination can observed.

Box 3
A case of "Bottom-Up" Donor Coordination

The EC's Senegal antenna for the Brussels-based CDI (Centre de Développement Industriel) is fully integrated in the IDA-sponsored FSP (Fondation pour le Secteur Privé). They share procedures, forms, data, clients, and channel recipient firms to either of the funds. The framework agreement signed between the two institutions in December 1998 followed an earlier initiative by local managers to merge.

67. At the time of the study, there were 19 co-ordination committees among donors in Senegal. None of them focused specifically on international trade. The informal group on the private sector was co-ordinated by the United States and involved private sector representatives. An informal group of economists from donor agencies would meet on an *ad hoc* basis to discuss macro-economic issues. While a useful dialogue seems to have developed through these mechanisms, it seems to have generated little actual co-ordination at the recipients' end. Indeed, the successful cases of co-ordination that were observed in the area of private sector development, were among project managers themselves, rather than among donor agencies:

- The IDA-sponsored FSP links up with several institutions sponsored by the Swiss government (SOFI), UNCTAD (Empretec), the EU (CDI, see box 3), as well as the PPEA.
- The threat of the EU's new regulation on pesticide levels was first spotted by the EU-based COLEACP (a joint ACP-EU institution), and both the PPEA (World Bank) and the technical assistance unit in the French Ministry of Agriculture subsequently helped in disseminating information and raising awareness among professionals and civil servants, and in setting up a committee to monitor the issue.

68. By contrast, less actual co-ordination was observed at the level of policy formulation and negotiations. For instance, donor activities supporting the preparation for the Seattle meeting were led separately by USAID, the French, the FAO, and the Islamic Development Bank.

Efficiency in Disseminating Information

69. Information on trade issues may be abundant, but actual access remains limited due to improper dissemination. In the absence of widespread access to the internet, hard copies remain the main vehicle for dissemination. But hard copies often circulate to the wrong persons or in inadequate numbers (and photocopying can be a problem). Position papers sent by the WTO have been seen used to wrap peanuts sold outside a ministry. As part of the preparation for multilateral negotiations, a substantial and comprehensive set of FAO documents, aimed at farmer organisations, had been made available to various actors, but efficient dissemination requires regular contact and involvement in the various consultation and dialogue fora, such as the inter-ministerial committee on trade. This dissemination role among governmental and non-governmental actors was actually played by the French technical assistant posted in the Unité de Politique Agricole of the Ministry of Agriculture.

70. Similarly, the difficulty encountered by IDRC projects is to bring the results of research based on CGE modelling to the level of policy-making. There, the focus on strengthening research capacity leaves a gap: understanding the trade policy process in Senegal, identifying the "points of entry" for independent analysis, and designing adequate, user-friendly dissemination formats (publications, meetings, etc.) is relatively uncharted territory.

Interface with Private Exporters

71. A seminal difficulty lies with the fact that few, if any, donors have a track record of working successfully with the private sector. In particular, the capacity of private operators to articulate their needs or deal with aid mechanisms should not be overestimated. The procedures that must be followed to request and receive assistance scare some potential beneficiaries away. But donor agencies want to make sure funds are used properly. One solution may lie in reducing the scope of application procedures at the level of the project by gradually transferring financial responsibility to the project itself on a commercial basis, with *ex post* auditing replacing *ex ante* controls by the donor agency.

72. Useful lessons may also be drawn from the World Bank-sponsored PPEA. Although this project has merely entered the first year of its four-year pilot phase, and thus does not allow for definitive observations, some points emerge from interviews of beneficiaries and observers:

- Although under supervision of the Ministry of Agriculture, the autonomy of the management, both during the initial phase of recruitment and during the operational phase, seems to foster competence and leadership.
- Co-management ensures ownership: Professional organisations make up half of the board (at par with government) and sit in the committee that selects projects (together with the project management).
- The sectoral focus seems a major strength: All staff are specialists on specific horticultural products, covering technical and commercial aspects along the whole production chain. This includes a good command of markets, the way they are operated, and by whom. They are thus able to tackle comprehensively the problems that confront exporters, to communicate effectively with them, and to build trust.

Impact and Ownership

73. *Public sector.* As in other aid sectors, TCD aid can have a disruptive impact on institutions simply by injecting funds in a context of scarce resources. Some projects are perceived by officials to be siphoning off some of their most competent staff into semi-autonomous structures. By contrast, however, other projects are "keeping ministries afloat," but indirectly create a two-track system within the administration (e.g., the Unité de Politique Economique, the ACBF-sponsored unit posted in the Ministry of Finance, which pays local technical assistants better than civil servants) or may increase capacity temporarily with a chance that it may not be sustained in the longer run (e.g., the Unité de Politique Agricole in the Ministry of Agriculture, supported by French technical assistance).

74. *Private sector*. Private operators largely believe that most TCD projects take little account of their real needs and capacities. For projects like the FSP, there was some consultation, and business people had an opportunity to voice their demands and concerns early on, but most feel the decisions eventually made took little, if any, account of their contributions. As a result, exporters complain that the trade-related assistance they have received merely tackles "peripheral" issues, without offering much help with their main problem, which is to produce goods, rather than to sell them. Institutions such as FSP, CDI, and EBAS indeed provide mostly consultancy services for market development (e.g., feasibility studies, market

studies) and co-financing for such services, but factor costs and limited access to credit are exporters' main preoccupations. Very broadly, the picture is thus one of TCD donors "not listening enough" to their "aid clients," on the one hand, and recipients focused on non-trade issues, on the other hand.

75. This raises two issues. First, early and genuine consultation with beneficiaries is essential, but it will not be sufficient if, after asking for their clients' opinions, donors then deliver nothing more than "what they have in store" in the form of consultants or technical assistance, rather than use their resources to help recipients find appropriate answers to expressed needs.

76. Second, as for expressed needs, a case can indeed be made that donors should not devote resources to TCD initiatives when needs are obviously concentrated around major supply-side constraints. But this is arguably not the case in Senegal. So why do exporters consider TCD of secondary importance? The answer is that they may well overlook specifically trade-related challenges because they are not aware of them (e.g., challenges related to the notification of standards in the WTO, opportunities to use anti-dumping and trade remedy measures, the implications of the various post-Lomé scenarios, etc.).

77. Getting potential beneficiaries to express their needs may require more than simply asking the opinion of individual entrepreneurs (or indeed, of civil servants). A process-oriented approach through capacity-building activities at the sectoral level, or with established professional groupings, cannot only have a direct positive impact on capacity, but also contribute to the identification of further needs and the formulation of new requests by recipients. Such activities, although eligible for support by institutions like FSP, EBAS, and others, still account for a tiny portion of the projects those institutions fund. The institutions themselves need to facilitate and encourage the demand for their services.

Promoting Trade and Alleviating Poverty

78. Trying to address both trade development and poverty alleviation at the same time within a single project can be tricky: attempts to introduce a pro-poor bias in a trade promotion project aimed at private exporters have failed. In the case of one EU-sponsored horticulture project in Senegal (support to SEPAS), financial support had been provided to big and small producers under the condition that they would join together in a single professional organisation, so that the small would not be left out. But many of the smaller producers failed to comply with quality requirements, which negatively affected the quality of products and the image of the whole sector, and eventually depressed prices for all.[22] On the whole, poor people were not negatively affected, but the project did not improve their prospects as much as it might have had it been more focused on the stronger producers.

79. By contrast, although the original aim cannot be said to have primarily been poverty alleviation, support by the French and the EU for the modernisation of the fish exporting sector has indirectly contributed to at least preserving, and probably eventually enhancing, employment among traditional fishermen who supply the processing industry.

80. These examples do not allow for easy generalisations about the impact of TCD on poverty. They merely illustrate that good (or bad, or neutral) export performance in a labour intensive sector is good (or bad, or neutral) for the poor. In general, the potential positive and negative impacts of a TCD project on the poor should be identified and monitored right from its inception. But it would be a mistake to assess the effectiveness of TCD projects based solely on their short-term impact on poverty.

[22] See Stinglhamber, 1996.

IV. Lessons and Recommendations

The Need for a Comprehensive Approach, and a Genuine Trade Strategy

81. The main constraints facing exporters are not directly trade-related. Support by donors for structural adjustment, private sector development, and public/private partnerships is important and all should tackle their respective trade dimensions.

82. Turning to TCD activities themselves, a first step is to ensure that trade is genuinely on the government's agenda. In the absence of a trade strategy that clearly articulates national interests within the framework of a comprehensive development strategy, there is a risk that donors' TCD activities will shape the trade priorities of the recipient country, with emphasis placed on areas in which donor assistance is available. This is particularly the case for the Senegalese government, for whom trade was never really a priority, and whose trade and related policies were designed reactively (e.g., in response to the Lomé Convention). This is also the case for TCD on the private sector side, where compliance with SPS and other safety and quality requirements may be consistent with the priorities of major donors and trade partners. While compliance with these requirements may also serve the trade development needs of the recipient country, there may be *other* needs that are just as important, but for which the donor will have fewer incentives to propose assistance (e.g., the need to contribute to discussions on notifications of pesticide levels at the WTO). It us up to the government, businesses, and non-governmental organisations to identify these other needs, and to seek assistance for addressing them.

Trade and Development: The Case Still Needs to be Made

83. A fundamental question for trade capacity development is whether, and how, African countries can industrialise, and whether and how industrial growth can foster development and reduce poverty. These issues are still extensively debated, even within donor agencies. Mainstreaming trade development as an element of Senegal's global growth and development strategy requires that the case for the connection between trade, development, and poverty reduction be made more clearly by the government itself, but also by and within the donor community. This will require further clarification by the research community of the causal links between trade, development, and poverty reduction, and/or empirical evidence that trade can foster growth and job creation. A success story in non-traditional exports, say in fruits and vegetables, which could benefit under-developed regions (e.g., the fertile northern areas by the river Senegal) would probably be the best advocate.

Public/Private Dialogue: The Need for a Long-Term, Comprehensive, Process-Oriented Approach

84. Strengthening the capacity of public and private stakeholders to engage in a dialogue on trade policy cannot be done solely for the sake of promoting such a dialogue. Senegalese private firms need strong professional organisations to provide services to their members and defend their interests, just as workers need unions and consumers need associations to watch over their interests. Strengthening the capacity of these organisations to engage in a dialogue on trade, and supporting the development of mechanisms for institutional dialogue, can be only one aspect of a general effort by donors to promote partnerships at the domestic level on development policy issues. Donor support must be granted to legitimate and representative bodies stemming from initiatives taken by stakeholders themselves. Otherwise, there is a risk of creating "market" for organisations and associations seeking ODA funds as rents.

85. This is a lengthy process that goes beyond narrowly-defined trade capacity development activities. The approach should be to make sure that trade issues are included on the agenda of donors' activities supporting the building of partnerships between the government and private sector or civil society bodies. A prerequisite for donor activities in these areas is the readiness of the government to engage in a genuine policy dialogue with stakeholders, in a democratic setting, which is the case in Senegal.

Development Objectives vs. Trade Interests

86. *At the productive sector level.* When addressing the issue of "tied" TCD at the level of the productive sector, a distinction needs to be made between subsidies to individual partnership projects between "South" and "North" firms, on the one hand, and bigger projects at the sectoral, national, or regional level, on the other. The former may have very positive impacts at the level of individual firms, but evidence suggests that the overall impact on the economy remains very limited and most benefits are captured by the donor country through technical assistance and equipment supply (e.g., the French "clause d'origine," or purchasing requirements in German or Dutch projects).[23]

87. As for the latter, comprehensive policies based on a "complementarity of interests," such as those implemented in the context of ACP-EU agreements, can to some extent be considered a mixed blessing. Through a mix of tariff preferences, technical and financial assistance, and restrictions on market access (NTBs), donors may tend to effectively exercise almost full control over the marketing process of a certain product -- as illustrated by the case of EU and French policies vis-à-vis fisheries. Assistance in this context is aimed primarily at ensuring that producers can supply the EU market with competitive and safe products, and in the case of Senegal fisheries, can rightly be considered a success.

88. But such assistance cannot explicitly aim to strengthen the bargaining power of exporters or help them diversify their markets away from the EU. To put it simply: is it a good thing that Europeans actively supported the restructuring of the fisheries in Senegal? Yes, certainly. Did it help Senegalese exporters diversify away from European markets and increase their bargaining power? Not really. Strengthening the capacity to *comply* with technical requirements and quality standards is key to improving competitiveness, but improving the capacity to monitor the design and implementation of such requirements --at the multilateral level, but also in bilateral fora such as the ACP-EU co-operation framework -- is also necessary. The case of Senegal shows that, in the absence of strong leadership and vision on trade by the government and exporters, donors tend to put stronger emphasis on the former than on the latter.

89. *At the policy level.* A related issue, at the level of capacity-building for trade policy formulation, is how far bilateral donors can support trade policy making without shaping the trade policy of the recipient country. The thin line between support and interference is easily crossed. Donors are tempted to "positively discriminate" in favour of trade-related assistance which they see as generating benefits for their own economies or firms (e.g. implementation of commitments under TRIPS, or compliance with their own NTBs). In addition, a donor's support for the enhancement of the negotiating capacity of a recipient country (say, in the WTO) may alter the country's negotiating goals and incentives, as the donor is also a trade partner sitting at the negotiating table.

90. *Can donor bias in TCD be monitored or reduced?* Different types of "precautions" could be envisaged to limit the potentially harmful biases mentioned above:

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23 It could useful to review the legitimacy of earmarking funds allocated to these schemes as ODA.

91. Mutually agreed donor guidelines on confidentiality of technical support, on technical assistance content "ceilings," and on rules for the use of ODA funds in partnership and other TCD projects in which "mutual interests" are pursued could reduce bias problems.

- Multilaterals may well be better-equipped than bilaterals (including the EC) to provide direct assistance in trade policy formulation and negotiation. The more multilaterals are able to help developing countries express their TCD needs, and the more they are able to respond to them, the less developing countries will need to depend on bilaterals for the formulation of their trade policy.

- More importantly, though, bilaterals' TCD aid (maybe even less than in other aid sectors) should not be based the assumption that donors know what the needs of the recipient country are, or what its interests should be. TCD aid should aim primarily at strengthening the capacity of the various parties to identify these needs and interests, so that they can play effective roles in the "trade policy process." To put it simply: it may be more useful to help, say, several private sector associations that have an interest in WTO issues to set up a permanent mechanism for surveillance and analysis of those issues than to post a technical assistant for two years in the country to directly provide such surveillance and analysis. By contrast with direct assistance to trade policy formulation, this is an area where bilaterals may well be better-equipped than multilaterals.

Safety and Quality: What about Imports and Domestically Traded Goods?

92. What is often left out of donor activities is the issue of minimal safety and hygiene requirements for imported and domestically traded goods. For instance, there is little or no regulation on semi-finished metal products for construction. Allowing these products to be sold without adequate information about their performance characteristics may pose serious risks for public safety. The same applies to food, pharmaceuticals, and other products. Capacity to monitor these issues is lacking at the national level; consumer associations lack representativeness, and data or research are limited.

93. This is an issue in public security and in competition regulation. The risk posed by a race to the bottom in safety is that producers or importers that comply with minimum standards will be driven out of the market. As long as national markets are protected, consequences remain within the borders. But as regional markets become freer (e.g., in the UEMOA free trade zone), the issue may jump borders and could easily be abused for protectionist purposes. This may call for the definition and enforcement of basic safety standards at the regional level, on a sectoral basis.

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Appendix 1 - Senegal: Statistical Profile

	Senegal	Sub-Saharan Africa	Year
Poverty & Social Data			
• Population (m.)	9.0	-	1998
• Life expectancy (years)	52.0	51	1998
• Adult illiteracy (%)	67.0	42	1998
• HDI value	426.0	.463	1997
• % Below national poverty line	33.0	-	1998
Key Economic Data			
• GNP ($US bn.)	4.8	-	1998
• Real GDP growth (%)	5.7	3.4*	1998
• Average GDP growth (%)	2.4	-	1988-1998
• GNP per capita	530.0	480	1998
• ODA as % of GNP	10.1	4.4	1997/98
• Public & private debt ($US bn.)	3.4	-	1998
• Net private capital flows ($US m.)	44.0	-	1997
Trade-Related Data			
• Exports ($US m.)	535.8	-	1998
• Export growth (%)	5.2	-	1998
• Average export growth (%)	2.0	-	1988-1998
• Goods trade as % GDP (PPP)	10.5	17.8	1997
• Current account balance ($US m.)	-58.0	-	1997

• WTO member since 1995; GATT member since 1963

Merchandise Exports (1997)	
Total $US m.	393.0
% Food	16.0
% Agriculture/raw mat.	9.0
% Fuels	15.0
% Ores & Metals	11.0
% Manufactures	50.0

Major Export Markets (1997) % of total	
India	25.6
Mali	9.4
France	8.4
Côte d'Ivoire	4.6
Benin	4.1

Service Exports (1997)	
Total $US m.	556.0
% Transport	10.1
% Travel	30.2
% Communications	59.3
% Insurance & Financial	0.4

Major Export Products (1997) $US m.	
Fish and Fish Products	30.7
Chemicals	12.3
Groundnuts and products	5.4
Phosphates	3.4

* data refer to Africa

1 Sources: World Bank, World Development Indicators, 1999; World Bank, Country Profile; IMF, World Economic Outlook, 1999; IMF, Direction of Trade Statistics Quarterly, September 1999. DAC Journal Development Co-operation 1999 Report; UNDP, Human Development Report, 1999; Economist Intelligence Unit 4th Quarter Country Report, 1999.

Appendix 2 - The CFA Franc

The CFA zone formally comprises two monetary zones, each with its own currency and Central Bank. Senegal is home to the Central Bank of the West African Economic and Monetary Union (UEMOA). The two CFA francs are pegged to the French franc (FF), and the two CFA zones have a special budgetary (not monetary) arrangement with French authorities:

- the exchange-rates of both CFA francs are fixed against the FF;
- the full convertibility of both CFA francs into French francs is guaranteed by the French Treasury (which has a specific budget line);
- the two Central Banks are statutorily required to deposit 65 per cent of their foreign exchange reserves in the French Treasury, each through their own "compte d'opération". When the net position of one of the two accounts is in debit, the French Treasury covers the deficit; when it is in credit, the two Central Banks contribute to the accumulation of foreign exchange in the franc zone.
- the French Treasury has membership on the boards of the two Central Banks, and therefore participates in the formulation of the monetary policy in the two monetary unions.

The arrangement has provided stability of exchange rates and prices, but rigidity and overvaluation of the CFA franc contributed in the 1980s to fiscal imbalances and impeded structural changes needed by economies in the CFA zones. Eventually, the parity changed in 1994 (from 50 to 100 CFA francs per FF for West and Central African CFA countries). The advantages of a single currency are less than in, say, the EC, due to low levels of intra-regional trade.

The debate continues as to the relative merits of the current system. Proponents of its continuation argue that (i) the current move towards customs unions would allow these economies to better reap the benefits of the monetary union, and (ii) maintaining the link would ensure the support of European institutions and the IFIs in conducting multilateral surveillance of national economic policies (a key feature of the two regional monetary arrangements). Critics – mostly in the private sector -- stress the continuing rigidity that the peg imposes on the CFA economies.

On July 1, 1998, after some intra-European debate, the EC decided that the fixed parity would be maitained after the introduction of the Euro. France will have to keep the EU authorities informed of implementation and changes in parity. Any change in the nature or scope of the arrangements would require approval by the European Council, after consultation with the EC and the European Central Bank.

The French Franc zone

		Countries	**Currency**	**Central Bank**	**Fixed exchange rate to FF since Jan. 1994**
CFA zone	UEMOA[1] (Union Economique et Monétaire Ouest-Africaine)	Benin Burkina Faso Côte d'Ivoire Guinea-Bissau Mali Niger Senegal Togo	Franc de la Communauté Financière Africaine (CFA)	BCEAO – Dakar (Banque Centrale des États de l'Afrique de l'Ouest)	0.01
	CEMAC[2] (Communauté Économique et Monétaire d'Afrique Centrale)	Cameroon Central African Rep. Chad Rep. Of Congo Equatorial Guinea Gabon	Franc de la Coopération Financière Africaine (CFA)	BEAC – Yaoundé (Banque des États de l'Afrique Centrale)	
Other		Comoros	Comorian franc	Central Bank of Comoros	0.013

Notes: 1. English acronym: WAEMU (West African Economic and Monetary Union)
2. English acronym: CAEMA (Central African Economic and Monetary Area)

Appendix 3 - The Feasibility of a Regional Economic partnership Agreement between the EU and UEMOA/Ghana

Results of a study Commissioned by the EC and prepared by the Centre d'Etudes et de Recherches sur le Développement International, Université d'Auvergne, Clermont Ferrand):

Feasibility of a REPA

The study does not provide a detailed analysis of the feasibility of a REPA. However, while assuming that UEMOA will become a customs union on January 1, 2000 as planned, it argues that this process -- a prerequisite for a REPA -- may be more difficult than implementing the REPA itself. The main problems are the remaining disparities in protection levels and the budgetary costs of removing intra-regional tariffs. Tax losses would be particularly heavy for the LDCs, which trade most with other UEMOA countries. On the whole, customs revenues make up 40 percent of UEMOA governments' aggregate revenues. As for Ghana, it has lower tariff levels than UEMOA countries and depends on customs revenues for 20 percent of its total government revenues.

Some elements in the study suggest, but only indirectly, that UEMOA may be better suited than other ACP regions for implementing a REPA with the EU along the proposed timetable. In particular, unlike UDEAC -- and while keeping in mind the difficulties mentioned above -- UEMOA has managed to build on its common currency to increase economic cooperation. The structure of agricultural production in UEMOA countries is largely dissimilar to that of the EU -- by contrast with many SADC countries -- which makes them less vulnerable to EU subsidised exports. Issues in the negotiations would therefore be less sensitive than those between the EU and SADC.

Impact of a REPA

The study does not assess the impact of the non-REPA scenario (where Côte d'Ivoire and Senegal would be transferred into the GSP). For the REPA scenario, it assumed the agreement would be established between 2005-2017, with a gradual reduction in tariffs (of about 8 per cent per year across the board, instead of back-loading the most sensitive liberalisation steps) and the exclusion of "strategic" consumer goods. Welfare gains and losses were measured using a partial equilibrium model, based on the assumption that UEMOA succeeds in completing its customs union by 2000. Ghana is not included in the calculations. Substitutability between goods imported from UEMOA countries, from Europe, and from the rest of the world is assumed to be imperfect (although the perfect substitutability assumption was tested as well). The lack of adequate data did not allow the consultants to take account of revenue effects or the impact of change in trade policy, but they did control for the difference between official tariff rates and tariffs actually collected. Two alternative sets of assumptions were therefore used: the "high hypothesis" (perfectly substitutable goods, calculations based on official tariff rates) and the "low hypothesis" (imperfectly substitutable goods, calculations based on tariffs actually collected). The authors considered the latter to be the most realistic. The results of the model show that:

- Substantial trade diversion will occur, with imports from Europe displacing imports from the rest of the world and in some cases from UEMOA countries.

- Efficiency gains for consumers (in terms of lower prices) vary between 0.29 to 1.35 percent of GDP for each country (0.81 to 2.52 percent under the high hypothesis). Senegal benefits most because Europe already makes up a substantial share of its imports.

- Fiscal losses from 2017 onwards vary between -0.20 and -0.84 percent of GDP across countries (-0.59 to -2.65 percent under the high hypothesis). Here again, Senegal is most affected for the reasons given above. For UEMOA as a whole, this represents an average 44 billion FCFA per year over the transition period, 2005-2017 (129 billion FCFA under the high hypothesis) and 81 billion FCFA per year beyond 2017 (235 billion FCFA under the high hypothesis).

The authors warned that these results must be taken with great caution, because (i) the partial equilibrium model, in which budgetary constraints are not taken into account, will systematically exaggerate gains and losses, (ii) some customs data are not totally reliable; and (iii) the length of the period studied makes such results indications, and not precise measurements. They also stressed that, over ten years, UEMOA countries would have to radically reform the structure of their fiscal regimes, which they have not managed in almost 20 years of structural adjustment. Finally, the study emphasised that EU financial measures would be necessary to offset economic and social costs and to ease the budgetary pressure. Fiscal losses induced by a REPA, while relatively high for UEMOA countries, would be small in absolute terms for the donor.

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DAC WORKSHOP: TOWARDS GOOD PRACTICES FOR DONORS ON CAPACITY DEVELOPMENT FOR TRADE

VIETNAM CASE STUDY

This document is submitted as background material for discussion at the Workshop, to be held in Paris on 29-30 May 2000 and should be considered together with the background paper [DCD(2000)10].

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TABLE OF CONTENTS

VIETNAM CASE STUDY

Report prepared by: James W. Fox, Independent Consultant

I. Vietnam's Trade Policy and Institutions

A. Background

1. Vietnam is a densely-populated country with the great majority of its population working in agriculture and living in rural areas. The country is poor, though the rapid economic growth of the 1990s has nearly doubled per capita incomes from their level a decade ago. Following the economic reforms of the late 1980s, Vietnam has entered quickly into the world trading system. Its exports grew at the remarkable average rate of 22% per year between 1990 and 1999, rising from $1.7 billion to $11.5 billion.

2. The entry of Vietnam into the world trading system began with the *doi moi* ("renewal") policies adopted by the Sixth Congress of the Communist Party of Vietnam (CPV) in 1986. These reforms, mostly implemented several years later, moved the government's policy away from collectivised approaches and toward the use of prices and a market economy. Two changes in particular were critical. Agriculture was de-collectivised, leading to the rapid replacement of rural co-operatives by individual family plots; and prices of most agricultural goods were freed. The immediate result was a sharp rise in food production, bringing the country back from the verge of famine. The country moved quickly from rice importer to second-largest rice exporter in the world. In international trade, the government changed quickly and decisively from primary reliance on state trading with the socialist bloc to participation in competitive world markets, in part by encouraging foreign investment in the export sector.

B. Economic Policies

Evolution and Current Status

3. Following *doi moi*, the Vietnamese economy took off. Economic growth averaged 8% per year between 1990 and 1997, fuelled by the agricultural revolution, the turn to market pricing, and large inflows of foreign investment and foreign aid. Following the Asian financial crisis, Vietnamese growth slowed to 5.8% in 1998 and to about 4.5% in 1999, and raising fears that the years of rapid growth have ended. Throughout the 1990s, policies continued a gradual shift toward a larger role for market forces and for the private sector. Macroeconomic management has gradually strengthened and fiscal deficits brought under control. Burdened by rapid inflation during earlier periods, Vietnam stabilised its economy and brought inflation rates below 10% per year from 1996 onwards. Inflation in 1999 was about 3%.

4. Most economic activity takes place in the private sector, through individual farms and household-level enterprises. Above the household sector, State-Owned Enterprises (SOEs) are dominant, followed by foreign firms. Firms in export processing zones are wholly-owned by foreign investors. Until recently,

most other foreign investment was in joint ventures with SOEs, some of which have become wholly foreign-owned, which is currently the preferred form of investment by outsiders. Privately-owned Vietnamese firms other than households account for only about 7% of GDP and 10% of manufacturing GDP (World Bank 1999, p. 11), but household businesses and sole proprietorships amount to another 33% of GDP.

5. SOEs pose the major economic policy challenge for the government. Most of the 5,500 SOEs suffer from weak finances, high debt, obsolete plant and equipment, poor management, poorly trained staff, low labour productivity, and low product quality. They are protected by an array of tariff and non-tariff barriers. The government's concern about these companies stands in the way of further trade reform and investment liberalisation.[1]

6. The SOEs also pose a threat to the country's financial system. They receive most of the credit from the official banks, and have tended to operate with a "soft budget constraint." In effect, credit has tended to flow to the worst-performing of these enterprises, limiting credit (and opportunities for expansion) for the better performing SOEs. This process is thereby steadily eroding the quality of the banks' portfolios, creating serious potential solvency problems. The government has committed itself to reform. This is to include conversion of as many of the SOEs as possible into "equitized" companies, with ownership shares distributed among employees, other individuals and firms, and the government. The SOEs' possible loss of their preferred access to credit has been one of the impediments to equitization, which has proceeded slowly.

7. The policymaking process is complex and opaque to outsiders. While government officials administer the country's policies and institutions, the Communist Party of Vietnam (CPV) exercises real authority over policy. The Party's central committee provides general oversight of the government, but all important decisions are made by the Party's Politburo. In principle, the CPV has accepted the rule of law in Vietnam as a limit on the Party's authority, but the legal system is neither complete nor transparent, and the Party is the *de facto* interpreter of Vietnamese laws. The question of what is permitted and what is not consequently is often uncertain and ambiguous. The common view is that private activity is easier in the South than in the North. This reflects both the concentration of entrepreneurs in the South and the willingness of these entrepreneurs and Party and government officials to reach official and unofficial accommodations.

8. The ambivalence of Vietnam's overall policy stance is illustrated by recent statements by senior officials of the government and of the Communist Party of Vietnam (CPV). In early February, Le Kha Phieu, General Secretary of the CPV, in a speech celebrating the 70th anniversary of the founding of the party, stated that "…we will build a highly developed economy with modern production forces and with state ownership of all key production means," adding later that the state should "implement the market-oriented economy under the state management with a socialist orientation."[2] On the other hand, the prime minister, Phan Van Khai, was quoted about the same time as saying that the three principal priorities for the country were poverty reduction, accelerating the development of a market economy, and boosting international integration.[3]

[1] Sida (1999) is an excellent account of the problems one donor faced over several decades in working with a Vietnamese SOE. The project, in which the Swedish government put nearly $1 billion, began to make progress toward sustainability only in the 1990s, after the *doi moi* reforms had begun to take effect. Even so, the enterprise now has annual sales of only about $40 million.

[2] Reported by Foreign Broadcast Information Service from speech on Radio Vietnam, February 2, 2000.

[3] Viet Nam News, February 24, 2000, p. 1.

9. Vietnam's legal-institutional framework poses serious constraints on economic activity. Businesses complain that regulations are often inconsistent or inconsistently applied, with frequent changes that create considerable uncertainty.[4] A new enterprise law that went into effect in January 2000 may clear up some of the ambiguities. It reportedly has led to a large increase in registrations of new businesses. The use of land for business activity is a particularly serious obstacle. Property rights for individual farms and for residential housing are well-established for use, though not for sale or transfer. Land for businesses is allocated through local People's Committees, historically only to SOEs, and it can reportedly take years to obtain leases to use land for private Vietnamese or wholly-owned foreign businesses outside of industrial parks. Firms sometimes are forced into the position of constructing buildings on property for which they have rights only for a short time into the future. The property-rights question plays a major role in the forms in which foreign investment takes in Vietnam. The great majority of foreign firms either enter into joint ventures with an SOE, which contributes land use rights – the rough equivalent of title to real property in a system in which there is no private title to real property – as its share of the enterprise's capital, or they operate in export processing zones where property rights are settled.

Assessment

10. There is widespread dissatisfaction in the donor community about the pace of reform in Vietnam. It is difficult for an outsider with little time in country to make a judgement on such matters, but it appears to this observer that there has been a steady progression toward more market-oriented policies over a span of more than a decade. There have been periods of relative inaction, but none during which there was a sharp step backwards. Moreover, even during periods like the present, when policy is moving slowly, economic processes at the firm and household level continue to move (inexorably?) toward greater decentralisation of economic power. It is at least plausible to believe that caution at the top can slow, but not reverse, the movement to a market economy.

11. At its most public-minded, the Party's caution may be operating to reduce the risk of big dislocations that could result from an excessively exuberant embrace of free markets. The Vietnamese perception is that the transition from socialism in the Soviet bloc had disastrous consequences for the welfare of many people and for the stability of economies. Consequently, they believe prudence requires a more measured movement away from state ownership and control. Their time horizon is perhaps longer than that of donor representatives (who want to achieve results during their tenure), due to a preoccupation with the long-term interests of the Party as the only proper political authority in Vietnam and a decision-making process that emphasises unanimity and eschews internal compromise. State ownership and control of the economy are considered critical to the Party's power.

C. Trade Policy

Evolution and Current Status

12. *Tariff structure.* Vietnam has a high tariff structure by current world standards, though tariffs have been lowered significantly in recent years. Tariffs are also supplemented by an extensive array of import restrictions and other non-tariff barriers. There is an overall lack of transparency in the import

[4] The Director of Vietnam's Legal Institute recently announced that "his office had found 3,339 legal documents issues by various government agencies last year that contravened relevant regulations." Most were at the communal or district level, but the list included 32 ministerial actions. (Viet Nam News, February 18, 2000)

regime. The average tariff for all 7,000 lines of the tariff code is in the 15-20% range, but is above 40% for two-fifths of all goods. Tariffs are based on reference prices rather than actual transaction prices. Only Vietnamese firms are currently allowed to hold general import licenses. Foreign investors in manufacturing can obtain import licenses for the intermediate goods needed to make their products. The system of controls on purchase and holding of foreign exchange provides an additional non-market mechanism that can be used to influence import levels.

13. *Exchange rate policy.* The Vietnamese currency, the Dong, is not convertible, and the government has extensive controls over acquisition and holding of foreign exchange. In recent years, the government has sought to maintain the competitiveness of the exchange rate. The exchange rate has been depreciating steadily recently, though perhaps a bit too slowly to be in line with the differential inflation in Vietnam compared to its trading partners. There has also been some concern that the devaluations of other Asian countries made the exchange rate overvalued in relation to its main competitors.

14. *Foreign investment.* Foreign investment has been a significant factor in Vietnam's export development over the last decade. Vietnam first began to permit inward foreign investment in 1988, as part of the *doi moi* reforms. Since then, Vietnam has received more than $36 billion in investment commitments. Less than half of the commitments have so far led to disbursements, for more than 2,100 projects. Vietnam's large population, its low wage base, and its strong macroeconomic performance after 1988 were all factors in the massive inflow.

15. New foreign investment commitments fell sharply after the Asia financial crisis -- from $8.6 billion in 1996 to $4.7 billion in 1997, to $3.9 billion in 1998 and to $1.5 billion in 1999. The fact that new commitments fell again in 1999, when investment had begun to recover in the crisis countries, suggests that other factors are also important. These could include disappointment by foreign investors with the profitability of earlier investments in Vietnam, concern over the slow pace of economic reform, or (in the import-substituting industrial sector) concern that import liberalisation was proceeding too rapidly.

16. It is difficult to know how to treat the commitment numbers on foreign investment. The Vietnamese government appears to pay much more attention to commitments than to actual disbursements on foreign investment, but only the latter can have a real impact on the economy. Disbursements have fallen, but much less sharply -- peaking in 1997 at $3.2 billion, then falling to $2 billion in 1998 and to $1.5 billion in 1999. The 1999 disbursement rate brought foreign investment to a level only modestly higher than the inflow of ODA, which was $1.3 billion in 1998 and $1.2 billion in 1999. (A substantial share of ODA commitments also fail to materialise. Commitments have exceeded $1.9 billion in each of the last seven years, but disbursements exceeded $1 billion only in 1998 and 1999.)

17. Further analysis of the foreign investment data is required to separate export-related investment and efficient investment for the domestic market from foreign investment prompted solely by the prospect of access to a highly-protected domestic market. The most extreme case of this may be the automobile industry, where eleven assembly plants were established for a domestic market that is minuscule. There has been conflict between firms that have made investments in the expectation of tariff protection and the trade liberalisation reforms being pursued by the Vietnamese government. Some foreign investors -- Japanese firms most strongly, but also others, including American firms -- have complained to the Vietnamese government (and perhaps to their own governments) about the negative impact of trade liberalisation. No evidence was found that donor governments have taken up the cause of these investors.

18. Firms doing business in Vietnam regard it as a difficult investment environment. The government is committed to moving from a totally command economy to a "state-supervised" market economy in which the state sector retains a "leading role." In practice, the ambivalence about foreign investment and the lack of clearly defined rules regarding foreign investment mean that foreign investors

must cope with continual procedural problems. The legal and financial systems are under-developed and cumbersome. The bureaucracy is unwieldy, regulations are non-transparent, start-up costs are high, and land acquisition and transfer procedures are arcane. The issuance of investment licenses and the implementation of projects are often lengthy processes during which the investment environment and official rules frequently change.

19. The government implemented a number of reforms in 1998 and 1999 aimed at improving Vietnam's attractiveness to foreign investors. These reforms eliminated a variety of taxes and discriminatory pricing arrangements and made other procedural simplifications. Foreign investment in Vietnam is regulated by the Ministry of Planning and Investment (MPI), though lower levels of government have acquired increased authority in recent years. The Prime Minister's office retains authority over larger and "sensitive" projects.

20. *Position on trade negotiations.* Vietnam has moved steadily toward increased participation in the world trading system in recent years. It concluded bilateral trade agreements with Japan, the European Union and other trading partners in the early 1990s, and has moved closer to multilateral arrangements.

21. *The Asia Free Trade Area (AFTA).* In July 1995, Vietnam became a member of the Association of South East Asian Nations (ASEAN). ASEAN members – which include Brunei, Philippines, Indonesia, Laos, Myanmar, Malaysia, Singapore, Thailand, and Cambodia -- have agreed to reduce tariffs among themselves as a step towards an AFTA. Under the harmonisation process called CEPT -- the Common Effective Preferential Tariff Scheme -- intra-regional tariffs, especially for manufactured goods, would be reduced to a level of no higher than 5% by year 2003. Vietnam has complied with the first stage of AFTA cuts by binding one-quarter of its tariff lines at 5% or less for its AFTA partners. This first stage required little actual reduction, because MFN tariffs were already below 5% for most of the required number of lines. Future cuts will affect categories with higher tariffs. Vietnam has been granted an extension until 2006 to comply with the requirement for all tariff categories.

- *The U.S. bilateral trade agreement*. Vietnam and the United States negotiated a bilateral trade agreement between 1996 and 1999, and a draft was agreed at the technical level. The formal agreement was expected to be signed during the APEC Summit meeting in September 1999. The Vietnamese government backed away shortly before the meeting, however, and the matter has been in abeyance since then. The treaty is needed to give Vietnam normal trade relations with the United States. Vietnam added a non-MFN column to its tariff structure in 1999, with duty rates 50% higher than for countries with which it has bilateral trade agreements. But Vietnam has unilaterally waived these high duties on U.S. goods, putting imports from the United States on a par with those of countries with which it has bilateral agreements. The conventional wisdom in early 2000 is that the Vietnamese government still seeks a bilateral trade agreement with the United States, but will request renegotiation of some sections of the current draft.

- *World Trade Organization (WTO).* The Vietnamese government has committed itself to joining the WTO, and has initiated the membership accession process. It was due to make an initial offer to the WTO in January 2000, but had not yet done so by the end of February 2000.

Assessment

22. Vietnamese trade policy has moved dramatically during the last decade toward market-based participation in the world trading system. There is still much to do, but most observers believe that

Vietnam will continue to make progress toward WTO membership. The AFTA timetable is the most demanding at present, requiring Vietnam to eliminate almost all barriers to trade with other AFTA members within six years.

23. Policy towards foreign investment suffers from a lack of clear conceptualisation. Some foreign investment in import substitution industries seems unlikely to serve the Vietnamese national interest, and joint ventures between foreign investors and SOEs provide many opportunities for corruption and rent-seeking behaviour (i.e., the use of monopolies or other government-generated privileges to gain private profits). The Vietnamese government needs to reconsider the structure of incentives available to foreign investors, and to set rules that will attract the types of foreign investment that make substantial contributions to Vietnamese economic growth.

D. Trade Institutions

Evolution and Current Status

24. At present, there is a dearth of institutions supporting exporters in Vietnam. In practice, establishment of private-sector associations is seldom possible. Vietnamese law permits creation of a new association only if there is not one already in existence that was established to serve the same purpose.

25. *The Ministry of Trade.* The Ministry of Trade is the commanding presence in the export sector. During the 1980s, its role was preponderant, and only SOEs belonging to the MOT were allowed to export. When export orders were received from other Socialist countries, the Ministry would allocate them among these enterprises. Its role in arranging export orders has largely disappeared, however, as enterprises have gained greater autonomy. But the Ministry still acts as the policymaking body for exports, and administers the various forms of administrative control over exports and imports. It also maintains an overseas presence, with export promotion offices in about 30 countries. The government is considering creating an export promotion body that would assume responsibility for these positions.

26. *The Vietnamese Chamber of Commerce and Industry (VCCI).* The VCCI is the largest centrally-organised institution representing business firms in Vietnam. It has some 2,200 member firms, from both the SOE and private sectors, and its operations, except for the salaries of its government-paid officers and staff, are financed by fees collected from public events and from foreign users of its services. It has a monthly publication for the business community, several annual directories, and a web page. One subcommittee of the VCCI is made up of exporters. VCCI describes itself as a private association that can represent the concerns of the business community to the government. It does so in the same manner that other organisations -- such as the Women's Union and the Farmer's Union -- represent their constituencies in government and Party deliberations. Staffed by government officials and included in relevant inter-ministerial committees, VCCI is essentially a government association, giving it an insider status that some observers view as an asset. (Viewing VCCI as a "normal" business association, the Vietnamese government has a difficult time understanding the independence of foreign business groups from their governments.)

27. *The Foreign Trade and Investment Development Center, Ho Chi Minh City.* This government agency is responsible to the Ho Chi Minh City People's Committee, but it is self-financed, and is considered to be the most entrepreneurial organisation supporting exporters. It has a well-appointed showroom for Vietnamese goods in downtown Ho Chi Minh City, it operates a variety of training programs for exporters, and it is developing a web page that will serve as a source of basic information for exporters.

28. *Other organisations.* There are a number of other organisations that support exporters, mostly organised on a sectoral basis. These are generally weak top-down government entities, rather than associations created and directed by member enterprises. Exceptions include some Ho Chi Minh City associations under the umbrella Industrial and Commercial Association, such as the plastics manufacturer and packaging and apparel associations, which include some private-sector members. Only the apparel and coffee exporters' associations are considered to be of significant value to exporters.

Assessment

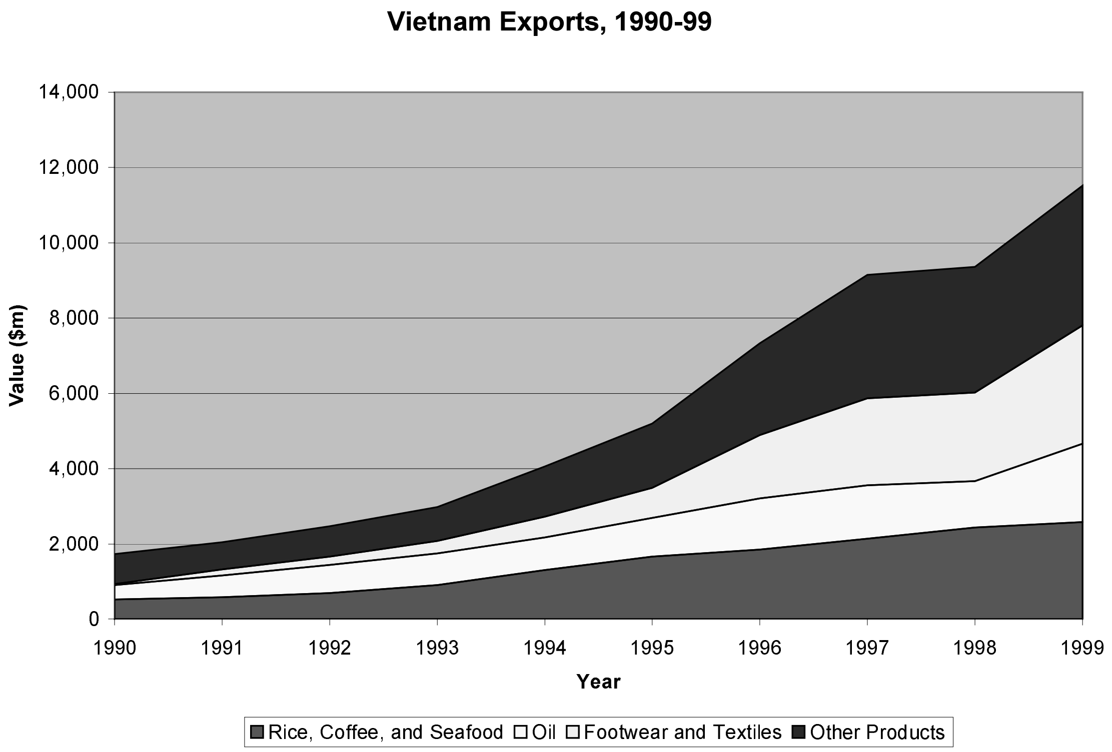
29. Vietnam's institutional base for services to exporters is extremely weak. The information base available to potential exporters is very limited and difficult to access. Private associations of exporters, a major source of information for exporters in most countries, barely exist in Vietnam. Major importing countries attach to their Vietnamese embassies and consulates trade officials who have modest information resources, but most of these officials focus on increasing exports to Vietnam. Widespread access to the internet is very recent. It is growing rapidly, but high costs, limited knowledge of English, and unfamiliarity with the technology are obstacles. There also is a lingering belief among even many private sector businesses that it is very difficult to penetrate export markets and that it is the government's role to provide market information and business contacts and to subsidize exports

II. Vietnamese Trade Performance

A. Overall Trends

30. Vietnam's export performance over the past decade has been very impressive, with exports rising from $1.7 billion in 1990 to $11.5 billion in 1999. The trends by major categories are shown in Chart 1 and Table 1. The growth in trade has been broad-based, with several primary products (notably rice, coffee, seafood, and petroleum) and several manufactured categories (apparel and footwear) all showing spectacular rates of growth.

Chart 1



31. This rapid growth is reminiscent of the earlier growth of the Asian tigers, but several differences might be mentioned. First, much of Vietnam's trade during the 1980s was with the Socialist bloc, where standards of quality, packaging, and delivery were less demanding than world markets. Transitioning to world standards is difficult, and Vietnam has been able to do this more successfully than most of the countries of the former Socialist bloc. Yet Vietnam was a very closed economy in the 1980s, so the liberalisation of trade might have been expected to lead to rapid growth in the early years. Finally, Vietnam has not adopted pro-export policies nearly to the extent that other Asian countries have. The government still presents formidable obstacles to exporting, so the rapid growth in this environment is even more surprising.[5]

32. It would be interesting to know the breakdown of Vietnamese exports by type of firm -- SOEs, private Vietnamese, joint-venture, and foreign investor – but such data was not found. The principal agricultural products (coffee and rice) are mostly produced in the private sector, but exported by SOEs. Among manufactured products, the conventional wisdom is that the private sector is a much larger force in exporting than it is in the economy generally, but no data was found to support this. Hill (200, p. 291) reports unpublished data from the Ministry of Planning and Investment that the state sector represented 55% of the gross value of all manufacturing, followed by the private sector, with 30%, and foreign investors, with 17%.

[5] This is a point well-documented by Hill (2000) with respect to the apparel export sector.

Table 1
Vietnam Exports, 1990-1999
($ Million)

Year	Total Exports	Rice, Coffee, and Seafood	Oil	Footwear and Textiles	Other Products
1990	1,731	517	390	20	804
1991	2,042	584	581	156	721
1992	2,475	688	756	221	810
1993	2,985	900	844	336	905
1994	4,054	1308	866	550	1,330
1995	5,198	1664	1024	800	1,710
1996	7,331	1843	1364	1680	2,444
1997	9,145	2142	1413	2314	3,276
1998	9,361	2436	1232	2352	3,341
1999	11,520	2576	2092	3138	3,714

Source: World Bank and UNDP

B. Trends in Specific Sectors

33. *Rice.* With the de-collectivisation of agriculture in 1989 and the freeing of prices for rice, rice production began to rise rapidly. The country changed from a rice importer to an exporter. Rice exports have risen steadily, to an estimated 5 million tons in 1999. Vietnam has become the world's second largest exporter of rice, after Thailand. The country still has export controls on rice, reflecting a continuing government preference for administrative controls instead of market forces as the means to assure food security. The export controls gave SOEs a monopoly on exports, at least until late 1998. Private firms were to be given rights to export in 1999, but this appears to have operated in a very limited and uncertain way. Vietnamese rice is said to command low prices on world markets because of problems of quality and reliability (Minot 1998).

34. *Coffee.* Vietnam began producing coffee, mainly for the French market, around the beginning of the 20th century, but the industry only acquired a significant volume of production from the mid-1980s. At the cost of widespread deforestation in the Central Highlands, the growth of production has been spectacular during the 1990s, rising from 43,000 tons in 1989 to nearly 500,000 tons in 1999, with export earnings rising from $25 million to $600 million. The country has become the third largest exporter of coffee in the world, after Brazil and Colombia. Vietnam mainly produces the cheaper robusta varieties, but its average export prices are low compared to other robusta producers. Low quality of supply is given as the primary reason (Minot 1998).

35. *Textiles and Apparel.* Exports of textiles and apparel have grown at a rate of more than 60% per year since 1990, making this the fastest-growing of the major export sectors. This occurred without a major advantage of most developing countries -- access to the U.S. market. Vietnam has had to penetrate the more difficult markets of Japan and the European Union. The apparel sector is composed of large, low-end SOE manufacturers, a smaller number of foreign-invested firms producing at the high end, and numerous private Vietnamese apparel makers, most of which are SMEs. SOEs have had a virtual monopoly on quotas for exporting apparel to the industrial countries. Much of the exporting is done through Korean or Hong Kong intermediaries, who handle the marketing. This leaves the Vietnamese producers at a disadvantage in understanding the needs of foreign consumers, and reduces their margin.

C. Trends in Geographical Distribution

36. Vietnam's trade during the 1980s was primarily with the Socialist bloc, but has shifted dramatically away from those countries during the 1990s. Vietnam's primary trading partners today are other Asian countries, led by Japan, but trade with the European Union has grown rapidly since the first bilateral agreement on textiles in 1992. The EU countries have become the largest market for footwear exports and second after Japan as a market for textiles and apparel.

37. Vietnam exports relatively less to the United States than do its neighbours. Whereas Thailand, Malaysia and Indonesia send, on average, 18% of their exports to the United States, the corresponding share for Vietnam is only 4.5%. A U.S. export share equivalent to its neighbours would represent an additional $1.6 billion in annual export earnings for Vietnam. The U.S. trade embargo prior to 1994, and the lack of MFN treatment for Vietnamese imports since then, account for this difference. The sector where Vietnamese exports have been most affected has probably been apparel. Whereas most Asian countries have developed exports to the large U.S. market first, and then moved into other developed countries, Europe and Japan have been the main markets for Vietnamese apparel exports.

D. Impact of Trade Growth on Poverty and Wages

38. The level of poverty in Vietnam declined sharply over the past decade, as the rural sector was de-collectivised and other market reforms were introduced. The most compelling evidence of changing conditions comes from two living standards surveys, conducted in 1992-93 and 1997-98 under the supervision of the World Bank. Overall, the share of the population living in poverty fell from 55% to 37% between the two surveys. The urban poverty rate fell most sharply, from 23% to 9%, but the greatest numerical reduction in poverty was in rural areas, where the rate fell from 63% to 45%. In numerical terms, the number of people in poverty fell from 38 million to 28 million, while the number of people living above the poverty line shot up from 31 million to 48 million.

39. With the dearth of reliable economic statistics in Vietnam, no data were found to link the decline in poverty more closely to the development of exports, but several things are suggestive. First, average incomes are highest in Ho Chi Minh City, which accounts for about half of the country's exports and has the largest private sector. Second, there has been steady job creation in Ho Chi Minh City's two EPZs, with wages said to have been rising significantly over the past several years.

E. Assessment of Trade Performance and Challenges

40. Vietnam's trade performance over the past decade has been outstanding when compared to developing countries generally, but more ordinary in comparison to other countries in its neighbourhood. Most of the sectors that have grown rapidly in the past -- coffee, rice, apparel, footwear -- still have great potential for either increased production, or improvements in quality that will permit a steady rise in the average price, or both. Thus, there is no reason why the rapid growth should not continue into the future, for much can still be done to increase productivity, to improve quality and responsiveness to market opportunities, and gradually to move up the value chain.

41. Several factors seem to account for this competitive advantage: a strong work ethic, relatively high levels of education, a willingness to focus on the longer term, and high levels of entrepreneurship. In light of the substantial obstacles that government policies still pose to exports, Vietnam's recent trade performance is testimony to the resourcefulness and improvisational skills of Vietnamese entrepreneurs.

42. The principal challenge is on the policy side. Signing a bilateral trade agreement with the United States and joining the WTO are the two activities in the trade field that would yield the highest payoff in the near term. Over the longer term, the challenge is to eliminate the obstacles that prevent Vietnamese producers of exportable products from developing closer relationships with foreign buyers and foreign markets. These obstacles include difficulty in obtaining foreign exchange for business travel or for expatriate technical advice, difficulty in accessing the internet, the lack of access to financing for good investment projects, and a variety of constantly changing procedures.

III. Donor Activities and their Relevance

43. The principal recent and ongoing donor activities in trade development are summarised in Table 2. Expenditures for these activities total about $30 million. The discussion that follows describes those activities for which information was obtained, in the order that the donor appears in Table 2.

Table 2

Donor Activities in Trade Development

Donor	Project Purpose	Amount ($ '000)
	Policy Formulation and Negotiations	
European Union	Trade Policy in Ministry of Trade	3,400
Switzerland	Advice to Ministry of Trade	500
Canada – CIDA	Training for Ministry of Foreign Affairs	300
	Policy Implementation and Agreement Implementation	
UNDP/Switzerland	WTO Preparations, Ministry of Trade	1,200
USA	U.S. trade agreement, ASEAN, WTO	1,200
Finland	Capacity Building in Ministry of Trade	766
Canada – CIDA	Training for Ministry of Foreign Affairs	600
UNDP	Strengthening Customs operation	500
Canada – IDRC	Studies, database of trade issues	300
Australia	APEC–related Training, Studies	100
New Zealand	Training, Studies	50
	Export Competitiveness	
IFC (funded by various donors)	Mekong Project Development Facility	20,000
UNIDO	Industry studies, policy	500
Netherlands	Trade fairs, Firm-level matching	100

Excluded from the table, and from this review, are donor activities that are sector or commodity-focused, even though some of these have substantial export consequences. Numerous donor projects in agriculture (coffee, tea, rubber, rice) provide technology to farmers or develop new technologies to increase productivity. The Danish government has worked extensively in fisheries, and its activities received favourable comments from several interviewees. Several donors have given assistance to promote specific industrial sectors.[6] Such production-oriented activities need to be evaluated with an eye toward commodity-specific technical issues; the focus here is on trade policy issues and on services provided to exporters that are more specifically related to exporting.

A. Donor Assistance Programs

44. *European Commission*. The purpose of the European Commission's Multilateral Trade Assistance Program (MUTRAP) is to help the Vietnamese Government to formulate multilateral trade policy, particularly with respect to WTO accession. It has provided *ad hoc* technical assistance for the formulation of trade policy, especially in the elaboration of commitments in agriculture and services. It has also provided training for Vietnamese officials managing trade policy, including seminars in Brussels and Hanoi for government officials.

45. The main phase of the project has just begun, with the training of 25 Vietnamese officials in eight-week courses in Europe. A contract is due to be awarded soon for the establishment of a Project Management Unit to undertake research, to build up the information base of the Ministry by improving the library and expanding internet capabilities, and to provide long and short-term technical assistance to the Ministry. The goal of the program is to deepen Vietnamese officials' expertise on international trade policy matters in a free-trade environment; strengthen expertise on WTO provisions, rules, and disciplines and on specific features of regional multilateral arrangements (AFTA); and provide Vietnamese officials with the economic and trade tools necessary to formulate trade policies that are consistent with international trade rules and Vietnam's development strategies.

46. *Switzerland*. Besides the joint project with UNDP, the Swiss government has financed high-level technical assistance to the Ministry of Trade. This has principally been delivered through periodic consultative visits by Arthur Dunkel, former Director General of GATT. The Swiss government has also recently started a project to promote Vietnamese imports by linking Swiss buyers with potential Vietnamese exporters.

47. *UNDP*. UNDP has just completed one project, financed jointly with Switzerland, and is currently designing a follow-on project. This project has provided training and technical assistance to the Ministry of Trade, mostly focused on WTO accession. The project helped the MOT prepare accession documents and begin market access negotiations with WTO members.

48. *Finland*. The Finnish government finances trade capacity-building in the Ministry of Trade. This includes training of MOT staff in economics, trade policy issues, negotiations, and policy formation.

49. *United States*. The United States has provided specialised technical assistance on commercial law, and sent numerous groups of Vietnamese to the United States to learn about various trade issues.

[6] One of the most interesting of these projects is described well in SIDA 1999. This was a Swedish project to construct a paper mill. During the first decade or more of Swedish assistance, the enterprise lacked clear objectives, and made no progress toward economic viability, making it a continued drain on donor resources. After *doi moi*, the enterprise gradually became economically sustainable. Nevertheless, the entire activity cost about $1 billion, while the enterprise now generates annual sales of about $40 million.

50. *Canada*. Canada's CIDA is financing language and professional training for Ministry of Foreign Affairs officials and diplomats, to help promote Vietnam's integration into regional and multilateral organisations.

51. *New Zealand*. New Zealand has provided technical assistance in some specialised areas, mostly relating to ASEAN.

52. *The Mekong Project Development Facility (MPDF)*. This is the most interesting ongoing project designed to improve competitiveness. Though administered by the IFC since its establishment in 1997, it is funded by grants from bilateral donors, including the EC, Japan, Australia, Sweden and Norway. The $25 million facility also works in Cambodia and Laos, but perhaps four-fifths of its activity is in Vietnam. The MPDF has two main programs: enterprise-level assistance and business support services. The enterprise level program makes loans to individual firms. Most of the 35 firms being supported are exporters. The business support services program provides training for SMEs, local banks, and research and advocacy. It has published ten papers, widely available in Vietnam, that have substantially increased the knowledge base and public understanding of the problems of the business sector, and particularly of SMEs.

53. *UNIDO*. UNIDO funded several sectoral studies for the Ministry of Planning and Investment. These included studies of the main export sectors -- apparel and clothing, rice, coffee, and seafood -- and of several import-substitution sectors, including automobiles, metal mechanic products and electronics. The studies of the export sectors are of very high quality and identify the main challenges facing these sectors.

54. The UNIDO-funded studies of the import-substituting industries are more uneven, with the automobile and metal-mechanical studies giving little attention to resource allocation and opportunity cost issues. (Vietnam has attracted eleven automobile assembly plants to the country. They have an installed capacity of about 85,000 cars, but have been operating at about 10% of capacity during the last several years.) The study's policy recommendation -- to maximise new investment before the country has to liberalise its import regime -- seems a recipe for attracting investment that is wrong for the longer haul.

B. The ITC Needs Assessment

55. In 1999, the UNDP financed a needs assessment of the trade sector by several experts from the International Trade Centre (ITC) in Geneva (Chevalier, et al., 1999). The ITC team made three trips to Vietnam over a period of several months, meeting with government officials and businesspeople. The needs assessment made several valuable contributions. It brought together considerable information about the export sector and the institutions involved in that sector and documented the main problems. Since the ITC report is intended to lay the groundwork for a follow-on UNDP/Swiss project and is the only current blueprint for future donor activity, discussion of its main recommendations is warranted.

56. The report makes four main recommendations:

- **Development of an Export Policy and Sectoral Strategies**. The Ministry of Trade should take the lead in developing an export policy and taking it down to lower levels of government and to the enterprises.

- **Development of an information infrastructure for exporters**. This would be centred in the MOT, and would draw upon the Ministry's overseas trade representatives.

- **Development of a strong network of support institutions**. Support institutions need to be strengthened, and learn how to help enterprises with such matters as trade missions and exhibitions and quality improvement, and they need to be brought into the MOT's information and intelligence network as intermediaries between the Ministry and exporters.

- **Enterprise-level strengthening**. Firms need to learn how to develop their export capacity, to look for customers, and to ensure that their products meet foreign market requirements.

57. The report calls for these results to be achieved through partnerships at three levels of export activity: Ministry of Trade, export service providers, and exporters. It also calls for gradual implementation of the approach, with initial activities, such as a national export conference, laying a foundation for the development of a more comprehensive project once the various actors have gained experience.

58. In principle, these recommendations are sound. Vietnam needs a national policy that gives structure to its export efforts. Exporters need much better information on foreign markets and a network of intermediary institutions that (among other things) can distribute information to them. Finally, exporters need to learn more about how to meet foreign market requirements.

59. It is in the implementation of these recommendations in the specific case of Vietnam that considerable care is needed. Unless implemented carefully, with appropriate sequencing, and with special concern for building up the weakest elements of the trade nexus first, the recommendations could inadvertently reinforce undesirable characteristics of the current situation. The central problem relates to the manner in which the Ministry of Trade should be the central player and manager of the export sector. In the Vietnamese context, where there is a long history of top-down decision-making and centrally-planned quantitative goals and targets, a national export strategy could bring forth additional activity of the same sort.

60. The weakness of the country's export institutions, with the exception of the Ministry of Trade, makes a top-down approach likely under current conditions. The Ministry of Trade can argue that giving up functions would be unwise until other institutions become stronger. This could become a self-fulfilling prediction. The priority for the next several years should be to strengthen other actors -- particularly associations of exporters organised along sectoral or geographic lines. Completely private associations of domestic exporting firms apparently do not now exist in Vietnam, and some observers claim that such organisations currently cannot be legally established. Elimination of any government obstacles to the creation of such groups would be a useful first step.

61. As the ITC report suggests, development of a national export strategy should occur incrementally, with the help of "bottom-up" approaches wherever possible. A gradual sectoral approach is especially appropriate in the half-dozen export sectors that are most important today. In each of these sectors, researchers would try to identify the main obstacles to faster export growth, to higher prices for Vietnamese goods, and to moving up the value chain to higher quality, and therefore higher value, products. As good studies already exist for most of these sectors, the next step is to develop plans of action to operationalize their recommendations. After some years of experience with this approach -- with the Ministry of Trade as the servant, rather than the master, of exporters -- the time will be ripe for it to develop a national export strategy that recognises the central role of the exporting firm, supported by a variety of service providers, including trade associations and government institutions at both the local and national level.

62. Finally, at the enterprise level, the experience so far in Vietnam -- and the experience in other countries that have achieved rapid export growth -- is that many exporters need to learn not so much what foreign buyers want, but how to find out for themselves what they want. Internet access is one important

vehicle for this, and any firm that wants to export needs it. But more direct contact with foreign buyers is also essential -- both through more foreign travel by Vietnamese businessmen and through more opportunities for entrepreneurs to meet directly with foreign buyers. For most countries, overseas nationals can play an important linkage role in this area. In this case, the overseas Vietnamese pose a special problem, for many are opposed to the Vietnamese government. This hostility will disappear only gradually, but greater economic collaboration between firms in Vietnam and interested overseas Vietnamese will hasten its disappearance.

C. Assessment of Donor Performance

63. Most of the attention of donors has been on trade policy formation and on supporting Vietnam's entry into the world trading system. Overall, as described in more detail below, donor performance has been quite good. Donors have largely focused on useful activities, and have co-ordinated their work sufficiently to avoid serious conflicts of purpose.

64. At the outset, it is important to recognise that the major decisions in this area will be taken by Vietnamese officials through their own debates and internal processes, and donor influence on outcomes is probably marginal. Vietnamese leaders, seeking to determine the proper direction for their country in light of its history and traditions, may attach only limited value to the economic benefits of trade liberalisation.[7] The potential costs of liberalisation in terms of other national goals may weigh much more heavily, and foreigners may not be able to offer much advice that will be useful in these deliberations. Nevertheless, it should be recognised that donors in Vietnam are pushing in the proper direction, and using a variety of tools to increase the knowledge base of Vietnamese officials who will participate in decision-making.

65. This area is one in which the value of a variety of independent donors is evident. The presence as leading donors of Finland, New Zealand, and Switzerland surely provides more comfort to the Vietnamese government than would advice from countries with histories of conflict with Vietnam.

66. The largest gap in current donor programs is at the institution-building level, particularly below the national government level. The MPDF is the most effective in this area at present, but much more needs to be done. The new UNDP project should also help fill the gap. But there is a need for a considerably greater effort, working below the Ministry of Trade level. Particularly important is creating the legal basis for associations of exporters,[8] and then helping them to develop their capabilities. Municipal and provincial authorities also need help identifying and eliminating obstacles to exports, and these authorities and exporter associations need to improve services and information access for exporters.

67. There is another gap in foreign investment policy, where the recent debates over how to stimulate greater foreign investment ignores the wide variation in the impact of different types of foreign investment on the Vietnamese economy. Donors could help the government analyse the problems that the current incentive structure causes for the country's ability to attract the type of foreign investment from abroad that will make the greatest contribution to national development, while avoiding inflows that contribute little.

[7] Foreign training imparts useful skills to some Vietnamese government officials, but such skills development does not necessarily lead their views to be sought by older officials who gained their perspective on the national interest through years of armed struggle.

[8] Apparently, only foreign firms are currently permitted to establish associations. More generally, true domestic NGOs apparently are virtually absent in Vietnam (Gray, 1999), as such entities can only exist and operate with the approval of a cautious government.

Donor Co-ordination

68. The first observation about donor co-ordination in Vietnam is that the need for co-ordination is smaller than elsewhere. All major donors appear to share the same broad perspective on Vietnam: that the country should move as rapidly as possible toward free markets, more liberal trade, greater openness of government, increased rule of law, and more democracy.[9] This shared vision is particularly striking among the multilateral donors. UNDP, UNIDO, the World Bank and the IMF have all offered consistent advice to the government. A UNDP staff paper (UNDP 1998) prepared to help the government think about the Asian financial crisis could have been written by an IMF economist. Sectoral studies of Vietnam's foreign trade, prepared by UNIDO, were of a very high quality and consistent with the World Bank's views on such issues. The World Bank's analysis of poverty and social issues reflects concerns often found in UNDP reports but sometimes absent from Bank reports. Similarly, the bilateral donors all appear to be pressing for the same policy actions: signing a bilateral trade agreement with the United States and joining the WTO. The fact that small countries like Finland and New Zealand are offering the same prescription as the large countries surely improves the clarity of the message.

69. In addition to this meeting of the minds, actual donor co-ordination appears to be excellent in Vietnam. At the general level, the annual consultative group meetings provide a formal mechanism for exchanging information and co-ordinating approaches to the country's problems. The basic documents for the CG meetings from the government and the World Bank are widely distributed, as are the summaries of the discussions. The CG process extends beyond donors to NGOs and (as discussed below) the business community. For the December 1999 CG meeting, international NGOs participated in a report that endorsed World Bank ideas about the major policy problems.[10]

70. At a somewhat more concrete level, UNDP is also important in donor co-ordination. It chairs monthly donor meetings, has organised a number of sectoral committees, and plays an important information-gathering and dissemination role. The internet has become an important vehicle for this. The UNDP/Vietnam web site includes numerous documents that offer a sound information base for all who wish to use it. This includes an up-to-date reference document on donor assistance to Vietnam. It includes a two-page summary of each donor's goals, its program levels, and areas of focus. All donor programs in the country, including both official donors and international NGOs, seem to be included. The web site also includes the UNDP's annual summary of actual donor program expenditures by sector. Programming documents for UNDP activities are included as well.

71. The World Bank's web site is also valuable, including copies of the Bank's Country Assistance Strategy, its recent studies of Vietnam, and information about recent consultative group meetings. The biggest weakness in the site is the fact that the statistical tables it provides have not been updated in eighteen months. Individual Bank reports on the web site have more recent statistics.[11]

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[9] This differs sharply from the El Salvador case, where donors had quite different points of view about the country's major problems. It would seem that this difference in vision, rather than the degree of donor coordination, leads to donors working at cross-purposes.

[10] When it comes to specifics, however, some divergences between the NGOs and the official donors begin to appear, with the NGOs more fearful of the adverse consequences of policy change, and thereby adopting more conservative attitudes toward change.

[11] This is a more serious inconvenience for researchers because of the dearth of alternative sources of statistics on Vietnam. No government of Vietnam site was found with such data in English, and Vietnam is one of only a small number of IMF members for which a monthly page of economic statistics is not published.

72. Besides the formal meetings of donors, there are a variety of *ad hoc* activities that have improved information flow among donors and co-ordination with the Vietnamese government. Two such efforts might be mentioned. First, at the end of Arthur Dunkel's periodic visits to Vietnam, the Swiss Embassy organises a briefing for representatives of other interested countries. Second, one small country has organised a group of "friends of Vietnamese accession to the WTO," a group of ambassadors from a number of countries, both developed and developing, that meets regularly with Vietnamese government officials for discussions of WTO accession and related issues. The United States, Japan and Germany are not participants.

73. An important caveat should be introduced to this picture. Foreign assistance is not an unblemished contribution to Vietnam's development, but a free or low-cost tool for the host country. Several problems might be mentioned. First, there is indeed competition among donors for access to the most competent and influential government officials. Each donor wants to train the best people, and wants to show that it is the most responsive partner that Vietnam has. This inevitably leads to some withholding of information from other donors, and allows the host government to exploit each donor's desire to be responsive. One donor mentioned cases in which technical expertise was being used by a ministry to fight inter-ministerial battles, or to obtain information in preference to requesting it from another government agency.

74. Second, some foreign training is likely to be used by the recipient to reward people for good work (or to dispose of a troublesome colleague) rather than because the trainee needs the particular courses being offered by the donor. Third, recipients will accept donor projects for the fringe benefits they typically bring (computers, or modems, or funds for extra supplies), even if the donor's project is thought to be of insignificant value.

75. These problems are inherent in the foreign aid business, and the goal of donors has to be to minimise their prevalence. Based on the available evidence, these problems are less common in Vietnam than in the typical developing country.

Host Country Ownership

76. In a broad sense, host country ownership is very strong in Vietnam. The government is clearly in charge of its relations with donors, and donors are unlikely to undertake activities that do not have strong government support. At the same time, the difference between government ownership and broader host-country ownership cannot easily be determined. The CPV sees itself as the authentic representative of the peoples' interests, and views donor programs from the perspective of furthering those interests.

77. At the project level, no trade policy or competitiveness projects were identified where there was not a host-country interest in the activity. Nor was there evidence of preconceived, or "cookie-cutter," approaches by donors to activities in Vietnam. Donors -- again speaking only of the trade development area -- seemed to be genuinely struggling to identify the best activities for the specific country context.

Private-Public Sector Relations

78. The role of the private sector in Vietnam is still very controversial. Even the term "private sector" was reportedly considered to be inappropriate in official policy circles as recently as 18 months ago (when "non-state sector" was used in polite company.) The World Bank has taken the lead in promoting dialogue between the public and private sectors in Vietnam. The 1998 Consultative Group meeting included a separate private sector dialogue. That meeting featured mainly foreign investors, but Vietnamese firms participated in the private sector component of the December 1999 CG meeting.

Foreign investors in Vietnam are well-organised, and make representations to the government concerning their interests. There are at least a dozen such associations, mostly organised on a national basis, including groups representing firms from the United States, France, Germany, the United Kingdom, Singapore, Australia, Japan, and Korea. The legal status of most of these groups is uncertain. The American Chamber of Commerce reported that its Ho Chi Minh City branch had recently acquired legal recognition, after five years of effort, but the Hanoi branch had yet to obtain all the necessary approvals.

79. Public-private dialogue would be much more effective if there were a wider variety of private sector associations. But this is not the only problem. The issue of the proper role of the private sector goes beyond the relationship of private firms with the government to the matter of popular perceptions. One MPDF study (MPDF 1999, p. v) reports the findings of a series of surveys and focus group discussions among Vietnamese from a variety of backgrounds and geographical locations:

80. But, in fact, Vietnam's private sector suffers from a serious image problem. The general public does not trust the entrepreneurs who open and operate the country's new private companies and is consistently ready to think the worst of them.

Sustainability

81. No major sustainability issues were identified in Vietnam. Donor programs were generally focused on increasing the capacity of the country to participate economically in the world economy along the lines of Vietnam's comparative advantage. There seems little doubt that Vietnam has great potential for increasing its exports, and donors have been supporting efforts to do so efficiently. It is also clear that Vietnamese culture encourages learning, making donor training likely to pay off more handsomely than in many other developing countries.

Donor Influence and Self-Image

82. In some countries, donors are able to use conditionality and pressure to force government action. In a country like Vietnam, where national self-determination is a central feature of the government's worldview, there is little that donors can do to push the government to take action that it considers dubious. Donors can encourage and inform, but even these activities need to be carried out with sensitivity, lest they be seen as external pressure.

83. In Vietnam and elsewhere, donor project documents typically exaggerate the likely impact of donor assistance. They understate the capacity of the host government to carry out policy effectively, they overstate the access that donor-funded technical advisors have to policymakers, and they also overstate the influence that flows from that access. In the interest of perspective, it is useful to consider the actual problems faced by donor-funded technical experts and training programs.

84. The typical donor mechanism for technical assistance is to establish an office staffed by foreign technical experts on a long-term contract. This office provides advice to the local government that draws upon the experts' wide experience and on the office's capacity to bring in short-term advisors to deal with specific questions. Nevertheless, the analytical questions that foreign advisors are best able to answer are seldom those that are pressing to policymakers. Instead of waiting breathlessly for the foreign advisors to tell them what to think, the host government officials -- like their counterparts everywhere else in the world -- are actually engaged in an intense struggle over policy that involves ideologies, personalities, institutional jealousies, and poor inter-ministerial communication, among other things. Advice by an expert is frequently unhelpful, because these policy debates seldom proceed in terms in which the foreign expert is knowledgeable. The expert seldom understands enough of the local policy debate to give the

proper ammunition to his/her principal to allow the principal to prevail. The minister's statement that "our foreign advisors say we should do A instead of B or C" will never be determinative in policy debates. It will seldom be given much weight unless the foreign expert has acquired stature among the participants as a person with both technical capacity and good judgement of the local political environment.

IV. Conclusions and Lessons Learned

85. Vietnam has enormous potential for rapid growth in exports, and for using exports as an engine for the country's development. Its export performance during the last decade has been outstanding despite huge obstacles -- big internal impediments to exporting, and a trade embargo for part of the decade, and high import tariffs for the rest, by the country with the largest market in the world. Vietnam has shown the capacity for labour-intensive exports that can lead to rapid increases in productive employment, and to a steady rise in productivity that will raise incomes.

86. The major obstacles to Vietnam's export potential are primarily in the policy area. Further trade liberalisation is needed, along with the elimination of obstacles, like uncertain property rights, that constrain the development of private-sector exporters. The government fears the consequences of rapid liberalisation for its control over the economy. The future of the SOEs is of particular importance. Trade liberalisation will threaten the viability of many SOEs, and the government has been moving slowly to reform the SOE sector.

87. Although the problem is one of policy, conditionality does not seem to be a desirable approach for donors. Donor pressure is likely to be less successful than in many other developing countries, and may actually be counterproductive. Discussions that allow exploration of the issues facing Vietnam, but leave policy choices squarely in the hands of the Vietnamese, are likely to be more fruitful.

88. Donor assistance to promote Vietnamese participation in the world trading system has been effective and co-ordinated. Donors share a common perspective on Vietnamese problems, and have co-operated well. UNDP and the World Bank have shown leadership in the donor community in this area.

89. There is a need for donor assistance in the area of services for exporters. Support for private associations of exporters, and for sub-national units of government, is needed to fill an information gap that hinders the capacity of exporters to take advantage of opportunities. Exporters also need greater ability to link with foreign buyers, both through the internet and through greater foreign travel.

90. The biggest risk for donors is that they will help perpetuate an excessive government role in the promotion of exports. This problem confronts donors with a dilemma: if exports are to be promoted, the government must somehow be involved. As in other countries, the government's first impulse is likely to be to use donor help to strengthen its own institutions. Donor assistance to sub-national levels of government and to non-governmental entities could act to counterbalance this tendency.

91. Donors should draw upon the experience of the most successful countries in assisting the development of Vietnamese institutions -- for example, the Irish and Singaporean investment promotion agencies. Those investment promotion efforts were targeted on the types of investment most appropriate for each country, and they included good systems for monitoring and evaluating progress.

92. More broadly, the development path followed by Taiwan, where rapid export growth was based primarily on SMEs, appears to be much closer to the preferences of Vietnamese officials than the large enterprise-dominated path followed by most other East Asian countries. The Taiwanese approach should be studied for lessons relevant to Vietnam.

93. The problem of corruption is likely to worsen steadily unless the government liberalises regulation. The combination of considerable economic and profit-making potential with a series of administrative regulations that are uncertain or opaque multiplies opportunities for extortion and bribery.

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APPENDIX 1

CHRONOLOGY OF MAJOR EVENTS IN VIETNAM

1975	Re-unification of Vietnam.
1986	Approval of *doi moi* economic reforms; most not effectively implemented until 1989.
1993	First donor meeting, leading to establishment of Vietnam Consultative Group.
1994	United States lifts embargo on Vietnamese trade.
1995	Vietnam joins the Association of Southeast Asian Nations (ASEAN).
July 1998	All firms permitted to export by registering with Customs

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