



Aid for Trade: making trade effective for development

Case Studies for Kenya, Tanzania and Uganda

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Case studies from Kenya, Tanzania and Uganda

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Executive Summary

After a long period of uninterrupted and disproportionate growth (compared to growth in the domestic economy), the expansion of foreign trade came to an abrupt halt in 2008. In 2009, world trade is likely to decline by around 10% in real terms, many times greater than the overall economic contraction expected this year. Thus the trade crisis is even more profound than the turmoil faced by the global financial and real economy. In particular, this reflects the high degree of interdependence and subsequent vulnerability of trade flows that has developed in tandem with value-added chains crossing national borders. Such production networks increasingly also involve developing countries.

Aid for Trade (AfT) potentially offers a way out of the crisis. It entails external assistance to developing countries in the negotiation, design, implementation and assessment of policies aimed at 'mainstreaming' foreign trade into domestic economic development. The overriding challenge in this context is to secure policy coherence at the global, regional and local level. In actual fact, AfT is an umbrella policy covering a broad variety of activities. It combines conventional measures of technical assistance to trade, intended to enhance the ability of a recipient country to comply with international trade rules and to develop its trade, with other kinds of trade-related aid, such as the provision of physical infrastructure and productive capacity for trade, or adjustment assistance to firms and households in the wake of trade liberalisation. Chapter 1 of the present study shows that the effectiveness of AfT in these respects critically depends on the right 'sequencing' of policy measures, and in particular on the coordination of trade policy with complementary policies in areas like education, infrastructure and institution-building. The latter especially concerns market-creating, market-regulating, market-stabilising and market-legitimising institutions, the establishment of which takes time.

Chapter 2 explores the political economy of AfT. Here, the AfT initiative has a threefold rationale:

1. to form a catalyst of trade reforms;
2. to facilitate the expansion of trade;
3. to mobilise fresh funds for development.

Using data on the pattern of AfT flows, the chapter discusses the interests and strategies of the main stakeholders in this area: governments in donor and recipient countries; Inter-Governmental Organisations (IGOs); the private sector. Bilateral donors account for more than three-fifths of total AfT, with aid commitments for economic infrastructure typically forming the most important single item. Increasingly, AfT is also being provided by developing countries themselves, in the context of triangular cooperation involving 'North' and 'South' donors and 'South' recipients. For the top AfT recipients, AfT appears to be a priority in overall aid to development. At the same time, this fact presumably contributes to the extent to which these countries receive AfT. Foreign trade has nonetheless frequently not been adequately addressed in countries' development plans and poverty reduction strategy papers, while trade and commerce ministries rarely formulate

cogent strategies to improve international competitiveness. Overcoming the supply-side constraints to trade development requires both physical investments and regulatory reform. In the area of infrastructure, for example, it is important not only to focus on building roads, ports or communications systems, but also on related policy and regulatory improvements. The success of AfT ultimately depends on recipient countries' ability to put in place the preconditions for economic development, i.e. the right legislation, policies, institutions and infrastructure. Among the IGOs engaged in AfT, the World Trade Organisation (WTO) has a particular interest to ensure that the growing trading opportunities created by multilateral liberalisation are used effectively and to provide support to its weaker member countries in this regard as well as assistance in coping with the adjustment requirements which trade expansion entails. The two other IGOs most relevant for AfT are the World Bank and the International Monetary Fund. Both have a special stake in AfT and therefore play key roles in determining its architecture. The private sector is a prominent stakeholder in AfT from two perspectives:

1. It is a major beneficiary of AfT activities, and
2. it is a key agent in making AfT effective.

This dual role of the private sector in AfT is epitomised in Business Membership Organisations (BMOs), discussed in greater detail in Chapter 4.

In Chapter 3, we examine the role of AfT for a positive trade-growth nexus in an extensive empirical analysis covering almost 100 countries in the period from 1971 to 2005. Importantly, we focus on the indirect effects of the AfT agenda through trade, which is one of the main purposes of AfT. In the analysis, we explore three broad areas of the AfT agenda, that is, institutions, infrastructure and human capital. As resources are not unlimited, it is especially important to identify in which of these areas there is empirical evidence that trade influences economic growth. Overall, we find that education and institutions are the most important areas. More specifically, we find strong results for primary and secondary education (rather than tertiary education) and for political institutions, proxied by constraints on the political executive of a country. In fact, these results underline the fact that countries have to have a well educated workforce and high quality institutions if they are to maximise the benefits from trade. For the third area, the (physical) infrastructure, proxied by the number of telephone lines, the network of paved roads or railways, and the power generating capacity, we did not find any significant results. However these results should be treated with caution, as it is quite difficult to find an adequate measure of both the quality and quantity of infrastructure. The indicators we have used only record the existence of infrastructure, but not their quality or the extent of their usage.

Chapter 4 analyses the role of the private sector in the AfT context. In a case study, we examine how Business Membership Organisations in Kenya, Uganda and Tanzania were able to contribute to the AfT process. Partly through a theoretical analysis and partly through interviews in the three East African countries, we show that BMOs have played an important role within the AfT framework. Above all, BMOs are formed through collective action and although they bear risks (e.g. rent-seeking), they come with a series of positive characteristics, such as their networking and intermediary function. In relation to the AfT initiative, BMOs in developing countries could serve both as potential beneficiaries as well as multipliers and facilitators of aid for trade actions. However, BMOs in East Africa face a variety of constraints preventing them from exerting their potential role. These challenges are in the areas of human resources as well as organisational and financial management. AfT projects can support BMOs in their development to enable them to exert their role properly in the trade context.

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Abbreviations

ACP	African, Caribbean, Pacific Group
ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
AfDF	African Development Fund
AfT	Aid for Trade
ATI	African Trade Insurance Agency
BDG	Business Development Gateway
BMO	Business Membership Organisation
CAF	Andean Development Cooperation
CCI	Chamber of Commerce and Industry
COMESA	Common Market for Eastern and Southern Africa
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DC	Developing Country
DDA	Doha Development Agenda
DI	Confederation of Danish Industry
DTIS	Diagnostic Trade Integration Studies
EABC	East African Business Council
EAC	East African Community
EADB	East African Development Bank
EC	European Community
EDC	Enterprise Development Center Tanzania
EIF	Enhanced Integration Framework
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMM	Generalized Method of Moments
IADB	Inter-American Development Bank
IADB Sp. Fund	Inter-American Development Bank, Special Operation Fund
IBRD	International Bank for Reconstruction and Development
ICSID	International Center for the Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group

IF	Integrated Framework for Trade-Related Technical Assistance
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IGO	Inter-Governmental Organisation
IIC	Inter-Institutional Committee
IMF	International Monetary Fund
ITC	International Trade Centre
JITAP	Integrated Technical Assistance Programme
KEPSA	Kenya Private Sector Alliance
LDC	Least Developed Countries
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small, and Medium-sized Enterprise
NGO	Non-Governmental Organisation
NTB	Non-tariff Barrier
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OIE	World Organisation for Animal Health
PRSP	Poverty Reduction Strategy Paper
RDB	Regional Development Bank
SADC	South African Development Community
SDT	Special and Differential Treatment
SME	Small and Medium-sized Enterprise
SPS	Sanitary and Phyto-Sanitary measures
STDF	Standards and Trade Development Facility
TBT	Technical Barriers to Trade
TCBDB	Trade Capacity Building Database
TEAMA	Taiwan Electrical Appliance Manufacturer Association
TF	Trade Facilitation
TFMA	Taiwan Footwear Manufacturers Association
TIM	Trade Integration Mechanism
TNC	Transnational Cooperation
TPR	Trade Policy Review
TPRM	Trade Policy Review Mechanism
TRCB	Trade-Related Capacity-Building
TPSF	Tanzanian Private Sector Foundation
TRIPS	Trade-Related Intellectual Property rights
TRTA	Trade Related Technical Assistance
UN	United Nations

UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UPSF	Uganda Private Sector Foundation
US	United States
WADB	West African Development Bank
WCO	World Customs Organisation
WHO	World Health Organisation
WTO	World Trade Organisation

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1 Aid for Trade: rationale, coverage, approach

1.1 Definition, background and challenges of Aid for Trade

Defining Aid for Trade

'Aid for Trade' (AfT) seeks to build bridges between the development and trade communities as well as between the public and private sector. It involves external or foreign assistance to developing countries in the negotiation, design, implementation and assessment of policies aimed at:

- helping economic actors – firms and households – in developing countries to benefit from and cope with structural change in international trade;
- 'mainstreaming' international trade into domestic economic development.¹

The policies concerned take place at the national, regional and global level. They comprise measures, regulations and institution-building with a direct bearing on trade as well as complementary strategies with an indirect impact. The latter cover a broad range of policies to make trade liberalisation acceptable and prevent 'reform fatigue' in this area, on the one hand, and to maximise the benefits and minimise the costs of trade reforms, on the other hand.

Context of the AfT initiative

Against this background, the current discussion on AfT is taking place in the context of three broad developments (Evenett 2008b):

1. The global financial and economic crisis
2. Stagnation in the WTO Doha Round
3. Prior experience with AfT

The economic and financial crisis poses a challenge to AfT.

In his report to the General Council of the World Trade Organisation on February 3, 2009, Pascal Lamy, the WTO's Director-General, called AfT an asset "which we must sustain and reinforce, particularly now that the crisis is hitting hard many of the most vulnerable (WTO) members."² In fact it is primarily the **global financial and economic crisis**, which has begun to translate across the board into lower export revenues for developing countries, that marks the context in which AfT is presently being discussed. While the crisis would appear to increase the importance of AfT since exports could help lift economies out of recession sooner, fears have also been expressed that the initiative might lose momentum as a result of mounting public budget pressures. This prospect, together with signs of a new 'aid pessimism' and growing 'export pessimism' expressed by officials from developing countries, has recently (November 24, 2008) led OECD donor countries to agree on an Aid Pledge (including AfT) as a companion to the OECD Trade Pledge of the late 1970s.³

¹ According to the WTO, 'mainstreaming' of trade "involves the process and methods of identifying and integrating trade priority areas of action into the overall framework of country development plans and poverty reduction strategies" (WTO document WWT/LDC/SWG/IF/1 of 29 June 2001, p. 1). As pointed out by Goldin and Reinert (2007, p. 78, footnote 38), Aid for Trade and trade-related capacity building are "development ideas that are effected through foreign aid."

² Cf. WTO News, 3 and 4 February 2009: "Ministers continue to attach highest priority to the Round's conclusion." Report by the Chairman of the Trade Negotiations Committee. Available at: http://www.wto.org/english/news_e/news09_e/tnc_chair_report_03feb09_e.htm.

³ The European Union has made an explicit AfT Pledge, with a regional emphasis on the African, Caribbean and Pacific (ACP) countries, in the frame of its Aid for Trade strategy adopted in October 2007 (European Union 2007). Similar pledges have also been made by the United States and Japan (WTO 2009, p. 23).

AfT and the Doha Development Agenda

A second development shaping the context of the AfT debate is the apparent inability of WTO members to agree on modalities for the conclusion of the Doha Round. This failure became clear in July 2008 when it was decided not to convene a WTO Ministerial Conference for that purpose by the end of the year. Although the AfT initiative is institutionally detached from the **Doha Round** negotiations, it nonetheless has important synergies with multilateral and other trade reform activities. In particular, there is a strong link between AfT and the Doha Development Agenda (DDA). At the same time, a prevailing view is that “*negotiating hiccups*” in the Doha Round should not prevent further progress on AfT (Evenett 2008b, p. 5). In this context, it is frequently stressed that AfT should be a complement, rather than a substitute to the DDA (Page 2007, p. 17).

A final – and most important – factor in the discussion on AfT is **past experience** in the area of technical assistance to trade itself. The origin of the AfT agenda lies in the Uruguay Round, which was conducted under the General Agreement on Tariffs and Trade (GATT) from 1986 to 1994. As a result of the Uruguay Round, a sizable gap emerged between the ability of developing countries to implement new multilateral trading rules and the willingness of developed countries to help developing countries meeting the ambitious requirements they were faced with.⁴ It was this contradiction which ultimately gave rise to new aid schemes in the form of Trade-Related Technical Assistance (TRTA) and Trade-Related Capacity-Building (TRCB). Prominent examples are the Integrated Framework for Trade-Related Technical Assistance (IF) for Least-Developed Countries (LDCs) and the Joint Integrated Technical Assistance Programme (JITAP) for a number of African countries, which were agreed on in the second half of the 1990s. Many WTO members also felt that financial support in the form of technical assistance to trade could help overcome the developing countries’ fears that WTO negotiations might have a negative impact on them, and at the same time contain protectionist influences by powerful domestic groups (Hoekman 2008, pp. 30–32 and Laird 2007, p. 4).

The TRTA/TRCB agenda was moved forward with the opening of the Doha Round in November 2001.⁵ At the WTO Ministerial Conference in Hong Kong in December 2005, it was broadened into the current AfT programme. Further ‘milestones’ along the way of AfT are the three Regional Reviews, which were organised by the WTO in cooperation with regional banks and national governments in Latin America, Asia and Africa in September/October 2007. In November 2007, the first Global Review on AfT was held under the aegis of the WTO, which is to be followed by a second Global Review in July 2009.

⁴ As Hoekman (2002, pp. 27–28) points out, the costs associated with implementing WTO agreements can be significant not so much because of the disciplines themselves, but because of supplementary investments needed to apply the rules. The 1994 Marrakesh Declaration, which concluded the Uruguay Round and created the WTO, acknowledges the need to provide trade-related technical assistance to LDCs to help them with their implementation difficulties and associated adjustment costs, while a large number of specific agreements, e.g. SPS (Sanitary and Phyto-Sanitary measures), TBT (Technical Barriers to Trade), Customs valuation, Pre-shipment Inspection, GATS (General Agreement on Trade in Services), TRIPS (Trade-Related Intellectual Property rights) and Dispute Settlement, contain specific references to “best endeavours” to provide support to developing countries and in particular to the LDCs in the implementation of these agreements.

⁵ The 2001 Doha Ministerial Declaration explicitly recognised TRTA & TRCB as essential elements of trade development (WTO 2001, p. 9). Subsequently, bilateral and multilateral donors reported their trade-related assistance to the Joint OECD-WTO Trade Capacity Building Database (TCBDB), launched in November 2002, whereby TRTA & TRCB are defined as activities that 1) help the recipient countries to formulate and implement a trade development strategy and create a trade-friendly environment; 2) stimulate trade by domestic companies and encourage investment in trade-oriented industries; and 3) help recipient countries to participate in and benefit from domestic institutions and negotiations (OECD and WTO 2007, p. 7).

AfT in the retrospect

The trade and development communities are therefore not starting from scratch in the area of AfT. While this implies that every effort should be made to capitalise on previously garnered insights, it is also felt that it is perhaps now time to place more emphasis on ‘results’ and thorough monitoring of inputs and outputs in the AfT exercise and less on ‘awareness raising’ and ‘needs assessment’ (Evenett 2008b, p. 5). This was manifest, for instance, at the OECD Policy Dialogue on Aid for Trade in Paris in November 2008. At the same time, the overriding challenge in AfT is one of policy coherence at the global, regional and local level, i.e. how to better harness trade for development and development for trade and thus to build a meaningful trade and development strategy.

1.2 The theory behind Aid for Trade and some empirical evidence

The trade & development nexus is controversial in theory and on empirical grounds.

Aid for Trade would perhaps be more aptly termed Aid for Trade for Development. After all, it is not trade per se which is to be supported, but rather trade inasmuch as it is conducive to economic and social development. However, the role of trade – and of trade policy – in economic development is controversial in theory as well as on empirical grounds. Some theoretical models predict a positive association between trade and development (Grossman and Helpman 1991, Rivera-Batiz and Romer 1991, Devereux and Lapham 1994), whereas in other configurations the opposite holds (Redding 2002). Similarly, a number of empirical studies find that trade effectively drives growth and development (Sachs and Warner 1995, Edwards 1998, Greenaway et al. 2002, Wacziarg and Welch 2008), which contrasts with other analyses indicating the contrary, even when similar measures of an economy’s ‘openness’ are used (Rodriguez and Rodrik 2000, Clemens and Williamson 2002, Vamvakidis 2002).⁶ Politically, the switch from inward-oriented to outward-oriented growth and development strategies is at stake. This change of direction in policy began to take place in developing countries in the mid-1980s.

“International” versus “domestic” approach to development

The theoretical debate on trade and growth essentially reflects the ‘international’ versus the ‘domestic’ approach to development or ‘openness to trade’ versus ‘primacy of institutions and governance’.⁷ According to the **international approach**, opening up the domestic economy to foreign trade, investment and competition, and thus integrating it into the global trading system, is a prerequisite and indeed the prime determinant of income growth in developing countries. At the same time, it is acknowledged that ‘behind-the-border’ policies – complementary to trade liberalisation – are necessary to promote actual economic and social development. Measures typically cited in this context include:

⁶ The most recent study (Wacziarg and Welch 2008) finds that over the period of 1950–1998, those countries that liberalised their trade regime enjoyed annual growth following liberalisation that was around 1.5 percentage points higher than in the pre-liberalisation period. Post-liberalisation investment rates rose 1.5–2.0 percentage points, which according to the authors confirms past findings that liberalisation fosters growth in part through its effect on physical capital accumulation. It is also found that liberalisation raised the average trade to GDP ratio by roughly 5 percentage points. This would suggest that trade policy liberalisation did indeed raise the actual level of openness of liberalising countries. Caution is advised, however, since these average effects mask large differences across countries.

⁷ For a comparison of opposing views on trade and development, see Krueger (2008) and Sachs (2008) versus Rodrik (2008) and Rodrik and Subramanian (2008).

- Institutional reforms to secure property rights, prompt enforcement of legal obligations (contracts) and well-functioning bureaucracies.
- Customs reforms to contain transaction costs (and corruption) and improve trade facilitation.
- Tax reforms to make up for the loss of revenue from tariffs.
- Creation of social safety nets to compensate those who lose their jobs due to import growth.
- Labour market reforms to promote inter- and intra-sector labour mobility.
- Education and training programmes to provide qualified personnel for export-oriented companies and investors.
- Technological support programmes to improve companies' ability to compete against imports and on export markets in areas with higher value-added.
- Appropriate macroeconomic and exchange rate policies to improve international competitiveness.

Positive impact of trade liberalisation on development depends on complementary factors like education and institution-building.

In the context of the international approach, the positive growth and development effects of liberalising trade would therefore depend on the presence of other variables and their interaction with trade and its liberalisation.⁸ Winters (2004) specifically points to the importance of education, the existing level of development, the strength of domestic institutions, macroeconomic stability and measures to tackle corruption. Kneller et al. (2008) stress the role of human capital and the structure of trade.

With regard to the latter, the nature of imports is considered to be particularly important. In particular, those countries concentrating on imports with relatively high R&D levels would experience disproportionately high growth rates. Amiti and Koning (2007), taking Indonesia as an example, find that on the whole a 10% fall in import tariffs is associated with a productivity gain of 1%. With regard to tariffs on imported inputs, the estimated effect is even stronger: a reduction of input tariffs by 10 percentage points would raise the productivity of importing firms in Indonesia by 11%, as lower input tariffs allow firms to increase the import of intermediate goods and exploit the benefits of greater variety and higher quality.⁹

Form of trade integration matters more than its level.

A similar point holds concerning the export side of trade. Again, it is the form of trade integration rather than its level that seems to matter most. In this context, UNCTAD (2002, pp. 101–135) suggests, with regard to the least-developed countries, that a clear link exists between dependence on non-fuel primary commodity exports or a small number of export goods, on the one hand, and incidence of extreme poverty in LDCs, on the other hand. This is due to the observation that the proportion of people living on less than one dollar per day appears to increase significantly as the degree of export variety declines in these countries.

Weak trade response to own liberalisation in Africa

A key relationship in this context is the link between a country's own liberalisation and its export performance. Through the reduction of prices for imported inputs, liberalisation tends to shift the incentive structure towards

⁸ Desirable institutional arrangements would, of course, vary from country to country, reflecting both societal norms as well as what is feasible given the present state of development (Pain 2001, pp. 243–246).

⁹ Most recently, the positive impact of trade reform on productivity has also been demonstrated for manufacturing firms in Colombia (Eslava et al. 2009).

greater production for exports, and thus to increase a country's capacity to exploit the opportunities offered by foreign liberalisation.¹⁰ Empirical evidence on this relationship is mixed. A case in point is Africa (UNCTAD 2008):

- In many African countries, the response of both imports and exports – measured as a proportion of GDP – to the substantial trade liberalisation in Africa since the mid-1980s has been rather limited.¹¹ In particular, most African countries have not significantly diversified their exports towards more dynamic primary commodities and manufacturing goods with less exposure to market volatility. As a result, Africa's share of world exports declined from 6 per cent in 1980 to just about 3 per cent in 2007.
- In the **agricultural sector**, the limited trade response to the new incentives created by trade liberalisation can mainly be traced to the lack of complementary policies that would increase public investment in research and development, rural infrastructure (in particular roads and irrigation facilities) and health and education. In addition to this, easier access to inputs, encouragement of new investments and better access to market information are factors that would help to improve efficiency in African agricultural trade.
- In **manufacturing industry**, the response to trade liberalisation has been even weaker than in agriculture, with African products accounting for an insignificant share of world manufactured exports both before and after liberalisation. The underlying cause of Africa's dismal manufacturing trade performance is apparently its low levels of exportable production in this area. This in turn is primarily seen to reflect a failure of economic actors to build dynamic comparative advantage in manufacturing.¹² In order to escape the primary commodity (and low-end manufacturing) trap, African countries would therefore have to create economic structures that encourage the production and export of manufactures with higher value added. Trade liberalisation would thus have to go hand in hand with action to build human capital (i.e. education and training), improve the infrastructure for production and trade and more directly strengthen productivity and market learning at the firm level. In this context, the importance of firm size and access to external financial resources for exporting is also emphasised.
- The overall conclusion is that African countries have largely missed the opportunities that their own and foreign trade liberalisation offer, since the most binding constraints to exporting were not effectively addressed, i.e. a weak supply capacity and poor trading infrastructure. This is true for agriculture as well as manufacturing. In order to improve the response to trade liberalisation in both sectors, specific sector policies might be needed along with macroeconomic measures to enhance credibility, predictability and political stability, opening up the field for AfT.

¹⁰ In the absence of trade liberalisation, the structure of incentives would encourage resource flows into protected and inefficient import-competing sectors with little incentive to innovate.

¹¹ On average, tariffs in sub-Saharan Africa were reduced by 40% between 1995 and 2006. Tariff reforms were also accompanied by wide-ranging removals of non-tariff barriers to trade (including their conversion into tariff equivalents).

¹² In this view, what matters for a country's export potential (and its possible gains from trade) is not its static comparative advantage, but what the country specialises in by developing its competitive edge, i.e. dynamic comparative advantage. This would also include "*learning by exporting*" (Bigston and Soderbom 2006, Lall et al. 2006; Hausmann et al. 2007). In this context, endogenous growth theory suggests that new competitive edges for a country's industry, outside the primary commodity sector, would mainly arise from positive externalities created by the accumulation of human capital and increases in technological capabilities (Aghion and Howitt 1999).

UNCTAD (2002) points to a discrepancy between trade and income trends for developing countries (DCs) in general. Thus, while the share of DCs in world manufacturing exports (including those of rapidly growing high-tech products) has been expanding quickly, the income earned by DCs from such activities appears to have grown less dynamically. This is explained by a tendency for DCs to specialise in the low-skill assembly stages of international production chains organised by transnational corporations (TNCs). At the same time, most of the technology and skills tend to be embodied in parts and components that are imported from companies in developed countries (including the parent company). The bulk of the value added or income generated in such production networks, unlike the gross production or sales values involved, would therefore accrue to developed countries and the headquarters of TNCs.

The “domestic” approach prioritises policy space and institution-building over market-opening.

In contrast to the implications of the internationalist view of trade and development, the **domestic approach** clearly places the ‘behind-the-border’ policy agenda in the forefront, whilst acknowledging the potential contribution of trade liberalisation to development. At the core of this reasoning is the notion of ‘policy space’ in conjunction with good governance and institution-building. In the words of Rodrik (2008), one of its academic proponents, the domestic approach is opposed to the “imperative of global economic integration” or “openness mantra” according to which “*global integration has become ... a substitute for a development strategy.*” Instead, emphasis is laid on “*more urgent development priorities such as education, public health, industrial capacity, and social cohesion*” (p. 460). Rodrik advocates “*a domestic growth strategy ... relying on domestic investors and domestic institutions,*” as well as “*a judicious blend of imported practices with domestic institutional innovations*” (p. 462). In short, “*integration is the result, not the cause, of economic and social development*” (p. 463) while “*growth begins at home*” (p. 467).

Concerning the implications of both approaches for AfT, the domestically oriented approach leaves little room for direct measures in support of trade, as trade promotion is not among its priorities. At the same time, it highlights a number of areas which indirectly advance trade, such as education, health or general social development. Progress in these areas would help to strengthen both the position of domestic enterprises in international competition and the capacity of firms and households to cope with adverse trade developments.

The “internationalist” view is closer to AfT than is the “domestic” approach.

Compared to the domestic approach, the ‘internationalist’ view of trade and development is clearly closer to AfT. It covers the whole AfT agenda, as it has been developed over time, and has a direct bearing on AfT activities. It stresses the public-good nature of AfT as a “facilitator” of trade reforms, the full benefits of which are not only captured by the reforming country itself, but also extend to that country’s trading partners. AfT would thus prevent “under-investment” in trade reforms.¹³ At the same time, it advocates “strategic liberalisation,” emphasising the time pattern of trade policy and its coordination with complementary policies. This especially holds with regard to institutional development, i.e. the establishment of market-creating, market-regulating, market-stabilising and market-legitimising institutions,

¹³ On the public-good case for AfT, also IMF and World Bank (2007), Prowse (2006) and Bilal and Szepesi (2004).

which takes time.¹⁴ The ‘sequencing’ of reform policies – and their ‘installation’ in civil society – therefore appears to be critical.¹⁵ In particular, the succession of trade liberalisation steps would have to be in accordance with the stages of institution-building in developing countries, in order for AfT to effectively become Aid for Trade for Development.

1.3 Aid for Trade in trade policy, trade development and adjustment to trade

AfT activities combine conventional trade assistance with other types of trade-related development aid.

AfT is an umbrella policy covering a broad variety of activities. It combines conventional TRTA and TRCB efforts, as jointly defined by the OECD and WTO in the aftermath of the Uruguay Round (OECD and WTO 2007), with other kinds of trade-related assistance identified by the WTO Task Force on Aid for Trade (established after the Hong Kong Ministerial Conference) (WTO 2006a). The former mainly comprise activities intended to build the capacity of the recipient country to:

- formulate and implement a trade development strategy and create a suitable environment for increasing the volume and value added of exports, diversifying export products and markets and increasing foreign investment to generate jobs and trade;
- stimulate trade by domestic firms and encourage investment in trade-oriented industries;
- participate in and benefit from the institutions, negotiations and processes that shape national trade policy and the rules and practices of international commerce.

The latter, on the other hand, concentrate on:

- the provision of physical infrastructure (e.g. roads, ports, telecommunication, energy and electricity, transport systems, water supply and sanitation, etc.) and of trade support institutions (e.g. customs, trade finance, marketing and distribution facilities, etc.);
- the establishment of productive capacity for trade;
- the adjustment by enterprises and households to developments in trade and trade policy.

¹⁴ On the distinction between the four types of institutions, see Hemmer and Lorenz (2004). In this view, market-creating institutions would enforce property rights and secure the rule of law; market-regulating institutions would correct market failure; market-stabilising institutions would help to promote price stability, smooth business cycles and prevent financial crises; and market-legitimising institutions would care for social security etc., in order to maintain the basic economic system.

¹⁵ On these issues, also see OECD (2008b) and Sally (2008, pp. 88–97). Goldin and Reinert (2007, p. 10) in particular point out the critical role of complementary policies in securing a positive impact of trade reforms on poverty alleviation.

- 1. Trade policy and regulations.** This includes training of trade officials, analysis of proposals and positions and their impact on national stakeholders, technical and institutional support to facilitate the implementation of trade agreements and the compliance with rules and standards.
- 2. Trade development,** e.g. investment and trade promotion, support in different trade sectors and trade finance, market analysis and development.
- 3. Trade-related infrastructure,** including physical infrastructure to connect domestic and foreign markets.
- 4. Building productive capacity,** meaning investments in industries and specific sectors so that countries are able to diversify production and exports.
- 5. Trade-related adjustment.** This category comprises complementary measures absorbing some of the costs linked to tariff reductions or declining terms of trade to make developing countries benefit from trade liberalization.
- 6. Other trade-related needs.**

Box 1 Categories of Aid for Trade proposed by WTO Task Force

Focus on “bundling” makes AfT a novel approach.

The idea behind the comprehensive coverage of AfT as proposed by the WTO Task Force is to combine, harmonise and ameliorate existing structures of trade-related aid activities. In this way, it is sought to create a “*package of assets*” or a “*bundle of institutional arrangements*” (Suwa-Eisenmann and Verdier 2007, p. 15), helping developing countries to better integrate themselves into international trade and the international trading system. In fact, the focus on the package or bundling aspect of trade-related development assistance is what makes the AfT initiative appear to be a novel approach in the first place.

What exactly should be part of the AfT agenda and what should be omitted, is nonetheless a matter of contention. Particularly controversial is the question of the extent to which adjustment issues should be addressed. Adjustment costs are not explicitly referred to in the section (Paragraph 57) on AfT contained in the Hong Kong Ministerial Declaration. However, the facilitation of structural adjustment, as workers lose their jobs and are forced to seek reemployment due to changing trade patterns, is at the heart of efforts to eliminate supply-side constraints and therefore implicitly included in Paragraph 57. Another question is whether AfT should also cover adjustment in the sense of financial compensation for the potential downside effects of multilateral trade liberalisation, such as preference erosion, higher food prices or loss of government revenue. In this respect, it is deemed to be extremely difficult to anticipate the magnitude of downward risks in complex situations involving policy changes, in a variety of areas and regions such as those induced by a multilateral trade round; and thus to define *ex ante* a compensatory financial package for countries seemingly at risk of sustaining overall welfare losses from multilateral liberalisation (OECD 2006, p. 31).

Definitions of AfT categories vary among donor countries as well as between Inter-Governmental Organisations, reflecting different priorities (IMF and World Bank 2007, pp. 13–14). This relates to the kinds of needs that are covered by AfT and to the extent to which they are covered. For instance, it is difficult (and contentious) to isolate (and thus measure) the trade-related parts of certain AfT categories, e.g. concerning the physical or institutional infrastructure of a country, which serve both trade and non-trade purposes.

With regard to the instruments used in AfT, there is also no consensus as to whether non-concessional lending should count as AfT in the same way as grants and concessional loans.

Recipient countries tend to regard the first two categories of AfT proposed by the WTO Task Force, i.e. 'trade policy and regulations' and 'trade development', as binding definitions following the original (now discontinued) WTO/OECD database on trade-related technical assistance and capacity building (Trade Capacity Building Database). These countries also often employ the remaining four AfT categories depending on whether the activities in question are explicitly defined as trade-related priorities in the respective country's development planning.¹⁶ This is in line with the view taken by the WTO Task Force according to which "*projects and programmes should be considered as Aid for Trade if these activities have been identified as trade-related development priorities in the recipient country's national development strategies*" (WTO 2006a, p. 2).

Risks involved in a broad approach to AfT

From a political economic perspective, there are two risks involved in a broad definition of AfT (Evenett 2008a). Firstly, the total supply of aid may fall short, generating the perception of failure; and second, any aid shortfall will ultimately require prioritisation of projects and recipients, and those whose needs are not given a high enough priority may cease to support the initiative. Moreover, if donors begin re-classifying at random projects in areas like infrastructure and private sector development as AfT, so as to give the impression that additional financing is being made available (in accordance with the WTO Task Force attempt to distinguish AfT from other development assistance), support for the initiative might be put into jeopardy.

¹⁶ A case in point for a "*demand-driven coverage*" of Aid for Trade, as it may be called, is the request by Mauritius for adjustment assistance, as documented in the latest Trade Policy Review (23 and 25 April 2008) for Mauritius in the WTO (WTO 2008a, 33–34).



2 Political economy of Aid for Trade: stakeholders, their interests and strategies

Three basic “missions” of the AfT initiative:

1. To form a catalyst for trade reforms;
2. To facilitate the expansion of trade; and
3. To mobilise fresh funds for development

The political economy of Aid for Trade explores three basic ‘missions’ of the AfT initiative:

- 1. To form a catalyst for trade reforms.** The delivery of AfT is held to be a precondition for trade reform or market opening in developing countries, as well as for trade liberalisation and trade-enhancing rule-making in regional, bilateral and multilateral forums. In this view, AfT is seen as a means of *“buying progress in the negotiations”* (Charlton and Stiglitz 2006, pp. 145–146) and as representing inter alia a *“buy out”* (Bhagwati 2005) to overcome developing countries’ opposition to most-favoured-nation tariff reductions, for fear of losing preference margins in international trade (“preference erosion”). Moreover, countries suffering adjustment shocks from trade liberalisation, whether under the current multilateral Doha Round or the growing number of bilateral free trade agreements, may need to be assured of transition support from the international community as a quid pro quo for their consenting to the removal of trade barriers.
- 2. To facilitate the expansion of trade.** AfT is widely understood as a means of enabling developing countries to make maximum use of the opportunities offered by trade liberalisation at home and abroad, and more generally to identify, develop and exhaust their trade potential in the course of economic globalisation, as well as to cushion the adjustment costs arising from liberalisation and growing trade. It is also aimed at alleviating the administrative burden associated with the exploitation of non-reciprocal trade preferences, as well as providing compensation for preference erosion, as noted under point 1. Providers of AfT are typically individual donor countries acting on a bilateral basis, and international institutions and organisations at the regional/plurilateral and multilateral level. At the same time, the whole process is meant to be under the control (‘ownership’) of the recipient countries.
- 3. To mobilise fresh funds for development.** This is the financial leverage function of AfT. Lobbying in this area may fall under two categories, each with its own objective:
 - Increasing the share of trade-related assistance in overall development aid or Official Development Assistance (ODA). This might entail a number of trade-offs between AfT, on the one hand, and competing ‘social’ sectors of aid like education or health, on the other hand.
 - Securing AfT in addition to those other ODA categories. This can help to avoid difficult trade-offs. ‘Additionality’ may also simply refer to extra commitments on AfT in addition to those already in existence at the time (December 2005) of the WTO’s sixth Ministerial Conference in Hong Kong, where the AfT programme was launched. Any efforts in the area of AfT would therefore have to be *“Hong Kong forward”* (WTO 2007a, p. 17).

The share of AfT in total sector allocable Official Development Assistance has been declining, while AfT commitments themselves concentrate on economic infrastructure

In fact, the total volume of AfT, as reflected in the OECD's Creditor Reporting System (CRS),¹⁷ rose by nearly one-third (measured in constant 2007 prices) between 2001 and 2007, to US\$ 27.2 billion. However, this was not enough to stop the declining trend of Aid for Trade as a proportion of total sector-allocable ODA, which fell from 38.5% in 2001 to 30.4% in 2007.¹⁸ As shown in Figure 1, AfT primarily lost ground against the largest category of sector-allocable aid – social infrastructure and services – which is mainly composed of education and health programmes.

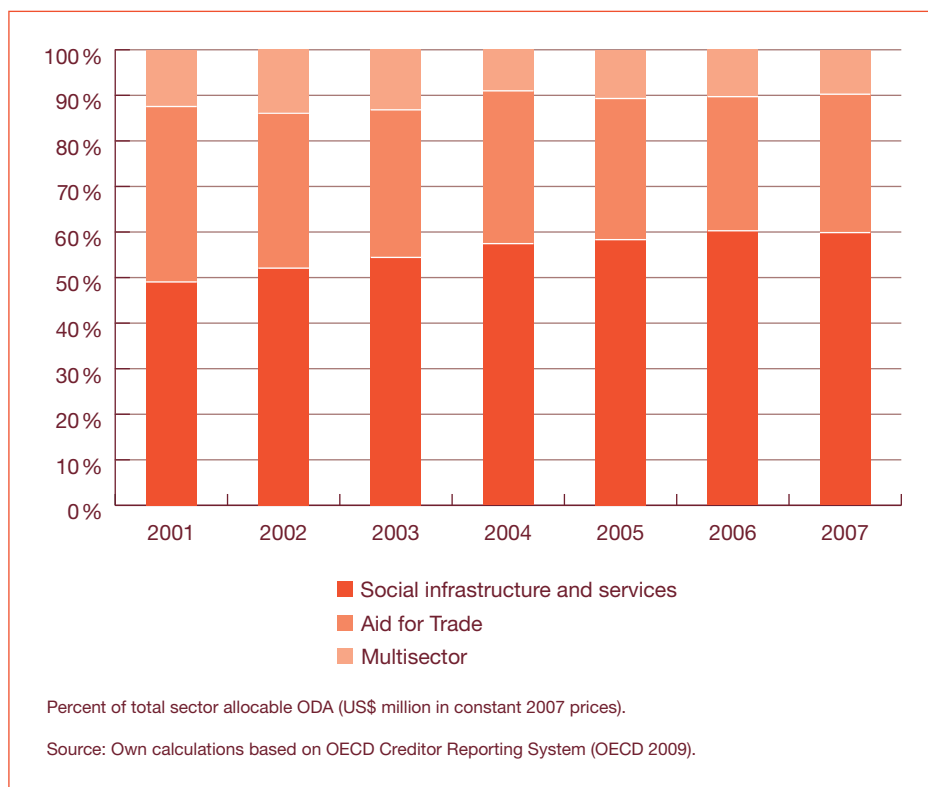


Fig. 1 Sector shares of official development assistance, 2001–2007

¹⁷ The CRS (OECD 2009) is now the principal database for AfT flows. It represents a comprehensive data collection and reporting system on the development assistance provided by OECD member countries. With regard to AfT, it nevertheless has a number of shortcomings: One of the six AfT categories identified by the WTO Task Force on Aid for Trade (see Chapter 1.3) – ‘trade-related adjustment’ – is not covered explicitly. Moreover, the CRS only contains concessional aid flows and thus omits trade-related lending to large parts of Latin America as well as to countries in Asia and Africa. At the same time, it refers to AfT commitments, which are generally larger in volume than actual disbursements, and thus tends to overstate the true volume of AfT. There is also no effort made to isolate the trade-related parts of individual ODA categories. For instance, ‘economic infrastructure’ covers both trade-related and general economic infrastructure under the CRS.

¹⁸ Sector-allocable ODA covers all ODA flows which can be allocated to specific sectors in the partner countries, such as agriculture, education, health, water supply and sanitation, government and civil society, transport and storage, etc. Not covered are: food aid and other commodity assistance; debt relief; humanitarian aid; administrative costs; support to NGOs (Non-Governmental Organisations); refugees in donor countries and imputed student costs (OECD Creditor Reporting System).

Within AfT, the bulk of donor commitments relate to economic infrastructure such as transport and storage, communications and energy. In second place are productive capacity building and trade development. The category of trade policy and regulations, by contrast, represents only a minor proportion of AfT (Figure 2).

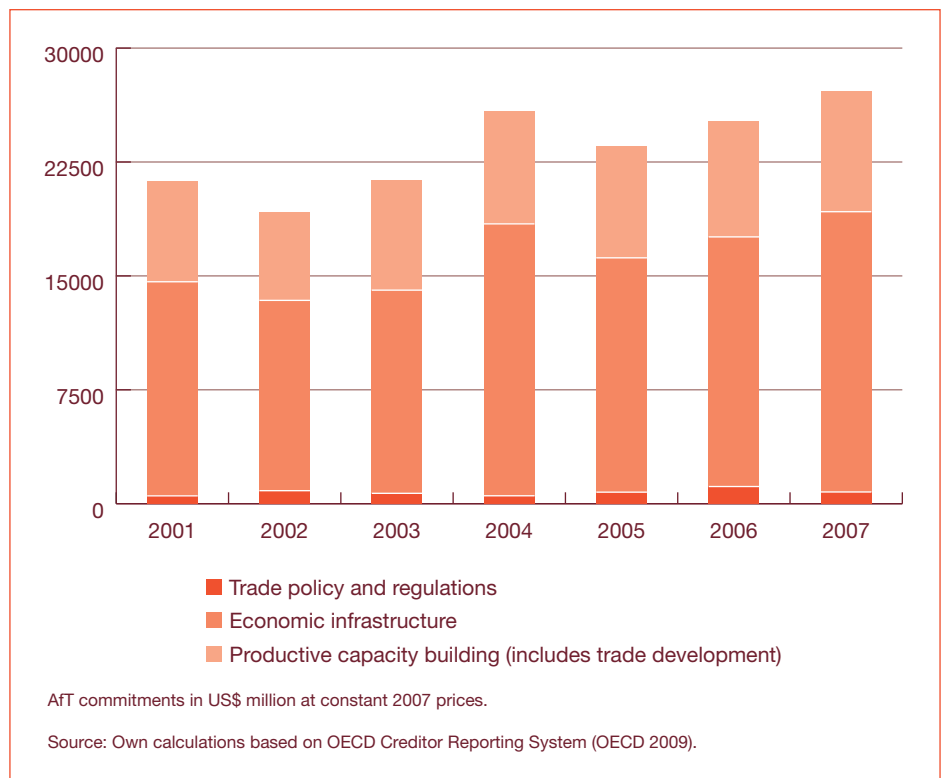


Fig. 2 Aid for Trade by major categories, 2001–2007

The analysis of AfT in the present chapter focuses on these considerations, concentrating in particular on the most important stakeholders in AfT and their main interests and strategies in this area.

Stakeholders in AfT come from the public, private and non-governmental sectors.

Stakeholders in AfT come from the public, private and non-governmental sectors. They comprise:

- individual donor countries or country groupings;
- individual recipient countries or country groupings;
- IGOs, in particular the WTO, the World Bank (including Regional Development Banks/RDBs) and the IMF, which play an intermediary role between donors and recipients, together with other IGOs, like UNCTAD, the United Nations Development Programme (UNDP), the International Trade Centre (ITC) and the OECD;
- the private sector, which includes firms, BMOs and households, as well as representatives of labour unions and Non-Governmental Organisations (NGOs).

The role of stakeholders is analysed in greater detail below, implicitly using a matrix in which interests and strategies of actors, expressed in the form of offers and requests, are mapped with their operation at local, regional and global levels.

2.1 Governments in donor and recipient countries

The ‘mainstreaming of trade’, which AfT aims to achieve,²¹ can be viewed from both a donor and recipient country perspective:

1. Mainstreaming of trade into aid programming in the case of donors
2. Mainstreaming of trade into national development strategies in the case of recipients

Governments in donor and recipient countries play a crucial role in AfT.

Among the many providers of AfT, individual countries and their respective governments retain a crucial role in the AfT initiative.²² In 2007, bilateral donors accounted for more than three fifths of total AfT (WTO 2009, p. 23). Increasingly, AfT is also being provided by developing countries themselves (South-South cooperation) as well as in the context of triangular cooperation involving North and South donors and South recipients. Countries such as Chile, China, Singapore and Thailand are among the most prominent South donors, passing on their own experiences with trade liberalisation at various levels or ‘best practices’ to fellow developing countries.²³ However, in any comparison of absolute sums of AfT funding, developing countries have only played a limited role as AfT donors to date. As Figure 3 shows, the largest bilateral providers of AfT are Japan, the United States and Germany.

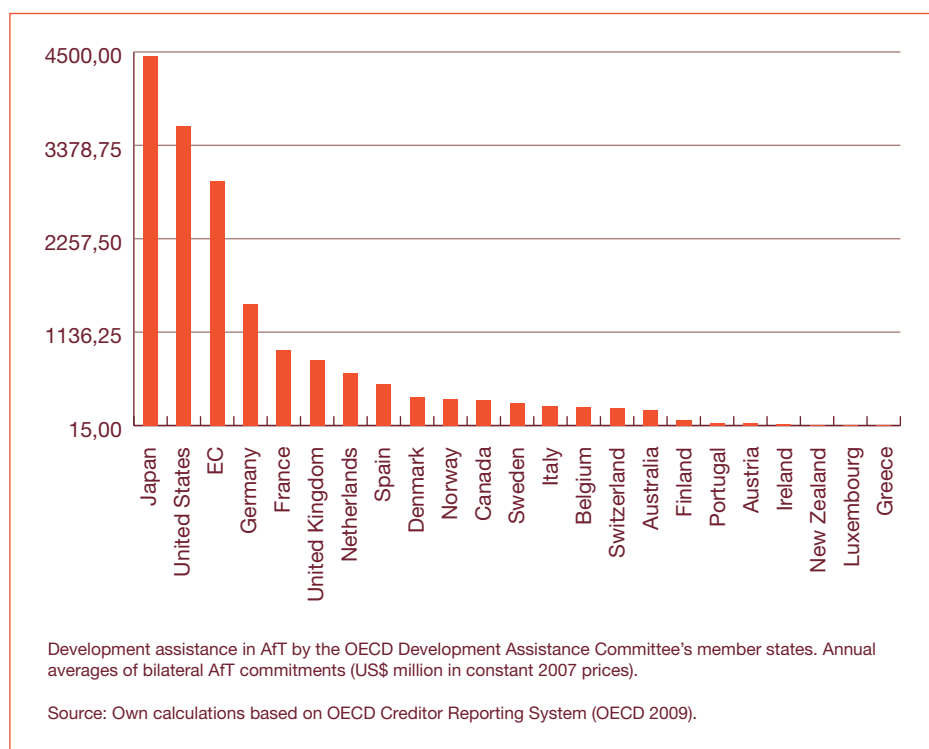


Fig. 3 Bilateral donors in Aid for Trade, 2001–2007

²¹ See Chapter 1.1.

²² Altogether, the WTO/OECD Trade Capacity Building Database lists 28 donor agencies and 30 donor countries (including the European Community) which provide respective funds to several hundred recipient countries (accumulated). See “Trade Capacity Building Database”, available at: <http://tcbdb.wto.org>.

²³ The benefits of such ‘horizontal’ AfT appear to be obvious. When Thailand offers training courses on trade liberalisation in Cambodia, Laos and Myanmar, for instance, closer levels of development, cost effectiveness and competent institutions probably render the delivery of AfT

Bilateral donors provide on average less than one third of their sector-allocable ODA as AfT. This is a significantly lower AfT share than in the case of multilateral donors. However, as pointed out by WTO and OECD (2007, p. 10), considerable variation across countries is also evident, with shares ranging from a high of over 60% in the case of Japan to a low of less than 10% for Greece.

Figure 4 shows the distribution of AfT across the relevant CRS categories, with donors ranked according to the volume of their funding (highest left).

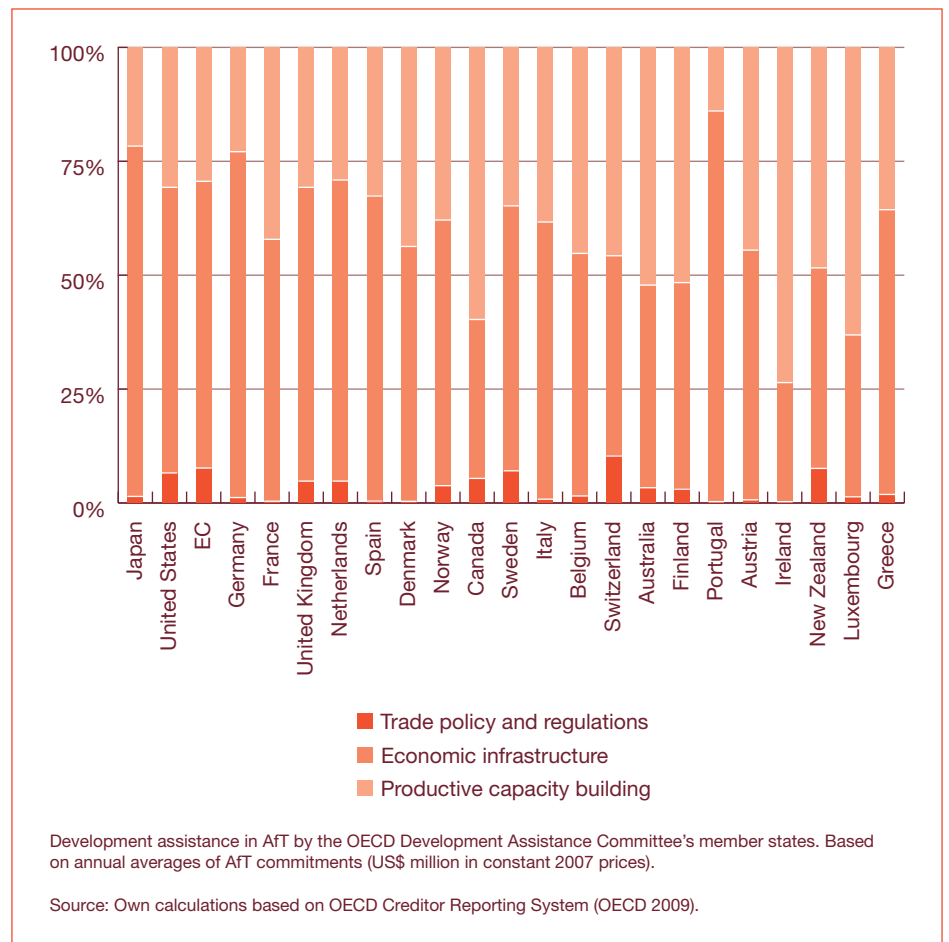


Fig. 4 Bilateral donors' Aid for Trade by category, 2001-2007

Bilateral AfT focuses on economic infrastructure ahead of productive capacity building and trade policy and regulations.

In most cases, aid commitments for **economic infrastructure** appear to be the most important item. The share of infrastructure financing also seems to increase in proportion to donors' overall volumes of AfT. In the area of **productive capacity building**, Canada stands out with 60% of its total AfT (measured in CRS terms) committed to this category. The third category – **trade policy and regulations** – looms relatively large for donors like the European Community and the United States, possibly reflecting a special

more effective. In general, the key assets named in favour of South-South AfT include greater affinity to policy challenges, institutional struggles, cultural idiosyncrasies and weight of tradition, as well as advantages from institutional networking and a better distribution of regional responsibilities providing benefits and development for the region as a whole. See presentation by Alejandro Foxley (Inter-American Development Bank) at the OECD Policy Dialogue on Aid for Trade in Paris in November 2008. Available at: http://www.oecd.org/document/55/0,3343,en_21571361_40994264_41635639_1_1_1_1,00.html.

interest of these AfT providers in more effective multilateral negotiations and the ability of trading partners to meet high EC and US regulatory standards.

Figure 5 lists the top 20 recipients of AfT. It suggests that Asian economies, in particular Vietnam and India, have been the main beneficiaries of AfT so far. African countries, on the other hand, tend to rank relatively low among the major AfT recipients. On average, Asian countries received more than twice as much AfT as African countries.

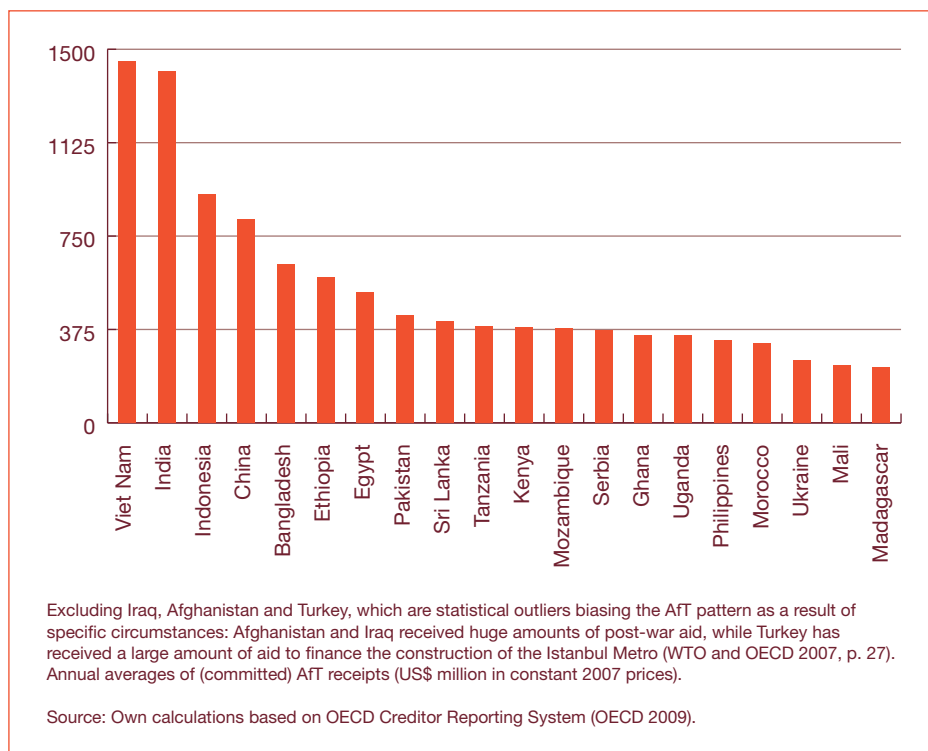


Fig. 5 Top 20 recipients of Aid for Trade, 2001–2007

For the top recipients of AfT, AfT also appears to be a priority in overall developmental aid. In Vietnam and Sri Lanka, for instance, more than 50% of total (sector-allocable) ODA is allotted to AfT, while Ethiopia assigns almost 40% of the sector aid it receives to AfT. The fact that these countries perceive AfT as a priority area presumably also contributes to the level of AfT they receive.

Low income countries receive the bulk of AfT while LDCs get a relatively small part.

An analysis of AfT flows or commitments for beneficiary countries in conjunction with the stage of development at which these countries find themselves, or with the income classes (in terms of gross national income per capita) to which they belong shows that non-LDC low income countries receive the bulk of AfT.²⁴ This is shown in Figure 6 for the average non-LDC low income country. It also shows that the average LDC, on the other hand, gets a relatively small part of the AfT cake. This is surprising in so far as donors appear to focus their AfT on LDCs, and several of the existing trade-related assistance programmes, like the Integrated Framework, are

²⁴ Low income countries according to Figure 2.6 are those developing countries with a gross national income of less than US\$ 825 per capita in 2004. For low and upper middle income countries, the threshold is 3,255 US\$ and 10,065 US\$, respectively.

²⁵ The IMF and the World Bank even conclude that non-LDC low income countries have been “overlooked” in AfT (IMF and World Bank 2007, p. 23). On the Integrated Framework, see also Chapter 2.2.

exclusively directed at LDCs.²⁵ The low share of Aid for Trade per LDC can be explained by potential absorption capacity constraints and the fact that the calculations do not take account of the population size. Another possible reason could be that the LDCs' most urgent needs are not so much trade-related, but rather refer to nutrition and social programmes. If this is correct, such basic needs would crowd out some AfT (Martin and Mattoo 2008, p. 14).²⁶



Fig. 6 Aid for Trade by country (income) groups and major categories, 2001–2007

In terms of the major categories of AfT, as defined in the OECD's Creditor Reporting System, Figure 6 displays a similar distribution for the country groups shown, with AfT allocations for economic infrastructure exceeding those for productive capacity building as well as trade policy and regulation. The latter's share of AfT is relatively high for the lower group of middle income countries, as is the share of productive capacity building in this group. The share of infrastructure, on the other hand, is most distinct in the poorer income groups, indicating disproportionately high deficits in this area in the countries concerned.

Challenges for governments in AfT recipient countries

Against this background, the challenge for governments in AfT recipient countries is to:

- strengthen the role of trade in development strategies;
- identify the areas where AfT is most needed;
- secure “domestic ownership” and “effective leadership” in the implementation of AfT.

²⁶ In fact, of the country groups listed in Figure 2.6, LDCs have the highest share of total sector aid spent on social services and the lowest share on AfT.

In general, developing countries appear to support the AfT initiative and approve of the recommendations of the WTO Task Force on Aid for Trade (WTO 2006d, p. 2, WTO 2006e, pp. 1–2). However, according to multilateral organisations such as the IMF, UNCTAD, UNDP and RDBs, foreign trade has frequently not been adequately addressed in countries' development plans and poverty reduction strategy papers to date (WTO 2006e, pp. 5–6). It also seems to be a concern of developing countries that the developed countries' dominance of the trading system will be mirrored in their approach to AfT. Thus the least-developed countries in particular demand that *“international support should better respond to the priorities identified by the LDCs rather than projecting donors' views”* (WTO 2006d, p. 5).

Within the recipient countries, the 'mainstreaming' of trade into development is commonly constrained by both scarcity of resources, where there is competition over different uses (e.g. trade versus health or education), and conflict or lack of coordination among ministries and other state agencies. This situation is frequently mirrored in donor countries, where finance ministers may undervalue trade while development ministries may have insufficient resources at their disposal or have a low standing in the Cabinet. It has also been pointed out that trade and commerce ministries rarely formulate cogent strategies to improve competitiveness, and that a strategic focus on harnessing economic growth in recipient countries is often missing.²⁷

Core areas of AfT are trade policy, trade development and adjustment to trade.

The core areas where AfT is needed in developing countries relate to trade policy, trade development and adjustment to trade. This 'triad' of AfT is a condensed version of the AfT categories proposed by the WTO Task Force on Aid for Trade, as noted in Chapter 1.3, with “trade-related infrastructure” and “building productive capacity” subsumed under “trade development.” It presupposes that potential AfT recipients lack sufficient human, institutional and physical capacity to:

- design, negotiate and implement effective trade policies multilaterally, bilaterally and at the national level;
- expand the quantity and raise the quality of goods and services to supply on world markets at competitive prices, and thus to develop trade;
- facilitate the adjustment of economic actors to changes in international trade and trade policy.

Trade policy: bridging the compliance gap facing developing countries at the multilateral and bilateral level

In the area of **trade policies**, a major function of AfT is to bridge the compliance gap that developing countries face at the multilateral and bilateral level. As noted in Chapter 1.1, developing countries assumed wide-ranging obligations in the multilateral Uruguay Round – in areas as diverse as goods, services and intellectual property – which stood in contrast to their limited capacity to deliver on the new commitments and thus to implement the relevant agreements. At the same time, the assistance in implementation promised to developing countries by developed countries was typically couched in terms of “best endeavour,” i.e. non-binding declarations of intent.

Similar problems exist at the bilateral level of trade policy. This particularly holds for free trade agreements between developing and developed countries. Such 'North-South' trade agreements increasingly contain elements of 'deep integration' (concerning the removal of 'behind-the-border'

²⁷ See presentation by Bernard Hoekman (World Bank) at the OECD Policy Dialogue on Aid for Trade in Paris in November 2008. Available at: http://www.oecd.org/document/55/0,3343,en_21571361_40994264_41635639_1_1_1_1,00.html.

barriers to trade in areas such as health, safety and technical standards, customs administration, services, intellectual property, government procurement, foreign direct investment, competition, taxation, environment and labour), which are costly and complicated to implement.²⁸

In both cases – multilaterally and bilaterally – AfT is needed to close the gaps that have arisen in the areas mentioned above. At the national level, on the other hand, AfT is particularly called for to secure better coordination among the various government agencies engaged in trade-related policy making. Moreover, governments in developing countries need support when it comes to international bargaining on trade matters.

Trade development: overcoming supply-side constraints

With regard to **trade development**, the priority needs of developing countries in Aid for Trade include:

- developing better knowledge about foreign markets, and securing export financing;
- improving the infrastructure (roads, ports, telecommunications, energy networks, etc.), to link domestic and foreign products to their respective markets;
- strengthening specific economic sectors by means of productive capacity building – from improved testing laboratories to better supply chains – in order to increase their international competitiveness.

Overcoming such supply-side constraints requires both physical investments and regulatory reform. In the area of infrastructure, for example, it is important not only to focus on building roads, ports or communications systems, but also on related policy and regulatory improvements. For trade-related infrastructure, it is also important to address questions of policy consistency across countries, and to prioritise cross-border linkages (Estevadeordal et al. 2008, p. 250). More generally, the failure to generate sustained export growth has been identified as a key obstacle for low income countries when it comes to benefiting from trade integration (IMF and World Bank 2007, p. 7).

Adjustment to trade: coping with transition costs from trade liberalisation

In relation to the third core AfT area, **adjustment to trade**, developing countries need assistance in coping with any transition costs from trade liberalisation, such as restructuring of production, retraining of labour, erosion of preferences, loss of fiscal revenue or declining terms of trade. These costs typically reflect the impact of open markets on income distribution, as well as possible social disruption in the wake of liberalisation. In fact, efficiency considerations have often overshadowed concerns regarding the distributional or equity aspects of trade liberalisation. As a result, trade openness has not always been accompanied by mechanisms for compensating inevitable losers in the process and boosting the opportunities of potential winners.²⁹ Specific trade-related industrial and social policies

²⁸ Trade policy reforms in these areas typically involve sweeping institutional changes; they are technically and administratively difficult and demand considerable financial and human resources, e.g. a minimum of capacity across government agencies for implementation and enforcement. This is in stark contrast to conventional “border measures,” like tariff cuts, which in principle can be enforced “with the stroke of a pen”. As noted by Sally (2008, p. 89), domestic trade policy reforms are also politically very sensitive, as they affect entrenched interests that are extremely difficult to dislodge.

²⁹ In this context, Estevadeordal et al. (2008, p. 237) show for Latin America that few countries in the region have implemented broad adjustment programmes to address disruptions to local industries and labour markets resulting from trade liberalisation. The authors also point out that such disruptions have tested continuous support for trade liberalisation and reform in Latin America, leading to a certain “reform fatigue” in some countries, with a heightened risk of a backlash for further reform.

which aim to protect the most vulnerable and facilitate the transition of enterprise and labour to expanding sectors of the economy would therefore have to form an integral part of trade reform.

A number of developing countries have also been exposed to significant 'preference erosion' in recent years, which will continue as multilateral trade liberalisation proceeds on a most-favoured-nation basis. This is likely to make it even more difficult to maintain competitiveness on world markets and may provide a rationale for 'compensatory' AfT. An example of adjustment assistance in the face of preference erosion (and other adverse trade developments) clearly prevailing in a country's request for AfT is the island state of Mauritius. In the latest WTO Trade Policy Review for Mauritius, which took place on 23 and 25 April 2008 in Geneva, the government of Mauritius called for significant international assistance in its country's transition from dependence on trade preferences (in particular in the textile, clothing and sugar industries) to an open and competitive economy that no longer relies on special and differential treatment from its trading partners. AfT is considered to form one of the key mechanisms in financing the related compensatory measures which are part of a ten-year economic reform programme to put the economy back onto a long-term growth path of over 6% per year (WTO 2008a, pp. 33–34).

Securing ownership of AfT is critical
for recipient countries.

Finally, with a view to the implementation of AfT, it is critical for recipient countries to enforce **ownership** of the initiative. Country ownership, whereby "*partner countries exercise effective leadership over their development policies and strategies, and co-ordinate development actions*" (Paris Declaration on Aid Effectiveness 2005, p. 3), is one of the guiding principles of the Paris Declaration on Aid Effectiveness, in conjunction with alignment, harmonisation, managing for results and mutual accountability.³⁰ It is assumed that the "*package of assets*" or "*bundle of institutional arrangements*" (Suwa-Eisenmann and Verdier 2007, p. 15), through which the AfT initiative seeks to better integrate developing countries into international trade and the trading system, should be put into effect under the aegis of recipient countries. This approach is also reflected in the Poverty Reduction Strategy Papers, which emphasise the importance of national development planning (Brolén et al. 2008, p. 337). The success of AfT therefore ultimately depends on recipient countries' ability to put in place the preconditions for economic development, i.e. the right legislation, policies, institutions and infrastructure.³¹

³⁰ According to the Paris Declaration on Aid Effectiveness, **alignment** means that "*donors base their overall support on partner countries' national development strategies, institutions and procedures*"; **harmonisation** refers to "*donors' actions (that) are more harmonised, transparent and collectively effective*"; **managing for results** stands for "*managing resources and improving decision-making for results*" while **mutual accountability** holds "*donors and partners accountable for development results*" (Paris Declaration on Aid Effectiveness 2005, pp. 4–9).

³¹ A recent survey, commissioned by UNDP, on the role of trade policy in Poverty Reduction Strategy Papers (PRSPs), covering 72 PRSPs completed by 54 countries between 2000 and early 2008, points to the increasing role that trade is playing in poverty reduction strategies. However, it also highlights a number of shortcomings concerning the trade content of PRSPs, in particular an insufficient "*understanding of the direct connections between trade and poverty: either of how the benefits of trade might be spread, or of the virtuous circle that might be created when poverty reductions also spur trade*" (Kosack 2008, p. 1).

2.2 Inter-Governmental Organisations

The WTO has a particular interest to ensure the effective use of newly created trading opportunities in the wake of liberalisation and to support its weaker member countries in this respect.

Among the Inter-Governmental Organisations, the WTO appears to be the 'nerve centre' of the entire AfT measure where all operations come together. This is in spite of the fact that the WTO is neither a development agency nor a financing agency. Its core role remains anchored in the functioning of the multilateral trading system. This involves the liberalisation of international trade, rule-making to guide the trade policy of its member countries, the settlement of disputes between WTO members and surveillance of the conduct of trade policy in member countries. However, beyond its role as the guardian of the multilateral trading system, the WTO also has a clear interest to:

- ensure that the growing trading opportunities created by the system are effectively used;
- support its weaker member countries in this regard;
- assist the latter in coping with the adjustment requirements which trade expansion entails.

With respect to the multilateral Doha Round, the WTO's Director-General even refers to aid and trade as the "Doha twins."³² This is in keeping with the Doha Round's core development objective of better integrating developing countries, and in particular the least-developed countries, into the global economy.³³

In fact, the WTO's direct financial involvement in AfT is very limited. Its role can be better described as that of an advocate, a catalyst or a monitor and evaluator. This involves activities within the WTO as well as joint action of the WTO with other stakeholders.

WTO programmes most relevant to AfT include: Special and Differential Treatment; the Trade Policy Review Mechanism and Trade Facilitation.

Inside the WTO, three institutions/programmes are most relevant to AfT:

1. Special and Differential Treatment
2. The Trade Policy Review Mechanism
3. Trade Facilitation

AfT forms part of the Special and Differential Treatment (SDT) which the WTO accords to DCs.³⁴ At the same time, it represents a new, proactive SDT approach. Traditionally, SDT mainly consisted of exceptions for DCs to common multilateral rules or 'disciplines' and obligations. Depending on

³² "While trade can be an enabler, a new realisation has emerged during the last decade. For trade to fully contribute to sustainable development, growth and job creation, it has to be accompanied by financial resources to address infrastructure and supply-side constraints. It requires Aid for Trade. Making trade possible is one of two twins. Making trade happen is the other twin." Pascal Lamy in his address to the Follow-up International Conference on Financing for Development in Doha, Qatar on 29 November 2008. See WTO News, 29 November 2008: "Lamy: 'Aid and trade are the Doha twins.'"

³³ As noted by the WTO representative in charge of AfT, the three avenues to a closer DC/LDC global integration are (1) improved market access for their exports, (2) more balanced trade rules, and (3) support to build and expand their capacity for trade effectively and successfully on world markets. See Keynote Address by Valentine Rugwabiza, WTO Deputy Director-General, at OECD Policy Dialogue on Aid for Trade in Paris, 3-4 November 2008.

³⁴ In this context, the UN Millennium Project Task Force on Trade (2005, p. 264) points out that "while it is clear that developing countries benefit from freer trade, it is equally clear that their capacity to do so is different from that of developed countries. Developing countries generally have a more limited ability to take advantage of new opportunities and to bear adjustment costs. Special and differential treatment makes sense and should be made more effective and operational."

the stage of development, these countries enjoyed, and still enjoy, privileges regarding

1. the protection of their domestic markets ('infant industry' protection),
2. their access to developed-country markets (tariff preferences) and
3. the multilateral negotiation process, where they were not obliged to grant 'concessions' on a quid pro quo basis.

However, the downside of these privileges was a relatively passive role and isolated position of DCs in the multilateral trading system.

AfT has the potential to fundamentally transform Special and Differential Treatment and ultimately render "positive discrimination" of developing countries in the multilateral trading system superfluous.

AfT offers a way to change this, as it seeks to help DCs assume multilateral obligations and actively engage in multilateral negotiations, while at the same time assisting them in building international competitiveness and mastering structural adjustment. In this context, it has also been proposed that the poorest DCs be granted a statutory entitlement to technical support for the commitments they enter into (WTO 2004a, p. 67). In a similar way, adjustment assistance to trade – representing the third core area of AfT – could be institutionalised. Both measures could serve to avoid permanent 'opt-outs' from multilateral commitments. In sum, AfT has the potential to fundamentally transform SDT, and in the final analysis to render 'positive discrimination' in favour of developing countries in the multilateral trading system superfluous.

AfT has also become a standard feature of the WTO's **Trade Policy Review Mechanism (TPRM)**, through which the WTO conducts regular monitoring of the trade and trade-related policies employed by its individual member countries. The new section on AfT in the WTO Secretariat's TPR report is essentially an extension of the previous item on trade-related technical assistance inserted in TPR reports on LDCs.³⁵ Moreover, it is not only the LDC members of the WTO that are included in the AfT reviewed under the TPRM, but also other DC member countries. Furthermore, the AfT provided by individual donor countries (developed and developing countries) is also assessed in the respective TPR reports.

AfT could also change the Trade Policy Review Mechanism from a rather passive into a "pro-active" institution.

Through the review of AfT in the TPRM, the WTO particularly aims to foster dialogue between trade, finance and development officials at the national level and thus to create more coherence in the three policy areas (WTO 2006b, p. 3).³⁶ As with Special and Differential Treatment, AfT could therefore also change the Trade Policy Review Mechanism from a rather passive instrument for monitoring WTO members' fulfillment of multilateral obligations into a 'pro-active' institution that helps weaker member countries to comply with the rules, to improve their trade policies and to take full advantage of the agreements reached in the WTO.

³⁵ Trade-related technical assistance for LDCs has been reviewed under the TPRM since 2000. In fact, the report by the WTO Secretariat on Tanzania (January 2000) was the first TPR report on an LDC that contained a separate section dedicated to 'trade-related assistance'.

³⁶ The information on AfT that is collected in the context of Trade Policy Reviews may also serve as input for the global and regional reviews on AfT, as mentioned in Chapter 1.1.

Trade Facilitation is genuine AfT in that it not only defines new trading rules but also involves the provision of resources for developing countries to comply with these rules.

The third major mechanism within the WTO related to AfT, **Trade Facilitation (TF)**, refers to the only one of the four ‘Singapore issues’ to ‘survive’ in the Doha Round following the WTO Ministerial Conference in Cancún in September 2003.³⁷ Throughout the multilateral negotiations post-Cancún, TF has been further refined. Its core objectives are to improve the international trade infrastructure, to simplify and internationally harmonise customs procedures, and to enhance cooperation between customs authorities and other government offices such as certifying or licensing bodies. The overriding aim is to reduce transaction costs in international trade.³⁸

TF is genuinely AfT in that it not only defines new trading rules but also involves the provision of resources to assist developing countries in meeting the new obligations they are expected to incur under a WTO trade facilitation agreement.³⁹ TF is thus a response to the compliance gap facing developing countries in the multilateral trading system, as pointed out in the preceding section. At the same time, AfT is needed for DCs/LDCs to participate effectively in the multilateral negotiations on TF in the first place. For TF to achieve maximum impact, the respective activities must be closely coordinated among the IGOs involved. In addition to the WTO, these primarily include the World Bank, UNCTAD, the World Customs Organisation and the OECD. This leads to the **cooperative role of the WTO in AfT**.

The WTO’s AfT initiative is closely related to its ‘coherence mandate’, which is laid down in Article III: 5 of the WTO Agreement as one of its main functions.⁴⁰ In fact, the WTO takes part in a number of collaborative efforts to strengthen trade-related capacity-building in developing countries. These activities involve the public and private sector in these countries, as well as their development partners. The latter in particular include the Bretton Woods institutions (International Monetary Fund and World Bank), regional development banks, specialised inter-governmental agencies and bilateral donors, which have the necessary financial and technical expertise.⁴¹

³⁷ Besides TF, the “Singapore issues” also comprise competition policy, policies towards foreign direct investment and transparency in government procurement.

³⁸ Non-tariff trade barriers of this kind often have a much greater quantitative impact than tariffs and other conventional trade restrictions. The costs accruing to affected companies are estimated to account for up to 15 per cent of the transaction value of the goods traded (OECD 2003, p. 3). The economic benefits of trade facilitation can therefore be compared with the advantages of a major liberalisation of trade. In this context, Hoekman and Nicita (2008) suggest that measures to improve logistics performance and facilitate trade are likely to have the greatest positive effects in expanding developing country trade, increasing the trade impacts of lowering remaining border barriers by a factor of two or more.

³⁹ The need for resources to assist developing countries in the implementation of new WTO agreements such as the envisaged Trade Facilitation Agreement is also stressed in the recommendations of the WTO Task Force on Aid for Trade (WTO 2006a, p. 9), while WTO negotiators recognise that any trade facilitation commitments by developing and least-developed member countries should be matched by the provision of technical assistance and capacity building (WTO 2004b).

⁴⁰ Accordingly, “with a view to achieving greater coherence in global economic policy-making, the WTO shall cooperate, as appropriate, with the International Monetary Fund and with the International Bank for Reconstruction and Development and its affiliated agencies.”

⁴¹ A major objective of the WTO in this cooperation is “to continue to strengthen the dialogue between trade, finance and development officials on key principles of aid effectiveness – such as local ownership and integrating trade into country programmes – and on the role that trade infrastructure can play in meeting international development goals alongside, and without diminishing, ODA spending on social infrastructure” (WTO 2008b, p. 5).

Strategic partnerships between the WTO and other IGOs in AfT: the case of the Enhanced Integrated Framework for least-developed countries

A case in point, highlighting the strategic partnership between the WTO and other IGOs in AfT, is the Enhanced Integrated Framework.⁴² The EIF, which is jointly run by six 'core agencies', i.e. the WTO, IMF, World Bank, UNCTAD, UNDP and ITC, with a focus on LDCs⁴³, is apparently among the most successful initiatives under the overall AfT cover. It is a mechanism for 'mainstreaming' trade into national economic plans by means of a 'trade integration chapter', i.e. an assessment of trade policy, trade-related capacity-building and technical assistance needs in a broad development context. Its main instrument is Diagnostic Trade Integration Studies (DTISs) carried out in the context of a country's PRSP.⁴⁴ Integration of trade under the EIF is to be achieved at three levels (policy, institutional and government-donor partnership) via national 'trade integration strategy workshops', where stakeholders (including the private sector) consider the findings and recommendations of the studies, and donors indicate their role in financing the needs identified. In this way, diagnostic work is expected to translate into funded projects (WTO 2007b, pp. 2–3).

Potential role of AfT in a new architecture of the WTO

In the future, AfT may form a core element of a third pillar, alongside 'market access' and 'rules', in a new architecture of the WTO. It represents what has been called the WTO's "missing middle," i.e. its non-negotiating, non-judicial, deliberative functions.⁴⁵ The record to date on AfT does indeed suggest that WTO member countries can sustain over a number of years interest in and deliberation upon a matter of common interest that is distinct from the WTO's conventional functions. In this perspective, the AfT initiative even seems to have the potential to have an important influence on the future trajectory of the multilateral trading system. However, for the WTO to effectively promote the case for Aid for Trade, and in particular to secure the

⁴² Two other major cooperative AfT projects in which the WTO takes part as a lead agency are the Joint Integrated Technical Assistance Programme (JITAP) and the Standards and Trade Development Facility (STDF). JITAP is a common exercise among the WTO, UNCTAD and the International Trade Centre (ITC) with African developing countries, aimed at their more effective participation in negotiations as well as a better formulation of trade policies and an improvement of private sector supply capacity and market knowledge (JITAP II Final Report 2008, p. 18). STDF is a joint undertaking of the WTO with the FAO (Food and Agriculture Organisation of the United Nations), OIE (World Organisation for Animal Health), World Bank and WHO (World Health Organisation). It offers developing countries coordination and financing mechanisms to implement international sanitary and phytosanitary (SPS) standards, particularly in agricultural products, which are considered to be one of the main non-tariff access barriers facing DCs on international markets. For details, see Te Velde (2008, p. 120) and WTO News of 14 November 2008: "Sanitary and Phytosanitary Measures: Evaluation Gives High Marks to Standards Facility."

⁴³ Towards the end of 2008, 46 (of a total of 49) LDCs had become beneficiaries of the EIF, including a number of LDCs which are not (yet) members of the WTO. See WTO Press Release, Press/541, 13 October 2008: "Enhanced Integrated Framework Establishes an Executive Secretariat, Welcomes Executive Director."

⁴⁴ PRSPs are the centrepiece of a new approach to international development cooperation, with a focus on poverty reduction, developed by the IMF, the OECD's Development Assistance Committee and the World Bank (as lead agency). They are domestic government-led documents prepared in a participatory process involving other domestic stakeholders as well as external development partners (WTO 2006a, p. 2). DTISs, on the other hand, represent an "action matrix" to evaluate constraints on a country's integration into the world economy and identify areas where technical assistance and trade programmes can help the country overcome these barriers (Finger 2008, p. 87).

⁴⁵ Evenett (2008a, p. 5) describes the "missing middle" of the WTO and the respective role of AfT as follows: "WTO members could collectively start by raising awareness about the effects of (certain public or private) ... acts ..., create fora and opportunities to discuss these acts and their consequences internally and with external parties, identify best ... practices, potentially negotiate non-binding standards, monitor acts and associated outcomes, undertake reviews, and public reports etc. ... These steps could be codified in a Decision of the WTO General Council. ... The Aid-For-Trade initiative has by and large been implemented along these lines, and so represents an attempt to extend the WTO's middle."

commitment of other official agencies or international organisations in this area, it appears to be critical to provide a compelling rationale that the trade-related aspects of development, such as the need for adjustment to structural change or the prioritisation of infrastructure and private-sector development, either are being overlooked at the moment or are worthy of differential treatment. Otherwise, it is held, there might be a risk that non-WTO parties involved in a deliberative process like AfT could regard the recommendations from the international trade community as special pleading (Evenett 2008a, p. 13).

The two other IGOs most relevant for AfT – the World Bank and the International Monetary Fund – both have a special stake in AfT and therefore play key roles in determining its architecture.

The two other IGOs most relevant for AfT are the World Bank and the International Monetary Fund. As the pioneers of the programme in 2005, both have a special stake in the AfT initiative. The two institutions therefore play key roles in determining the architecture of AfT.

Trade-related activities of the **World Bank** include lending, technical assistance, training and analytical work. The World Bank is also engaged in capacity building in foreign trade; it facilitates the sharing of best practices by major donors and supports a development-friendly multilateral trading system. Overall, its trade-related lending was around US\$1.4 billion in 2008, involving 51 projects, 12 of which had a regional focus (World Bank 2008c). The International Development Association (IDA), which is the non-concessional lending arm of the World Bank,⁴⁶ forms the largest multilateral provider of AfT in low income countries (WTO and OECD 2007, pp. 25–26). This is also demonstrated in Figure 7.

In its own evaluation of trade-related lending over the past 15 years, the Independent Evaluation Group (IEG) of the World Bank has found that despite developing countries' greater openness to trade supported by World Bank financing, the World Bank's trade programmes have not yet been successful in effectively boosting export growth, economic development and reducing poverty (World Bank Independent Evaluation Group 2006, pp. 67–70). The recommendations for future trade-related funding concentrate on supporting export-led growth:

"[...] continued efforts to reduce anti-export biases in trade policy are needed, with priority given to removing constraints to specific promising exports. Second, as is already emerging, greater attention needs to be paid to investment climate, infrastructure, and trade facilitation more broadly. Third, selective promotion of export development, such as support for training, improved information about market opportunities, linkages, technology development, and so on would be useful." (World Bank Independent Evaluation Group 2006, p. 70)

The **IMF** considers AfT as part of its mandate laid down in the "Articles of Agreement of the International Monetary Fund": *"To facilitate the expansion and balanced growth of international trade, [...]"* (Article I(i)). It is active in AfT by giving policy advice and surveillance, doing programme work and research, giving technical assistance and cooperating with other institutions,

⁴⁶ The World Bank Group is comprised of the International Bank for Reconstruction and Development (IBRD), which is responsible for non-concessional lending, the International Development Association (IDA), with concessional lending, the International Finance Corporation (IFC), engaging in private-sector investments, the Multilateral Investment Guarantee Agency (MIGA), providing cover for foreign direct investment, and the International Center for the Settlement of Investment Disputes (ICSID), as an intermediary between governments and private investors.

especially the World Bank and WTO, in order to ensure coherence of the AfT initiative.

The IMF's Trade Integration Mechanism deals with short-term costs of adjustment to the liberalisation of trade.

One project that deals with short-term costs of adjustment to the liberalisation of trade is the IMF's Trade Integration Mechanism (TIM), created in 2004 as a narrow aid instrument to prognosticate the use of IMF resources and facilities more easily. When liberalising their trade, developing countries face short-term adjustment difficulties (such as a reduction in export revenues and deterioration in the external balance of payments). Reasons for these adjustments may be increased competition in the export market (due to preference and quota erosion) or subsidy cuts in industrialised countries (which can increase the price of food imports relative to food exports). TIM assists those countries negatively affected by multilateral trade liberalisation, resulting in balance of payments shortfalls (Martí and Rampa 2007, p. 51). Currently, three countries (Bangladesh, the Dominican Republic and Madagascar) are receiving support under TIM to offset negative effects from trade liberalisation.

Regional Development Banks may secure access to international financial markets and enhance regional ownership of the AfT initiative.

A somewhat distinct role in AfT is played by **Regional Development Banks (RDBs)**, such as the African Development Bank (AfDB), the Inter-American Development Bank and the Asian Development Bank (ADB). Their members include both developed donor countries and developing recipient countries. As access to private capital can be unreliable, restricted and expensive, and the high cost of finance may pose a serious problem especially for SMEs in developing countries without access to international financial markets, multilateral lending through RDBs facilitates more development-friendly forms of financing and professional advice. RDBs provide concessional loans to low income countries and 'normal' loans to middle income countries, which do not have access to market funds due to high risk premiums and a corresponding lack of credit worthiness (Griffith-Jones et al. 2008, p. 1).

The RDBs just mentioned are intermediaries between donors and recipients, which not only provide flexible support to developing countries, but also represent particular interests of country-groups. For example, the AfDB wants to address the high costs of doing business in Africa, while the IADB, which is the main source of multilateral development finance in Latin America and the Caribbean, lobbies for its mostly middle-income countries (WTO 2006e, pp. 3–5). In addition, RDBs are of paramount importance in providing the necessary funds for concessional lending. The African Development Fund of the AfDB and the Asian Development Fund of the ADB, for example, rank relatively high among the top five multilateral donors, as is demonstrated in Figure 7.

Multilateral lending by these big RDBs is complemented by several other RDBs, which operate on a smaller regional scale and members of which are typically merely borrowing countries. The Andean Development Cooperation (CAF), the East African Development Bank (EADB) and the West African Development Bank (WADB) are cases in point. While their credit ratings might be lower, and the terms of their loans are often shorter than with the broader-based RDBs, they on the other hand permit a more effective representation of their borrowers' interests and a greater degree of regional ownership. Moreover, information asymmetries appear to be less severe in these cases, allowing for a faster approval of loans as well as for the sharing and using of specific knowledge to fill gaps in private sector financing, e.g. for large infrastructure projects (Laird 2007, p. 11). As Griffith-Jones et al. (2008, pp. 20–21) point out, the role of smaller sized and more focused RDBs ought to be strengthened, in order to increase developing countries' voice in the allocation of resources.

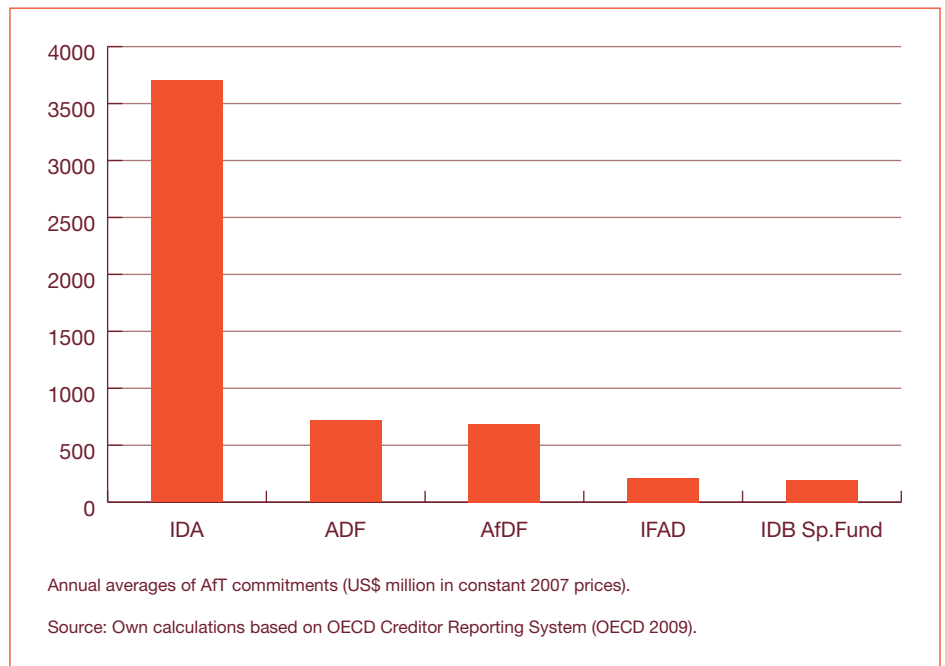


Fig. 7 Top 5 multilateral Aid for Trade donors, 2001–2007 average

2.3 Private sector

The private sector plays a dual role in AfT:

1. It is a major beneficiary of AfT activities; and
2. it is a key agent in making AfT effective.

Small and medium-sized firms are the main target of AfT activities in the private sector of developing countries.

The private sector, in particular in the form of small and medium-sized enterprises (SMEs), is an engine of trade and growth in many developing countries. It is a prominent stakeholder in AfT from two perspectives:

1. It is a major beneficiary of AfT activities.
2. It is a key agent in making AfT effective.

This dual role of the private sector in AfT is epitomised in Business Membership Organisations as its institutional backbone. In developing countries, BMOs are potential recipients of AfT from donor countries and international organisations, while at the same time, if needed, acting as lobbyists, facilitators and multipliers/catalysts in this area and thus performing an ‘internal’ AfT function within the respective country. They are thus important intermediaries between foreign donors and domestic recipients of AfT, as well as between the public sector and private entrepreneurs and may in this way significantly contribute to securing local ownership of AfT projects. In principle, BMO activities span the main stages of the AfT exercise, i.e. needs assessment and diagnostics as well as implementation and evaluation of the effectiveness of implementation, and they cover the main kinds of capacity building (human, institutional and infrastructural) on which AfT concentrates. This is shown in greater detail in Chapter 4 for the cases of Kenya, Tanzania and Uganda.

Private business in developing countries is dominated by SMEs, which largely contribute to economic and social development. However, they often lack technological capacity and are too small and inadequately endowed with capital to compete on dynamic international markets. SMEs’ business entry, survival and expansion are challenged by the financial, bureaucratic and managerial obstacles imposed on them in many developing countries. Small

and micro-enterprises with fewer than ten employees often operate outside the formal sector. The share of informal employment and production can be assumed to be major in many developing countries, and it is questionable if any of the funding or technical assistance provided to the private sector reaches the informal small SMEs and micro-enterprises (Brewster and Njinkeu 2008, p. 370). Thus, aiding the private sector and addressing this vast co-existence with a formal sector remains a complex challenge and requires cooperation between the private and public sector: entrepreneurship engaged in legitimate activity relies on the actions taken by developing countries' governments to improve the policy framework and trading environment for individual firms and business associations. This includes a functional infrastructure, a trained work force and the reduction of regulatory hurdles (or rather, imparting skills for dealing with hurdles), including those on international markets.

Special private sector programmes have been put in place to create a trade enabling environment.

A precondition for private sector development is country ownership, as asserted by the International Trade Centre, a Geneva-based joint agency of the WTO and UNCTAD which mainly provides trade-related assistance concerning the private sector. Developing countries' governments need to create a situation conducive to firm and household development. To create such a trade-enabling environment, some development and financing institutions have put in place private sector programmes themselves. These include the World Bank with its programmes for the private sector, covering areas such as the investment climate, public-private partnerships and work on support for SMEs; the Inter-American Development Bank, providing long-term loans and guarantees for private enterprises; the African Development Bank which has a private sector development strategy to integrate private sector concerns in the bank's operations as well as its own private sector department dealing with private sector lending; the Asian Development Bank, extending lines of credit to public and private financial intermediaries of its developing members, which mainly benefit productive private SMEs; and bilateral donors with their private sector programmes, such as the UK's Department for International Development, the US Agency for International Development and the Swedish International Development Agency, amongst others (Brewster and Njinkeu 2008, pp. 378–382).

Furthermore, the multi-agency Joint Integrated Technical Assistance Programme could be a valuable component for strengthening private sector engagement. Almost all partner countries view JITAP's main role as assisting in the establishment of an institutional set-up for participation in the multilateral trading system. JITAP beneficiary countries need to establish so-called Inter-Institutional Committees (IICs), which offer a consultative and training platform for various stakeholders. It has been shown that they are mainly embraced by the public and private sector and to a lesser extent by civil society and academia. IICs are expected to continue their work after JITAP phases out, to remain a part of developing countries' institutional setting and thus to incorporate a sustained policy-related approach to AfT (JITAP II Final Report 2008, p. 11). However, the IICs report that they lack financing and technical expertise; in six countries, IICs are not legally recognised, rendering programme implementation very difficult and isolating the IICs from government policies. This is probably still due to insufficient country ownership, although government involvement in JITAP activities has steadily increased since 2003.

Enhanced networking and cluster-building, involving small and medium-sized as well as larger enterprises, is a key to private sector trade development.

No matter how important the role of developing countries' governments in setting the preconditions for business development and providing for an enabling environment, a coherent public policy approach to direct SME development is difficult. The SME sector is highly differentiated and acts at a local level. Thus, to actively boost private sector investment, bottom-up approaches within a national framework are needed instead. Cluster-building and enhancing networking among SMEs, as well as between SMEs and larger enterprises, can be a valuable component of this microeconomic development. One example is the United Nations Industrial Development Organization's (UNIDO) programme "Development of Clusters and Networks of SMEs", which provides technical assistance to SMEs and aims at helping SMEs combine their strengths and solve common problems together. By coordinating their activities in a network, small-scale enterprises benefit from collective production capacities, division of labour, higher efficiency, the exchange of ideas and experiences, and are able to achieve economies of scale. Cooperation is more likely when firms are proximate to each other and share the same business interests. SME clusters foster interest representation, cost-saving production and mutual know-how (United Nations Industrial Development Organization 2001, p. 7). UNIDO's projects are customised to the requirements of developing countries and their local policies and SME sectors. Specific training programmes, technical assistance, workshops and the creation of discussion rounds are aimed at establishing sustainable clusters.

Apart from horizontal networks among SMEs, UNIDO also facilitates vertical linkages between large enterprises and SMEs in developing countries. Large manufacturers are often hesitant to work with small local suppliers due to reliability concerns and quality requirements, although there are benefits in delivery time and transportations costs, amongst others. The objective is to overcome these concerns and establish integrative local networks (United Nations Industrial Development Organization 2001, pp. 18–22). UNIDO's cluster and networking approach is characterised by the involvement of so-called brokers for implementation. Brokers are intermediary agents who are from local development agencies, associations or non-governmental organisations and function as local consultants and trainers to foster the development of clusters or networks. They analyse local conditions and help to design and implement specific local strategies – and thus put forward a bottom-up approach to private sector development.

Non-Governmental Organisations play a growing role in private trade development on a local level.

Concerning local private trade development, a case can also be made for non-governmental organisations. A wide range of national and international NGOs have become active on issues such as trade policy (research), economic development and financing and training of businesses.⁴⁷ Many humanitarian organisations have increasingly engaged in trade development, recognizing that trade is an issue with which citizens and enterprises should be concerned. There is widespread recognition that donor and recipient governments need to work closely together with NGOs and the private sector to make Aid for Trade effective:

"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

⁴⁷ The International Trade Centre's International Trade Forum lists 23 key NGOs involved in trade development, among them Care International, Concern, International Policy Network, Oxfam International and World Vision (International Trade Centre 2006).

society institutions like trade unions and consumer, environmental and social justice NGOs.” (OECD 2001, p. 45)

Many NGOs try to represent the poor and marginalized actors in developing countries and to make their voice heard by the international trade community – by analysing and connecting with employers and employees of the informal sector, micro-firms and all those affected by trade directly or indirectly. Furthermore, NGOs publish research papers and policy recommendations to be used by the private sector itself and by governments and international organisations (Weston 2008, p. 333). Oxfam International, for instance, regularly publishes its research on trade-related issues, is actively involved in the Aid for Trade discussion and runs a trade campaign to lobby international organisations such as the WTO. As NGOs often employ field workers in developing countries and channel development assistance to concrete projects and local private business, they bypass governments (which are thus not the main recipients of Aid for Trade flows) and probably reach small and non-influential private actors more effectively. In this way, it is ensured that development aid responds to the recipients’ needs; however, these aid flows are hardly traceable or predictable on a larger scale and effective monitoring is impossible.



3 Empirical analysis

Trade can lead to higher growth rates, but preconditions have to be fulfilled.

AfT can play an important role in the provision of the necessary preconditions.

Reversed causality as an econometric problem

The objective of the Aid for Trade Agenda is to enable developing countries to benefit from trade liberalization. The underlying principle is that trade has the potential to substantially increase economic welfare. Exploring comparative advantages of particular goods, using economies of scale in production or taking advantage of technology spillovers are all actions likely to boost economic growth rates. Based on various theoretical models, abundant empirical literature has examined the welfare effects of trade (volumes) on income levels and growth rates. If anything, the majority of studies show that trade is positively associated with growth rates.⁴⁸ This view of trade fostering economic development, however, is not undisputed.⁴⁹ It has been shown that trade does not automatically lead to economic development, but rather only if certain preconditions are fulfilled, e.g., with respect to business regulations (Freund and Bolaky 2008) or institutional quality (Borrmann et al. 2006).

This chapter contributes to this debate by exploring the prerequisites for a positive trade-growth nexus. More specifically, in an empirical analysis the relevant parts of the Aid for Trade agenda will be examined with respect to their potential to boost economic growth rates through trade. More specifically, we identify variables in three different areas that are crucial for the AfT agenda: institutions, infrastructure and human capital. As resources are not unlimited, it is especially important to find out which of the different areas reveal an empirical influence of trade on economic growth. Most, if not all, of these variables clearly have a direct effect on economic development. Better institutions, better infrastructure and more human capital lead to higher economic growth. But the objective of AfT is to improve conditions in those areas which, apart from these direct effects, lead indirectly to higher economic development through the channel of trade. For example, an improvement in physical infrastructure facilitates trade, and the resulting increase in trade leads in turn to higher economic development. The crucial question in the discussion on AfT is in which areas such indirect effects can be found. To answer this research question, we constructed a comprehensive econometric model designed to explain growth differentials between countries. The empirical analysis uses a large data set, covering about 100 countries from 1971 to 2005.

It is intuitively obvious that a better educated population, a better infrastructure or higher quality institutions may result in higher GDP per capita growth. But one cannot rule out reverse causality, that is, that as countries get richer, e.g., as measured by GDP per capita growth, they invest more in education and infrastructure and experience an improvement in the quality of institutions. In econometric terms, such a situation is called an endogeneity problem, which is, to say the least, unfavourable for econometric analyses. Normally, in econometric modelling one would look for a situation with one variable of interest and then explain differences in that variable across countries and time using a set of explanatory variables that are independent of the variable of interest. But in our case, most of the control variables are very likely to be endogenous, including trade and unfortunately also the areas of top priority for the AfT Agenda such as education, infrastructure, and institutions. Obviously, the indirect effects through trade of the AfT agenda are then also endogenous. As shown in Figure 8 by arrows going in both directions, the three types of variables

⁴⁸ See Yanikkaya (2003) for a review of the extensive literature. Prominent studies are, for example, Dollar (1992), Sachs and Warner (1995), Frankel and Romer (1999), Dollar and Kraay (2002), Irwin and Terviö (2002), and Noguer and Siscart (2005).

⁴⁹ A critical view can be found in Rodriguez and Rodrik (2000).

not only influence the dependent variable, but are also influenced by the development of per capita growth over time. As a result, it is difficult to disentangle cause and effect for these crucial variables. Because standard econometric techniques would lead to biased results and cast doubts on reliability, a more sophisticated estimation approach is called for.

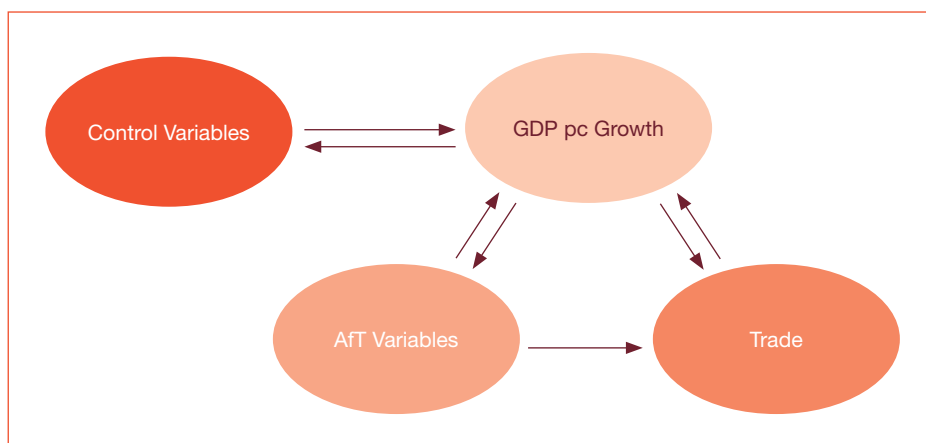


Fig. 8 Basic model

GMM estimator to solve the reversed causality problem

Consequently, we use a dynamic Generalized Method of Moments (GMM) panel estimator (system GMM) that allows us to analyse changes across countries and over time (panel analysis). The estimator deals effectively with the endogeneity problem by using a set of instruments for the endogenous variables.

We will thus first introduce the country sample covered, the variables used, and the econometric method employed in our analysis. We will then show the results and provide a discussion of the results, including various policy conclusions.

3.1 Research design

3.1.1 Variables and country sample

Large model and dataset used for the empirical analysis

The panel data set used in this study consists of 98 countries.⁵⁰ It is balanced, meaning that we have data for all main variables and periods for all 98 countries. The data set covers 69 developing countries, of which 19 belong to the group of least developed countries. The LDCs comprise the main target group, as they have benefited little from the international trading system so far. The dependent variable is derived from the literature on economic growth, the real GDP per capita growth rate labelled **GDPpcgrowth**. To reduce the impact of business cycles we use a total of seven five-year averages for all variables, from 1971–1975, 1976–1980 and so on, until 2005. In our model, we include the following independent variables:⁵¹

- **InitialGDPpc** describes the level of GDP per capita in constant 2000 US dollars for the last year of the previous period, i.e. GDP per capita in 1970 as the initial value for the period of 1971–1975.
- **PopulationGrowth** refers to the population growth rate in a country, including migration.

⁵⁰ Appendix 3 lists all countries included.

⁵¹ A detailed description of the variables and data sources is given in Appendix 1.

- **Investment** is the investment share of GDP.
- **Trade** equals exports plus imports of goods and services as a share of GDP.
- **Total (Secondary/Primary) Education** refers to educational attainment levels, quantified by the average years of total (secondary/primary) schooling of the population 15 years and older and serves as a proxy for human capital. The variable **Tertiary Education** refers to the average years of tertiary schooling of the population 25 years and older.⁵²
- **Telecommunications** stands for the number of main telephone lines divided by total population as one important aspect of infrastructure.
- **Roads** refers to the total network of paved roads (in kilometres) divided by total population.
- **Railways** measures the total length of railway network (in kilometres) divided by the total population.
- **Power Generating Capacity** refers to the amount of kilowatt produced per capita.

As a variable for the quality of political institutions, we include **Political Constraints**, which measures the extent of institutionalized constraints on the decision-making powers of chief executives (Centre for Systemic Peace 2008). It is measured on an ordinal scale from 0 (periods of interruption, transition or interregnum) to 7 (executive parity or full set of checks and balances). In contrast to almost all other measures for institutional quality, this variable is available for many countries over a long period of time. However, as Table 1 shows, the partial correlations between “Political Constraints” and more accurate governance indicators, such as the World Bank Good Governance indicators (which are unfortunately only available from 1996 onwards) are reasonably high, rendering “Political Constraints” a good proxy for the quality of political institutions.

World Bank Good Governance Indicator	Partial Correlation with Political Constraints
Government Effectiveness	0.60
Regulatory Quality	0.68
Rule of Law	0.57
Control of Corruption	0.51
Political Stability	0.54
Voice and Accountability	0.86

Sources: World Bank (2008a) and Centre for Systemic Peace (2008).

Tab. 1 Partial correlations between Political Constraints and World Bank Good Governance Indicators, average 2001–2005

Large differences between the performance of countries, even among the group of developing countries

Table 2 presents the means for the variables introduced above for all the countries included in our sample, as well as different subsamples. As expected, developed countries have higher levels of educational attainment, better infrastructure and lower population growth. The investment rate is higher and they benefit from better institutions. Developed countries have experienced higher GDP per capita growth rates, partly due to the inclusion of three ‘Tiger States’ (Republic of Korea, Taiwan and Singapore) that

⁵² Here we use the total population over 25 since youths between 15 and 25 have not yet completed tertiary education.

experienced exceptionally high levels of GDP per capita growth in the 1970s and 1980s, but were relatively poor in 1970. In recent years, their growth rates have slowed down.

Variable	All Countries	Developed Countries ¹	Developing Countries ¹	
			Non-LDC	LDCs ²
No. of Countries	98	29	50	19
GDPpcgrowth	1.81	2.50	1.94	0.40
ln InitialGDPpc	7.62	9.58	7.27	5.54
Population Growth	1.81	0.82	2.03	2.75
ln Investment	2.68	3.18	2.63	2.04
Total Education	5.47	8.32	5.12	2.06
Primary Education	3.68	4.99	3.70	1.65
Secondary Education	1.57	2.90	1.26	0.38
Tertiary Education	0.26	0.49	0.21	0.03
Trade	0.70	0.81	0.70	0.54
ln Telecommunications	-3.27	-1.12	-3.50	-5.91
ln Roads	-6.71	-5.01	-6.97	-8.26
ln Railways	-8.62	-7.68	-8.88	-9.33
ln Power Generating Capacity	-8.40	-6.50	-8.51	-11.00
Political Constraints	4.51	6.11	4.31	2.65

¹ World Bank classification, based on income per capita.
² Least developed countries according to UN classification.

Tab. 2 Means for main variables and different country groupings, 1971–2005

3.1.2 Methodology

For the dynamic panel analysis, we start with a relatively simple specification that can be derived from an augmented Solow type growth model.⁵³

$$\text{GDPpcgrowth}_{it} = \alpha_i + \beta_1 \text{GDPpcgrowth}_{it-1} + \beta_2 \text{InitialGDPpc}_{it} + \beta_3 \text{PopulationGrowth}_{it} + \beta_4 \text{Investment}_{it} + \beta_5 \text{TotalEducation}_{it} + \beta_6 \text{Trade}_{it} + \lambda_t + \varepsilon_{it}$$

Equation 1

where GDPpcgrowth_{it} stands for the GDP per capita growth of country i in period t , α_i is the country fixed effect, $\text{GDPpcgrowth}_{it-1}$ represents the lagged dependent variable in the previous period, Trade_{it} is the variable of interest, $\text{PopulationGrowth}_{it}$, Investment_{it} and $\text{TotalEducation}_{it}$, as introduced above, are further control variables, λ_t is a set of time dummies, which is supposed to capture period-specific effects, and ε_{it} stands for the error term. In subsequent regressions, we add further explanatory variables.

We expect a positive influence of the lagged GDPpcgrowth variable and a negative influence of the initial GDP per capita variable on current growth. For the different education variables, the infrastructure variables, the quality of political institutions and the trade variables, we expect positive coefficients.

⁵³ We basically follow Mankiw, Romer and Weil (1992), who show that an augmented Solow growth model that includes accumulation of human and physical capital provides an excellent description of the data.

Instrumental variable approach in the empirical analysis to avoid the problem of endogeneity

Estimating Equation 1 by ordinary least squares for the typical pooled cross-country time series analysis with ‘small T and large N’ is very likely to produce biased coefficients due to the well-known problems that occur if some independent variables are endogenous (which is true for our sample). To solve this problem, we have to follow an instrumental variable approach, that is, to find instruments that are correlated with the endogenous explanatory variable but are not correlated with our dependent variable GDP per capita growth (see Figure 9).

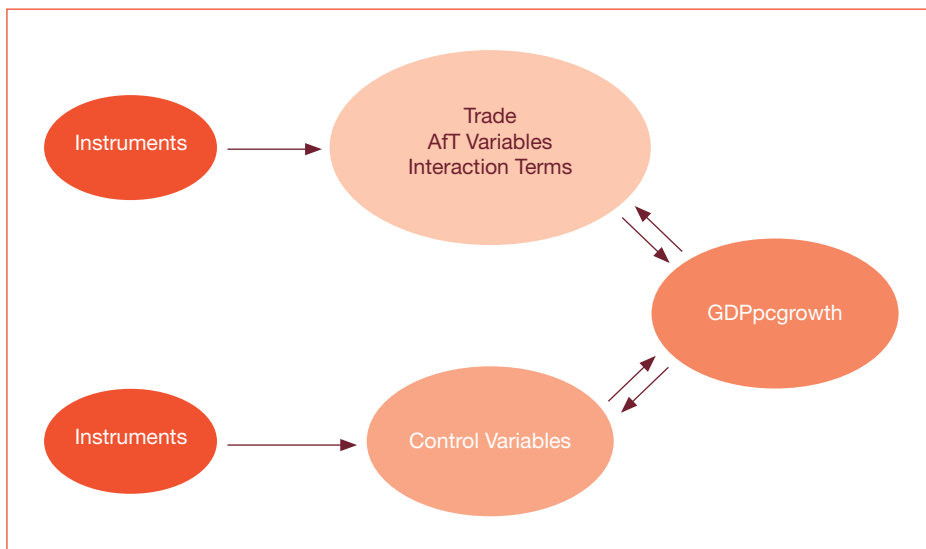


Fig. 9 Estimation strategy

As our estimation strategy, we draw on the system GMM estimator, which does not require any external instruments other than the variables already included in our data set. In fact, it uses lagged levels and differences between two periods as instruments for current values of the endogenous variable. Significantly, the estimator does not use lagged levels or differences themselves for the estimation, but rather employs them to analyse the variation in the endogenous explanatory variables in a given period and explain variation in the GDP per capita growth variable. This approach ensures that all information will be used efficiently and that we can concentrate on the impact of the explanatory variables on GDP per capita growth and not vice versa.

The procedure, suggested by Arellano and Bond (1991), eliminates as a first step the country-specific effects in Equation 1 using first differences:

$$\Delta GDPpcgrowth_{it} = \beta_1 \Delta GDPpcgrowth_{it-1} + \beta_2 \Delta InitialGDPpc_{it} + \beta_3 \Delta PopulationGrowth_{it} + \beta_4 \Delta Investment_{it} + \beta_5 \Delta TotalEducation_{it} + \beta_6 \Delta Trade_{it} + \Delta \lambda_t + \Delta \epsilon_{it}$$

Equation 2

where $\Delta GDPpcgrowth_{it} = GDPpcgrowth_{it} - GDPpcgrowth_{it-1}$. As a second step, we estimate Equation 2 by using the differenced endogenous and predetermined explanatory variables with their levels in previous periods. Following this approach, we would get the Arellano and Bond difference GMM estimator. This estimator, which can be thought of as an extension of the Anderson and Hsiao (1982) estimator, produces efficient (and consistent) estimates, since the latter estimator fails to take all the potential orthogonality conditions into account.

System-GMM estimator as the preferred estimator

In two later papers, however, Arellano and Bover (1995) and Blundell and Bond (1998) reveal a potential weakness of the difference GMM estimator. They show that lagged levels can be poor instruments for first-differenced variables, in particular if the variables are persistent. In their modification of the estimator, they suggest including lagged levels as instruments for the difference equation and lagged differences as instruments in the level equation. In contrast to the original difference GMM, they term this expanded estimator system GMM. In fact, the system GMM approach estimates Equations 1 and 2 simultaneously, by using lagged levels in Equation 2 and lagged differences in Equation 1 as instruments.

As we use lagged levels and lagged differences, the number of instruments can be quite large in a system GMM estimator. However too many instruments can overfit endogenous variables and fail to expunge their endogenous components. Moreover, it also weakens the power of the Hansen test to detect overidentification. Since the risk can be quite high with this estimator, it has become common practice in the literature to keep the number of instruments below the number of observations, that is, the number of countries included in our sample. To avoid this bias, we reduce the size of the instrument matrix in a number of regressions by restricting the number of lags used.

Significantly, in our estimation approach we capture the indirect effects of the AfT variables through trade on GDP per capita growth by including an interaction term between the AfT and the trade variable.

3.2 Empirical results

3.2.1 Main results

Control variables have the expected sign in the analysis.

Following the introduction of the variables and the econometric method used, we now turn to the main empirical results presented in Tables 3 and 4. To start, we show the results for the benchmark regression, that is, the augmented Solow growth model (column 1 in Table 3). Differences in GDP per capita growth across countries and time are explained only by GDP per capita growth of the previous period (“GDPpcgrowth_{t-1}”), the initial level of GDP per capita (“Initial GDPpc”), “Population Growth”, “Investment”, educational attainment (“Total Education”) and “Trade”.⁵⁴ The coefficients of all variables have the expected sign. GDP per capita growth of the previous period has a positive influence on current GDP per capita growth, while the initial level of GDP per capita and population growth have negative influences. Investment, educational attainment and trade have the expected positive sign of the coefficient. The first four variables are significant at the 1% level, with trade being significant at the 5% level and educational attainment just missing the 10% level. The condition that the number of instruments should be below the number of countries included in the regression is fulfilled (with 68 instruments and 98 countries in the first regression). The value of the Arellano-Bond test AB(2) implies that problems of second order autocorrelation in differences can be ignored, while the values of the Hansen test show that the instruments are valid.

⁵⁴ Variables, such as Initial “GDPpc” or “Investment”, are used in logs to reduce the skewness of the data.

Independent Variables	Dependant Variable: GDPpcgrowth					
	1	2	3	4	5	6
GDPpcgrowth (t-1)	0.149*** (2.697)	0.155*** (3.011)	0.156*** (2.868)	0.166*** (3.032)	0.156*** (2.835)	0.170*** (3.189)
In InitialGDPpc	-1.161*** (-3.828)	-1.637*** (-4.034)	-1.543*** (-4.001)	-1.493*** (-4.265)	-1.988*** (-4.851)	-1.506*** (-4.877)
Population Growth	-0.514*** (-12.62)	-0.494*** (-14.05)	-0.479*** (-10.92)	-0.481*** (-10.02)	-0.450*** (-8.729)	-0.470*** (-9.846)
In Investment	1.951*** (2.803)	2.226*** (2.304)	1.919*** (3.267)	1.507*** (3.205)	1.933*** (3.046)	2.057*** (3.499-)
Total Education	0.353 (1.62)	0.108 (0.567)	-0.428 (1.502)			
Trade	1.246** (1.997)	1.064* (1.874)	-3.070* (-1.925)	-3.305** (-2.023)	-1.546 (-1.211)	-0.86 (-0.910)
In Telecommunications		0.701* (1.902)	0.974*** (3.211)	0.942*** (2.851)	1.174*** (4.242)	0.845*** (3.014)
Total Education* Trade			0.572** (2.367)			
Primary Education				-0.709* (-1.819)		
Primary Education* Trade				0.899** (2.42)		
Secondary Education					-0.338 (-0.566)	
Secondary Education* Trade					1.079* (1.868)	
Tertiary Education						-1.992 (-1.168)
Tertiary Education* Trade						2.944 (1.54)
Observations	588	588	588	588	588	582
No. of countries	98	98	98	98	98	97
No. of instruments	68	84	92	92	92	92
Hansen Test (p-value) ¹	0.19	0.24	0.44	0.50	0.43	0.65
AB 2 Test (p-value) ²	0.46	0.40	0.36	0.41	0.30	0.39

Significance at the 10, 5, and 1 percent level is denoted by *, **, and ***, respectively. Estimation based on one-step system GMM estimator with robust standard errors; corresponding z-values are reported in parentheses. Constant terms and time dummies are always included but not reported.

¹ Hansen-test of overidentification.
² Arellano-Bond-test that second-order autocorrelation in residuals is 0; first-order autocorrelation is always rejected (not reported).

Tab. 3 Determinants of GDP per-capita growth

A better telecommunication infrastructure has a direct and positive impact on growth rates.

In the next model (column 2 in Table 3), we add the infrastructure variable “Telecommunications” (main telephone lines per capita) as an explanatory variable. Adding this variable, which is important in the AfT context, does not fundamentally change the significance level, nor the coefficients of the variables of the first benchmark regression. The infrastructure variable itself has the expected positive sign and the coefficient is significant at the 10% level.

The first two regressions show that the model employed explains differences in GDP per capita growth across countries and over time reasonably well. We then proceed in our analysis of whether an indirect effect on GDP per capita growth of the AfT variables through trade can be found. This indirect effect is captured by adding an interaction term between the AfT and the trade variable to the regression. The interaction term consists of the product

of one AfT variable and the trade variable of the same period. If an indirect effect of the AfT variables exists, we expect a positive coefficient of the interaction term. The overall effect of the AfT variable, on the other hand, is the sum of its direct effect on GDP per capita growth and the indirect effect through trade. The overall effect is calculated by taking the coefficient of the AfT variable, the coefficient of the interaction term and the mean of the trade variable into account.⁵⁵

Education highly relevant for countries to harness the gains from trade

In the following regressions we add, one by one, an interaction term between the trade variable and one AfT variable from the three main areas of interest: education, infrastructure and political institutions. In models 3 to 6, we add an interaction term between different education variables and the trade variable. In column 3, we start by adding the interaction term between “Total Education” and the trade variable. The variables of the augmented Solow model (“GDPpcgrowth” of the previous period, the initial level of GDP per capita, population growth, investment and the infrastructure variable) remain largely unchanged with respect to both coefficients and significance levels. The interaction term has the expected positive sign and is significant at the 5% level, while the sign of the coefficient of trade and the education variable changed from positive to negative (the former at the 10% significance level). However, the calculated overall effect of trade shows that the variable still has a positive influence on GDP per capita growth (with an overall effect of 0.0612).

Primary and secondary education more important for a positive trade-growth-nexus than tertiary education

In columns 4 to 6, the results for the three different components of the “Total Education” variable (“Primary”, “Secondary” and “Tertiary Education”) and their interaction terms with the trade variable are reported. For “Primary” and “Secondary Education”, we find similar results as for the aggregate “Total Education” variable. The coefficient of the interaction term is positive and significant at the 5% level for “Primary Education” and at the 10% level for “Secondary Education”. In both regressions the coefficient of the education variable is negative (in the case of “Primary Education” it is even significant at the 10% level). Yet the overall effects of both trade and education are positive in all cases. In column 6, the results for the last education variable, measuring the average years of tertiary schooling of the population over 25, are reported. We obtain similar results for the variables of the benchmark as in the regression of the previous education variables. For the interaction term between “Tertiary Education” and “Trade”, however, we do not find a significant coefficient.

No significant results for the infrastructure variables

In columns 7 to 10 in Table 4, we add different infrastructure variables and their interaction terms with trade to the benchmark regression of column 1. For the four infrastructure variables “Telecommunications”, “Roads”, “Railways”, and “Power Generating Capacity”, the coefficients of the benchmark regression remain largely unchanged. But in all four regressions, the coefficients of the interaction terms between the different infrastructure variables and trade are not significant, meaning that we cannot establish an indirect impact of these variables on growth through trade.

High quality institutions are important to harness the benefits from trade too.

In the last column, we add an indicator of the third area relevant for AfT, the quality of political institutions. We augment the benchmark regression with “Political Constraints” and the respective interaction term with the trade variable. Again, the results of the benchmark regression are not fundamentally altered. We obtain a positive and significant coefficient of the

⁵⁵ F-test results show that Trade and the respective interaction terms together are statistically different from zero.

interaction term between “Political Constraints” and the trade variable. The coefficients of “Trade” and “Political Constraints” themselves are not found to be significant.

Independent Variables	Dependant Variable: GDPpcgrowth				
	7	8	9	10	11
GDPpcgrowth (t-1)	0.147** (2.057)	0.174*** (2.637)	0.131** (2.108)	0.161** (2.16)	0.146** (2.075)
In InitialGDPpc	-1.401*** (-3.320)	-1.484*** (-3.006)	-1.609*** (-3.626)	-1.610*** (-3.045)	-1.260** (-2.546)
Population Growth	-0.485*** (-12.06)	-0.495*** (-12.04)	-0.498*** (-12.33)	-0.390* (-1.728)	-0.476*** (-10.87)
In Investment	2.214*** (2.888)	1.798** (2.557)	2.441*** (3.658)	1.566* (1.907)	1.974** (2.57)
Total Education	-0.15 (-0.676)	0.256 (0.946)	0.471 (1.267)	0.672* (1.954)	-0.237 (-0.986)
Trade	0.989* (1.882)	-2.574 (-0.836)	1.755 (0.453)	8.880* (1.655)	-1.225 (-1.205)
In Telecommunications	0.659* (1.88)				0.848** (2.526)
In Telecommunications* Trade	0.343 (1.199)				
In Roads		0.23 (0.284)			
In Roads * Trade		0.000262 (0.000427)			
In Railways			-0.396 (-0.748)		
In Railways* Trade			0.763 (1.35)		
In Power Generating Capacity				0.774 (1.513)	
In Power Generating Capacity* Trade				-0.493 (-1.101)	
Political Constraints					-0.198 (-1.178)
Political Constraints* Trade					0.427* (1.897)
Observations	588	506	496	578	580
No. of countries	98	95	84	97	97
No. of instruments	68	78	72	72	83
Hansen Test (p-value) ¹	0.30	0.40	0.53	0.40	0.19
AB 2 Test (p-value) ²	0.30	0.49	0.31	0.45	0.24

See Table 3. Significance at the 10, 5, and 1 percent level is denoted by *, **, and ***, respectively.

Tab. 4 Determinants of GDP per-capita growth (continued)

3.2.2 Discussion of the results and policy implications

Overall, we confirm the results reported by previous studies and find empirical evidence of a positive influence of trade on economic growth. In both benchmark regressions, the coefficient of the trade variable had a significant positive sign. This result lays the foundation for any Aid for Trade programme. Establishing this empirical connection justifies the endeavour of fostering economic growth through trade.

Next, we focus in more detail on those areas that can be influenced by adequate AfT programmes. We have identified three different areas that are crucial for the AfT agenda: institutions, infrastructure and human capital. As most, if not all, of these variables clearly have a direct effect on economic development, we want to find out in which of these areas an indirect effect through trade on economic growth can be found. Identifying these areas is important for targeting AfT Programmes, as improving the conditions in these areas additionally leads indirectly, through the channel of trade, to higher economic development.

Institutions and education are most important.

Our empirical results show a clear tendency towards the area of education and political institutions. We find a positive interaction term and a positive overall effect for the indicator of the total educational attainment level and the “Political Constraints” variable. Our results suggest that education and political institutions are the areas that should be targeted in AfT programmes.

To anybody involved in the development community, the results that education and institutions are important for growth will probably come as no surprise. Therefore, it is important to highlight once again that our empirical research does not only show the direct effect of education and institutions leading to economic development. Instead, our results illustrate that the areas mentioned can lead to higher economic development through an additional indirect channel, that is, trade.

Concentrating on the area of education in more detail, we find a positive and significant interaction term for the primary and secondary level of educational attainment, while for the tertiary level these positive results cannot be obtained. This result would indicate that the indirect effects of education on GDP per capita growth are higher for the primary and secondary level than for the tertiary level. This result comes as something of a surprise, as higher levels of educational attainment are normally associated with higher economic development. But it should be stressed that our results only hold true for the indirect effects through trade. The direct effects of the different educational levels can be quite different. Reasons for this result might be that the primary and secondary levels of education rather reflect the labour demand in the export orientated industries.

Measurement problems in the infrastructure area might bias the results.

For the third area relevant for AfT, the infrastructure, we do not find any significant influence of the interaction term on growth. The number of telephone lines per capita, the network of paved roads or railways in relation to the population and the power generating capacity per capita seems not to have an indirect effect on growth through trade. However, the results regarding the influence of infrastructure should be treated with caution as it is quite difficult to find an adequate measure of both the quality and quantity of infrastructure. The indicators we have used only capture the existence of public infrastructure, but not their quality or the extent of their usage. More adequate data, for example, on the failure of telephone calls

is available as well but only for a shorter time period and for less countries. With the indicators for the network of paved roads or railways, it is always problematical to take these relative to population size or country size. Each measurement either overstates or understates the scope of infrastructure development for some countries. While in our analysis an indirect effect of infrastructure on trade has not been found, one should not draw the conclusion that such an effect does not exist. The shortcomings with respect to our data indicate that the influence and need of infrastructure in the context of AfT should rather be complemented with an extensive empirical analysis, for instance, at a country level.



4 Linking the private sector to Aid for Trade: Business Membership Organisations in Kenya, Uganda and Tanzania

Business Membership Organisations have a stake in the private sector.

The preceding chapters have focused on the political economy of AfT and the determinants of a successful AfT strategy. This chapter is concerned with one stakeholder of AfT: the private sector. The development of the private sector plays an important role within the AfT initiative. This sector is often described as the ‘engine of growth’ and is key in spurring economic development in developing countries. The private sector constitutes not only enterprises of various sizes, but also Business Membership Organisations (BMO), which are significant actors in the private sector. They are intermediary institutions between the public and private sector, formed through collective private sector action. BMOs offer a wide range of advocacy and advisory services to their members and contribute to lowering transaction costs. Because of their importance within the private sector, BMOs have potential to contribute to the AfT initiative. They are able to act as an ‘AfT multiplier’ by communicating the AfT agenda to their members. BMOs can constitute a linkage between the private sector and the AfT initiative and support the implementation of its goals.

However, the role of BMOs and their impact on the competitiveness of a country is not undisputed. On the one hand, intermediary institutions are accused of following a collusive approach, i.e. seeking unproductive rents rather than having in mind common or public interest. In doing so, they channel public resources to themselves at the expense of more efficient and/or social uses (Olson 1982, Donor and Schneider 2000). On the other hand, such bodies can have a positive impact on the economic development and the competitiveness of a nation (Porter 1990, Bennett 1998). For example, BMOs are in the position to monitor and motivate bureaucrats due to the fact that they can be seen as a source of accountability. They can “(...) act as a force for disciplining the state in limited areas (...)” (Lucas 1997, p. 74), e.g. they can pressure for reform in a corrupt state.

The following subchapter 4.1 deals with the theory of BMOs and their possible contribution to AfT. In subchapter 4.2, the focus will be set on the results of the field research, which concerns the actual and potential role of BMOs within the AfT Initiative, as well as the challenges they face. Subchapter 4.3 concludes.

4.1 Contributions of BMOs to private sector and economic development

Definition of Business Membership Organisations

BMOs are organisations formed through collective action of their members. BMOs are defined as non-profit and democratically guided membership organisations. They finance themselves by a mix of membership dues, service fees, and subsidies from government or donors. Their aim is to represent their members’ interest in contact with the government, the wider public and other organisations, such as labour unions or other BMOs. Moreover they offer a wide range of services to their members. In this context, BMOs can be seen as pressure groups acting on behalf of their members’ interests to ensure that their members’ goals are respected. The outcome and implications do not necessarily contribute to economic development.

BMOs can be confined to special sectors or industries, as well as to the private sector as a whole. Two different groups can be subsumed under BMOs: Business Associations and Chamber of Commerce and Industries (Box 2).

	Business Associations	Chamber of Commerce and Industry
Characteristics	<ul style="list-style-type: none"> • Usually private law organisations • Concentrating on single branches, firm sizes or functions • Homogeneous membership structure • Providing selective services according to members needs and the professional expertise of the association 	<ul style="list-style-type: none"> • Under public or private law • Representing business interest of all enterprises in a certain region (irrespective of sector) • Heterogeneous membership structure • Providing interesting services against the background of different member interests • Performing functions delegated by the government
Subgroups	<ul style="list-style-type: none"> • Trade/industry associations • Small scale enterprises' associations • Women's organisations • Employers' associations 	
<p>In the following, we will use the definition described above. However, in the literature authors also use the term 'business associations' to describe what we understand as business membership organizations.</p> <p>Source: World Bank Group, 2005</p>		

Box 2 Definition – Business Membership Organisations

Advantages and disadvantages of Business Membership Organisations

To better understand the role BMOs can play regarding private sector development, one should first look at the aspects which characterise BMOs (World Bank Group 2005):

1. Networking

BMOs can draw upon extensive business networks and can function as hubs for information gathering and dissemination. They have first-hand experience of the challenges and needs of their members. Therefore, BMOs serve as vehicles to bundle and provide these issues and information to their members.

2. Self-regulation

Depending on their membership nature and mandate, BMOs constitute an authority and legitimacy in well defined fields concerned with business. This enables them to set and adapt certain standards and regulations for their members. As a result, this can contribute to the improvement of the overall business environment.

3. Intermediation (intermediary character)

BMOs build linkages between the government/public sector and the private sector. Having insight into their members' challenges and demands, BMOs are able to contribute to the political decision-making process as well as to the economic improvement for growth and development. BMOs provide important economic information for the government and help to improve the acceptance as well as the awareness of policy measures.

Despite their potential positive contributions, BMOs bear the risks of seeking unproductive rents at the expense of public interest (Olson 1982). Research suggests that business organisations are "schools for corruption" (Donor and Schneider 2000, p. 278). It is argued that BMOs are susceptible to abuse

and may face excessive politicization. (Lucas 1997) Thus BMOs may be used by individuals to come to prominence and gain political influence later on. Extreme politicization endangers commitment, effectiveness and integrity of BMOs and their leaders.

However, according to Rogowski, collective action in sectors marked by quality export dependence is likely to be oriented towards efficiency rather than rent-seeking (Donor and Schneider 2000). Furthermore, Lucas argues that these organisations bundle interests, and help avoid rent seeking by encouraging their members to address their problems collectively in a systematic and sectoral manner. In the absence of business associations, entrepreneurs will address problems individually and “*respond to collective problems with adaptive and avoidance techniques such as bribery and clientelism*” (Lucas 1997, p. 4). Well-functioning BMOs can give their members the possibility to influence policy formulation.

4.1.1 BMOs performance in economic development

Porter (1990) argues that business organisations can play a crucial role in influencing factor conditions which are necessary for the competitiveness of a nation. The potential role of BMOs, however, needs an accommodative environment to fully unfold its impact. This depends however on a high membership density, valuable selective services (often delegated by governments), ability to provide valuable resources to their members and an effective internal balancing of members’ interest. Working against effectiveness is the free rider problem BMOs face. Since collective action cannot rule out free riders, it is especially important that BMOs can fulfil an exclusive role, either by government mandate or by offering valuable services to members, in order to put them in a strong position to participate in private sector development.

Additionally, factors such as market incentives through competition and government incentives through pressure towards enhanced productivity can boost productive activities (Donor and Schneider 2000).

Business Membership Organisations and their contribution to economic development – “market supporting” and “market complementing” activities

There are two possible ways in which BMOs can contribute to economic development: “*market-supporting*” and “*market-complementing*” activities (Donor and Schneider 2000, p. 263). Market supporting activities are those that strengthen the overall functioning of markets. BMOs can pressure a state and support it in the provision of basic public goods, such as property rights and infrastructure. The manufacturing association in Kenya, for example, took on responsibility in infrastructure matters due to government failures (Lucas 1997).

The second category, “*market-complementing*” activities, are more like club goods provided by BMOs, aimed at overcoming different types of market imperfections (Donor and Schneider 2000, p. 264). Several activities belong to this group, as can be seen in Table 5.

Activities	Example
Horizontal coordination (e.g. quota allocation)	The Taiwan Footwear Manufacturers Association (TFMA) was created to restructure the industry into “upgrade-driven” competition. The quotas were used to set floor prices and to finance teams of quality control experts.
Vertical coordination (supply-price and quality coordination)	In Nigeria, an association took over the function of disbanded state commodity boards to ensure that groundnut farmers would not be eliminated by unstable prices offered by millers.
Lowering costs of information	During a market decline in the mid-1970s, the Thai Textile Manufacturers’ Association promoted exhibitions, informed members about shifts in European demand, and urged members to increase exports to the EU prior to the establishment of baseline quotas.
Setting standards (e.g. export markets for rice and coffee)	The Taiwan Electrical Appliance Manufacturer Association (TEAMA) developed a quality-control agreement among producers of specific electrical products to protect their reputation in the international market.
Quality upgrading (e.g. improving technologies and skills of workforce)	TEAMA offered a series of seminars on technology and management, and inspection trips to Korea and Japan.
Source: Donor and Schneider (2000).	

Tab. 5: Examples of “market-complementing” activities

In addition to the activities just described, BMOs can support economic development by tackling ineffective governmental policies. They have the legitimacy to address issues of member interest to the government, provide the latter with useful information on private sector challenges and lobby for a better regulatory environment. Furthermore, BMOs can monitor and support the implementation of policies and regulations to make sure that they are successfully carried out. For example, associations in Indonesia helped to abolish ineffective governmental interventions in certain sectors, such as textiles and pharmaceuticals (Lucas 1997).

4.1.2 Provision of services

BMOs contribute to private sector development by providing various services to their members. These services contribute to their competitiveness and efficiency and put them in a position to adequately deal with changing market conditions. For small and medium-sized enterprises (SMEs) in particular, which represent the majority of private businesses in many development countries, BMOs can be an important source of information and support. Compared to large companies, SMEs face different challenges and constraints (e.g. poor organisational capacity, lack of marketing knowledge, lack of finance and insurance, lack of product quality, low level of technology), which prevent them from exploiting their full economic potential.

The type and scope of service provision depends on the BMO’s capacity and strategy. Services may be offered in the following areas:

1. Advocacy

One task of BMOs is to represent their members’ interests in contact with the government, the wider public and other organisations, such as labour unions or other BMOs. They draw attention to their members’ demands and needs and lobby for a more conducive environment.

2. Advisory service

BMOs offer a wide range of advisory services, which may include the following areas:

- Advice on credit and finance
- Export promotion and export insurance
- Advice on marketing issues (e.g. product marketing)
- Advice on regulation, tariffs and general standard requirements
- Adapting new technology (e.g. business incubator)
- Finding and penetrating new markets
- Taxation and custom procedures

3. Information dissemination

Information is a key element to gaining advantage in competition. BMOs can help to disseminate information on governmental policies and regulations, import and export opportunities and economic development. They may provide publications, organise conferences and trade fairs.

4.1.3 BMOs as private sector linkage to the Aid for Trade initiative

“The private sector... is a very important stakeholder in Aid for Trade.”

Valentine Rugwabiza, WTO Deputy Director-General
Source: International Trade Centre 2007

Although BMOs do not yet appear to be the focus of the AfT initiative, they could be a good starting point for a successful implementation of AfT goals. In this context, BMOs can act as beneficiaries and/or facilitators/multipliers, as can be seen in Figure 10.

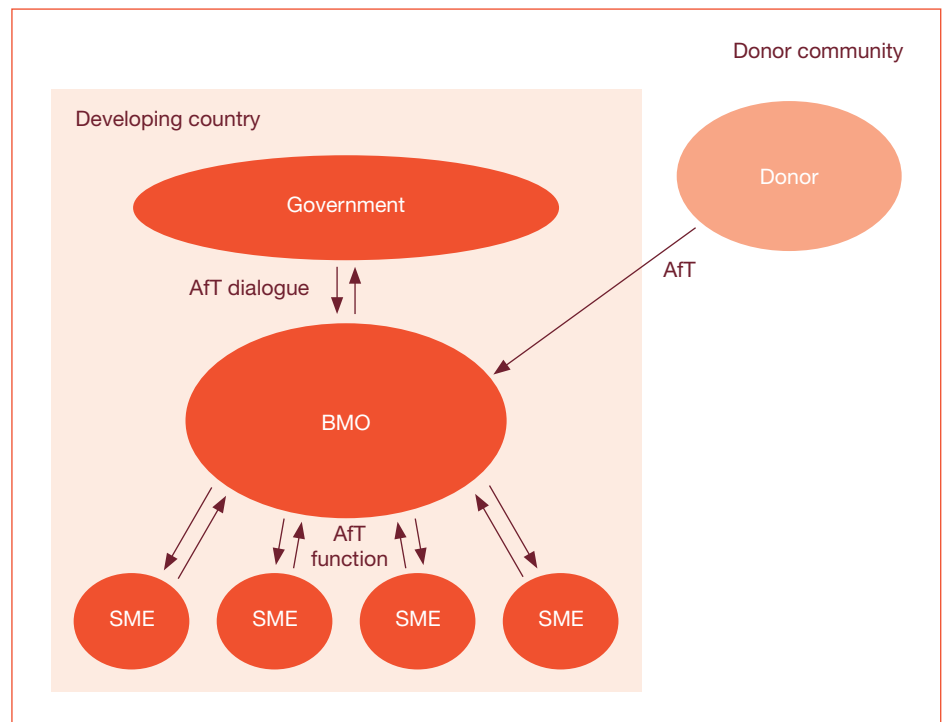


Fig. 10 BMOs as private sector linkage to the Aid for Trade initiative

As **beneficiaries** BMOs could, as it is already practiced by the donor community, receive support from donors in terms of funds or concrete projects so that BMOs could improve and thus exploit their potential advantages. This should include knowledge and training that enables the BMO staff to perform effectively, for example with respect to relevant topics (e.g. standards and regulations, export promotion, value chain), human resource development or access to information (e.g. clients, new export destinations). Capacity building can also deal with the elaboration of management structures, processes and procedures, not only within organisations but also regarding the management of relationships between the different organisations and sectors. Through such measures, BMOs would be enabled to assess and defend their members' interests and positions to the government.

Business Membership Organisations
as potential recipients of Aid for
Trade as well as multiplier and
facilitator in this area

The role of **facilitator/multiplier** means that BMOs can impart their knowledge to their members and lay the foundation for the improvement of the private sector. Looking at the categories of AfT proposed by the WTO Task Force (see Chapter 1), BMOs can exert supporting functions targeted at helping their members to better integrate themselves into international trade. Regarding trade policy and regulations, BMOs can support their members in better understanding and implementing standards and regulations. When it comes to trade development, BMOs can exert supporting functions such as trade promotion, market analysis and adapting new technology. They can also be a valuable knowledge source when it comes to diversification of production, exports and processing as well as value addition. Acting as facilitators and multipliers, BMOs thus perform an 'internal' AfT function within their country.

Regarding BMOs as beneficiaries and multipliers implies the following advantages for the donor community (World Bank Group 2005):

1. Economies of scale and scope

Due to their wide membership base, it is more effective and efficient to promote the challenges of the private sector indirectly through BMOs. They reach out to a larger number of members and thus have better access to the target group and can cover a wider pool of enterprises (also regional), which leads to greater cost-effectiveness.

2. Integrative character

BMOs are a suitable tool to improve the business environment for their members at several policy levels through their wide range of services. Due to the fact that private sector development can be seen as a very complex framework, an integrative approach, in which BMOs play a crucial role in furthering business and economic development, is becoming more and more important.

3. Sustainability

Due to the fact that BMOs represent a wider pool of local firms, they can assure crucial support from the private sector when it comes to reforms. This is something donors or the AfT initiative cannot achieve entirely on their own. Thus, BMOs can contribute to reform and provide donors and local governments with crucial feedback from the private sector. Consequently, local ownership and consensus building, two major aspects when it comes to financial support, are guaranteed.

In addition to the above-mentioned issues, BMOs can fulfil a communication function with respect to the AfT policy dialogue with government. This can imply an exchange of the private sector challenges, possible AfT projects

and/or challenges faced by BMOs themselves. It can therefore be said that BMOs are generally in a favourable position to act as an AfT partner within the country. By supporting BMOs in the development context, they are enabled to properly work in the trade context. This approach advocates the key principle ownership of the Paris declaration, a principle so central within development aid that the OECD calls it “*the fundamental tenet underpinning the Paris Declaration*” (OECD 2008a). Within the AfT context, local ownership is increased since BMOs are supported or enabled to actively participate in an AfT policy dialogue, voice their members’ interests and influence their respective country’s strategy regarding AfT. Moreover, through dissemination of their AfT benefits via service provision, an AfT function is embraced in the country. Thus, BMOs would serve as leverage, giving AfT money more outreach, higher cost-effectiveness and greater sustainability. By supporting BMOs, AfT projects could both develop and use local capacity.

Once donors acknowledge BMOs as both beneficiaries and facilitators of the AfT initiative and thus strengthening the AfT Agenda, they can consider how BMOs can best be supported within the AfT initiative to perform AfT functions within their country. In other words “*The role of aid for trade is ... creation and nurturing of ... business organisations till they are put on a financially and technically sound path*” (International Trade Centre 2007).

4.2 Field research in the East African Community

Field research of Business Membership Organisations in Kenya, Tanzania and Uganda

Following this review of the potential role of BMOs in the AfT initiative from a theoretical point of view, the following section takes on an empirical perspective. Field research has been carried out in the three founding member states of the East African Community (EAC): Kenya, Uganda and Tanzania.⁵⁶ The objective is to obtain a detailed picture of the scope and performance of BMOs in those countries. With respect to the AfT initiative, their actual and potential role has been analysed. The challenges they face and the needs of their members have been identified.

During the field research, 30 qualitative interviews were conducted. Those interviewed were senior or chief executives of either Chambers of Commerce and Industry, or business associations,⁵⁷ all located in the country’s capital. For the semi-structured interviews, guidelines comprising 13 open questions were developed.⁵⁸

⁵⁶ For detailed data on Kenya, Tanzania and Uganda (overview of economic and trade figures as well as results of the econometric model described in chapter 3) see Appendix 4 and 5

⁵⁷ For confidentiality reasons no reference is made to the identity of the interview partner.

⁵⁸ A copy of the interview guideline was submitted to all interview partners beforehand. The interviews lasted one hour on average. All 30 interviews were conducted by the same two interviewers within two weeks.

East Africa's regional integration dates back to 1917, when a customs union between Kenya and Uganda was established. The then Tanganyika – today Tanzania – joined in 1927 (East African Community 2009). Today, the inter-governmental East African Community (EAC),⁵⁹ established in 1999 on the basis of two predecessor organisations, explores regional ties and aims to integrate the member countries into a vibrant economic region. The EAC's main objective is the enhancement of the region's competitiveness. In 2005, the EAC Customs Union was launched and a common external tariff (CET) entered into force. The EAC's development strategy for 2006–10 foresees *“moving closer to a common market with a common competition policy, enhanced cooperation in export promotion and trade in services and development of competitiveness and a stronger negotiation capacity”* (East African Community 2009a, p. 16).

Member countries are dismantling tariffs on most intra-EAC trade; however, asymmetrical liberalization still leaves tariffs for some hundred Kenyan items to Uganda and Tanzania in place (although it has been agreed that these will be phased out by 2010). According to the WTO, members could step up the dismantling of NTBs on intra EAC-trade (WTO 2006f). However, regulations on import prohibitions have been harmonized and EAC is increasingly adopting joint standards (556 by 2005). Provisions were adopted *“... that allow members to establish manufacturing under bond schemes, export processing zones, duty drawback schemes; sales of goods within the customs territory, under any such scheme is limited to 20% of production.”* (WTO 2006f, p. 16).

In addition to being in the EAC, Kenya, Tanzania and Uganda are involved in a series of different trade agreements and regional frameworks. Tanzania, for example, is a member of the Southern African Development Community (SADC), while Kenya and Uganda are members of the Common Market for Eastern and Southern Africa (COMESA). The overlapping membership in regional trade agreements presents difficulties for EAC members. Thus, e.g., border controls need to be maintained to ensure that EAC preferences are not extended to other countries with which an EAC member has a trade agreement (Integrated Framework 2006).

All three countries are original members of the WTO (accession on January 1 1995), have resident delegations and still participate actively in the WTO (WTO 2006f). According to the latest Tariff Restrictiveness Index, the trade regimes of Kenya (ranked 81st out of 125 countries) and Tanzania (ranked 88th) are more open than that of an average Sub-Saharan Africa (SSA) country. Uganda has a somewhat more restricted tariff regime (ranked 115th) than the average SSA country (World Bank 2008b). WTO states in its 2006 Trade Policy Review that the domestically envisaged introduction and formulation of legislation in all three countries will be an opportunity to bring the trade regimes more into line with WTO provisions. This would increase the predictability and credibility of the EAC trade regime (WTO 2006f).

Box 3 The East African Community and regional trade integration

⁶⁰ EAC Members are Kenya, Tanzania, Uganda, Rwanda, and Burundi (the latter two joined in 2007).

4.2.1 Landscape of BMOs in Kenya, Tanzania and Uganda

Chamber of Commerce in Kenya, Tanzania and Uganda operate as non-governmental organisations on a non-profit base.

As shown in Chapter 4.1, BMOs can be divided into Chambers of Commerce and Industry as well as Business Associations. A Chamber of Commerce and Industry (CCI) can be found in each of the three countries operating as non-governmental organisation on a non-profit basis.⁶⁰ All three of them have a countrywide outreach with branches in the different districts and with the mandate to support national economic development. Membership in the three chambers is voluntary, ranging from 500 to 16,000 companies (own statements, Uganda National Chamber of Commerce and Industry 2007, Tanzania Chamber of Commerce, Industry and Agriculture 2008) of various sizes and requires a fee for two of the chambers. The Chambers of Commerce and Industry cooperate closely with the government, business development organisations and other stakeholders. They also offer a wide range of different advocacy and advisory services. In addition to the economical support, Chambers are also engaged in social activities. The Uganda National Chamber of Commerce and Industry, for example, has been engaged in the Global Fund against AIDS, Tuberculosis and Malaria project.

In addition to involvement at the national level, the three Chambers have formed the international East African Chamber of Commerce, Industry and Agriculture. Its main goal is to promote and lobby for the establishment of a conducive environment for cross border trade and investment within the East African Community. Furthermore, all three chambers are members of the East African Business Council and are involved in the Union of African Chamber of Commerce, Industry, Agriculture and Professions (East African Business Council 2009, International Chamber of Commerce 2008). Moreover, they all have relations to the International Chamber of Commerce.

Business Associations in Kenya, Tanzania and Uganda are specific sector organisation or private sector foundations.

Business Associations in Kenya, Tanzania and Uganda, on the other hand, are specific sector associations, representing e.g. manufacturing, agricultural, tea or small industry associations as well as private sector foundations. Specific sector associations are mostly private and membership is fee-based, in some cases dependent on the annual turnover of the member company and in some cases according to each member's status.⁶¹ Membership in the interviewed sector associations ranged from 300 to 750 companies. The task of sector associations is to advocate and monitor for sector and sub-sector specific policies, at the national and grassroots levels. They offer business support (e.g. trade fairs, training, consultancy, trade promotion) and information dissemination (e.g. the Kenya Manufacturing Association provides a regular newsletter on current issues of interest for their members). Sector associations are also engaged in the improvement of the social environment as well as health conditions. For example, the Uganda Manufacturing Association in cooperation with USAID and the Ugandan business community work together on a project called Health Initiatives for the Private Sector. In collaboration with Ugandan companies, the project aims to ensure cost-effective access to vital health services for company employees, their dependants and the surrounding community members (Uganda Manufacturers Association 2008).

In recent years, private sector foundations were established in all three countries. These can be seen as umbrella associations which promote the

⁶⁰ Confirmed by interview partners.

⁶¹ Not all interviewed partners provided information on their fee structure.

In Kenya, Tanzania and Uganda private sector foundations were established in recent years to promote the interest of the private sector as a whole.

interests of the private sector as a whole. They advocate for cross-cutting policy and economic issues and focus on private-sector led social and economic development (KEPSA 2009).

In Kenya, the umbrella association KEPSA (Kenya Private Sector Alliance) has 180 corporate fee-based members as well as members from 32 multisectoral and sector institutions and 30 associations. Their aim is to strengthen the private sector in general and to provide one inclusive voice for the private sector in public policy dialogue, hence providing the framework for public-private sector partnership (e.g. by coordinating interests and lobbying these to the government). KEPSA coordinates the private sector participation in 'cross cutting' issues such as 'Vision 2030', an economic development plan of the Government of Kenya. 'Vision 2030' tackles the economic, social and political component for development.

In Uganda, the Private Sector Foundation (UPSF) is an umbrella association that comprises 125 business associations, corporate bodies and major public sector agencies. UPSF offers three main services to their members: policy advocacy, trade development and membership services (including training, mentorship programs and networking events). In addition, it supports the government in implementing different projects and programmes like the Business Uganda Development Scheme. By offering financial support, this scheme aims at enabling micro, small and medium-sized enterprises (MSMEs) to obtain and use market, technical or financial expertise for purposes of becoming more productive and competitive (BUDS 2007).

The core activities of the Tanzanian Private Sector Foundation (TSPF) are policy advocacy and lobbying, which seek to raise issues, participate in and influence government policy formulation and implementation in favour of the private sector. TSPF is involved in implementing various programmes, for example, the Matching Grants Program. This programme is funded by the Tanzanian government with support from the World Bank and comprises two components. First, the Tanzania Business Development Scheme, which is an incentive programme, and can cover up to 50% of the costs for certain business activities such as boosting sales, increasing competitiveness or entering new markets. The second sub-project is the Technical Innovation and Applied Research Scheme, which tries to build up a marketplace for paid-for services provided by technical institutions and vocational schools (Tanzania Private Sector Foundation 2009).

All three umbrella organisations work together on issues of common interest. For example, they hold meetings and share knowledge. Although this is a good example of intra-EAC cooperation, this cooperation is not yet institutionalised.

Export promotion organisations as a special form of Business Membership Organisations

A special form of BMOs are export promotion organisations. Like umbrella associations, these operate at a cross-sectoral level, but unlike most business associations in Kenya, Uganda and Tanzania, they are public. The aim is to promote export-led growth by easing and promoting the development, diversification and co-ordination of all export related activities. They seek to brand the products of their respective countries on the world market as high quality. They support export-oriented companies by offering different services in the area of market research and development, monitoring and evaluation of export policy development, export skills development and trade promotion services. They are located in the capital cities of the respective countries and have no branches at a local or district level, which limits their outreach.

Examples of Aid for Trade related projects implemented by surveyed BMOs

4.2.2 Aid for Trade projects and BMOs

The AfT initiative aims at strengthening capacity of developing countries to participate in and benefit from trade liberalization. This provides linkages to the work of BMOs, which amongst other goals try to strengthen productive capacity and diversify exports to build on comparative advantages. So far, BMOs in Kenya, Tanzania and Uganda are not fully informed about the AfT initiative. BMOs are not involved in discussions on the governmental level and information dispersion is incomplete. Although the BMOs display certain reservations regarding the AfT initiative, they are open to this new idea and see themselves as a potential partner. In this context, the question arose how this initiative can be brought from a political dialogue to the practical level. A review of current projects implemented by the BMOs shows that some are AfT-related. The following three projects are presented by way of example:

Kenya – Eastern and Southern African Business Membership Organisation (ESA-BMO) network project

ESA-BMO is a network of private sector associations in ten countries: Kenya, Tanzania, Uganda, Rwanda, Burundi, South Africa, Zambia, Botswana, Mozambique and Zimbabwe. The project is co-ordinated by the Confederation of Danish Industry (DI) in partnership with the Kenya Association of Manufacturers. The aim of the project is to develop and advance common advocacy for businesses in the region. Furthermore, the project can be seen as a platform for knowledge sharing and learning from the best practice cases. This can pave the way for development and promotion of common policy positions with respect to domestic and regional integration issues, e.g. 'A better future for Africa – Recommendations from the Private Sector' (Confederation of Danish Industry 2008).

Private sector competitiveness project

This project is funded by the World Bank and aims at the establishment of sustainable conditions for enterprise creation and growth which responds to local and export markets. The Uganda Private Sector Foundation is managing the project at a national level. The focus is the reduction of business costs as well as the improvement of the investment climate. Thus, in order to support growth in the business and industrial sectors, the project provides priority infrastructure and related facilities (component 1). Moreover, the project aims to improve enterprise creation and growth, particularly in micro, small, and medium-sized enterprises (MSMEs). This is done by, e.g. changing enterprise behaviour towards investment in skills or improvement in the quality, standards, and reliability of MSMEs producers (component 2). Finally, the project helps to address critical issues in the business environment, including improvements to the business registration service and in the land registry and survey training school, as well as support to the Uganda Law Reform Commission and revision of key legislation (component 3) (World Bank 2004).

Tanzania – Business Development Gateway (BDG)

BDG is an initiative of the government of Tanzania. The Tanzania Private Sector Foundation is the contracting authority, and the programme is implemented by ICON Institute (Germany) PKF East Africa⁶² and Enterprise

⁶² PKF offices in Eastern Africa are member firms of PKF International, an association of legally independent accounting and consulting practices comprising 230 firms located in 400 offices in 120 countries. PKF in Eastern Africa provide a wide range of services including audit and assurance, business and financial advisory, information technology consulting, human resource consulting, taxation and company secretarial services, across diverse industry and client profiles (PKF Eastern Africa 2008).

Development Centre (EDC) Tanzania.⁶³ BDG provides a one-stop window for access to training and counselling, new business contacts, and seed capital for smart business ideas.

Current issues of interviewed BMOs to be tackled by Aid for Trade projects

In addition to these projects, BMOs referred to a range of potential project ideas of relevance to AfT. BMOs identified several issues that should be tackled by AfT projects. According to the OECD, a core element of Aid for Trade is to strengthen 'export competitiveness' with domestic productivity,⁶⁴ trade costs⁶⁵ and the effective level of market access⁶⁶ as determinants (OECD, 2006). The issues identified by the surveyed BMOs can now be classified accordingly.

In the category of **trade costs** the interview partner identified:

- Cross border trade barriers
- Lack of infrastructure, such as shortage of electricity, traffic routes or communication networks
- Different custom procedures
- Absence of storage capacities as the main stumbling blocks for the SMEs

Regarding **market access** the following obstacles were identified:

- Non-Tariff Barriers (NTBs)
- National regulations
- Tariff barriers
- Inability to meet international standards (sanitary and phytosanitary measures and packaging)
- Lack of market and customer information

The core problems named by the BMOs in the area of **domestic productivity** related to:

- Finance and insurance
Credit access is still limited due to collateral requirements, and trade finance is not well developed. Furthermore, companies often have no knowledge of the possibility of trade insurance, e.g. as provided by African Trade Insurance.
- Lack of production capacity and quality
- Deficit of technology, technological skills and a lack of technology transfer
- Lack of concepts for processing, value adding and value chain
Often the exported products are at the start of the value chain and are not further processed within the country.

⁶³ EDC is a not-for-profit company. From the outset, EDC embarked on institutional capacity building so as to deliver the services to as many Tanzanian business people as possible (Business Development Gateway 2009).

⁶⁴ Domestic productivity determines the cost of production (OECD 2006, p. 28).

⁶⁵ Trade costs determine the costs of moving or exporting the goods and services (OECD 2006, p. 28).

⁶⁶ The effective level of markets access is determined by the extent of unilateral, regional or multilateral trade reforms, as well as the capacity to meet standards and overcome information gaps on export markets (OECD 2006, p. 28).

With the financial and technical support of the World Bank Group and at the initiative of COMESA, the ATI was formed in 2001 by African States. It is an African Regional International Financial Institution which provides short, medium and long-term guarantees and insurance for both commercial and political risk such as breach of concession rights, war and civil disturbance or insolvency. Its mandate is to encourage, facilitate and develop the support for, or the provision of, insurance, guarantees and other financial instruments and services *“for the purposes of promoting trade, investment and other productive activities in Africa in supplement to those that may be offered by the public and private sector, or in cooperation with the public and private sector”*. (African Trade Insurance Agency 2005b)

ATI's membership is open to all states that already are or could become members of the African Union. International Development Financial Institutions, Regional Economic Organisations, and Private Cooperations interested in supporting African related trade and investment can become corporate members. Current Member States are Republic of Burundi, the Democratic Republic of Congo, Republic of Djibouti, State of Eritrea, Republic of Kenya, Republic of Madagascar, Republic of Malawi, Republic of Rwanda, United Republic of Tanzania, Republic of Uganda and Republic.

Box 4 The African Trade Insurance Agency (ATI)

4.2.3 Challenges for BMOs in private sector development

The role that BMOs in Kenya, Uganda and Tanzania can play within the Aft initiative is dependent on BMOs' capacity constraints. During the interviews, almost all BMOs stated **a deficit in human resources and skills** as one major constraint which has an effect on their support for the private sector. They lack sufficient training and staff development concepts concerning the services and functions they are supposed to perform. Insufficient knowledge and expertise regarding topics such as international standards, trade negotiation outcomes, non-tariff barriers or trade finance and insurance means that BMOs cannot properly support and advise their members.

Deficit in human resource and skills, organisational and financial weaknesses as well as a lack of impact and monitoring systems are challenges for Business Membership Organisations in Kenya, Tanzania and Uganda.

According to interview partners, BMOs have for example a deficit in assessing the content and implications of negotiations. They are therefore not able to effectively exercise ex ante impact assessments of agreements for different sectors. Consequently, they cannot use these insights into negotiations. Ex post assessment, advice on the implications of negotiated agreements and adjustment support is equally constrained. At the same time, BMOs do not have the capacity to enhance their trade negotiation skills nor the understanding of the impact of all the international treaties and the differences between them.

With respect to the above-mentioned factors, the interviewers' attention was, in all three countries, drawn to additional, cross-cutting issues: information flow and the structural linkage between the government and intermediary institutions. Although there seem to be many information enhancing sessions and workshops available, resources and structures for the implementation of activities to resolve adjustment problems and to manage risks coming from trade policy with input from the private sector appear to be rather fragmented

and erratic. A stronger focus on setting up structures to govern trade policy could have a trade enabling effect.

Another shortcoming involving both a lack of human resources and a technical deficit is the difficulty BMOs face in gathering all necessary information on relevant export markets, within Africa and internationally. Current resources to identify and penetrate new markets for and with their members are scarce. Beyond that, BMOs also lack information on potential exporters in the country districts. Internally, the constraint leads to an insufficient marketing strategy for the services of BMOs.

Organisational and financial weaknesses were mentioned as a further constraint by almost all BMOs as negatively impacting their work. The majority of institutions interviewed said that, due to funding structures, they tend to work on the basis of individual projects than function as an institutional body, offering continuous services to the private sector. Due to tight budgetary restrictions it is not possible to build – on a continuous basis – databases with information on companies, markets, standards, network and trade information such as prices and demand and supply relations concerning cash crops. It is thus often the case that smallholders plant the ‘wrong’ crops due to a lack of market information. Regarding organisational structures, it was difficult to provide service offerings on a regional level, since there is a lack of representation in the regions. One partner mentioned that they see greater potential in helping smallholders to organise effective co-operatives. According to this source, cooperatives suffer from a lack of competence especially in administration and pricing – a field in which BMO support could help them to be more effective.

Asked for their **impact and monitoring systems**, most BMOs said that they could not evaluate and/or monitor their activities and the lack of information concerning the sustainability and effectiveness of their services prevents them to implement the improvements required to their services. Additionally, BMOs see a problem in the loose allocation of responsibility within the BMOs, as well as in overlapping and indistinct responsibilities within and between ministries, which impedes the work of the BMOs. This often leads to a duplication in the supply of services and confusion of objectives in supporting the private sector.

The BMOs’ own remarks reflect the common opinion in development literature; e.g. the International Trade Centre stated that trade support institutions show weak capacity (International Trade Centre 2008). The Aid for Trade Initiative could help to enhance this capacity, which in turn could have a positive impact on Private Sector Development.

4.3 Conclusion

Business Membership Organisations defined as non-profit organisations are formed through collective action of their members. Although BMOs bear a risk of being unproductive and rent-seeking, they also come with a series of institutional advantages and positive characteristics such as their networking function and intermediary character. Indeed, they can be seen as intermediary institutions which act between the government and the private sector. The main task of BMOs is service provision to their members, such as policy advocacy, advisory services and information dissemination. Additionally, BMOs lobby for the interests of their members to the government, and in doing so they give also advice to the government

regarding the development of the private sector. Because of this role, BMOs should form part of the AfT initiative and could be seen as beneficiaries of potential projects (e.g. capacity building) as well as multipliers of the AfT agenda and goals. In general the involvement of BMOs would offer a variety of advantages such as economies of scale, a higher probability of sustainability or ownership.

In the countries analysed (Kenya, Tanzania and Uganda), the BMO landscape can be described as diverse, its players being the Chambers of Commerce and Industries, the sector associations, the umbrella associations and the export promotion organisations. The interview sample was designed to reflect this diversity through the selection of BMOs which vary in type, target group and size. It became clear that BMOs face a variety of similar constraints between themselves which prevent them from fully exerting their potential role. Interviewed BMOs identified several challenges, especially regarding deficit in human resources and skilled labour, as well as organisational and financial weakness. Thus, the private sector in the EAC countries lacks potential support to develop its export competitiveness. Through capacity-building projects for BMOs, AfT could help to tackle these issues.



5 Summary of the main results, policy implications and areas for further research

The stagnation of the WTO Doha Round and past experience in the area of technical assistance laid the foundation for a new work programme on Aid for Trade, launched by the WTO in 2005. Above all, AfT seeks to build bridges between the development and trade communities, as well as between the public and private sector. It covers a broad variety of activities and combines conventional trade-related technical assistance and capacity building efforts with other instruments of trade-related assistance identified by the WTO Task Force on AfT. The idea behind this comprehensive coverage of AfT is to combine, harmonise and ameliorate existing structures of trade-related aid activities. This approach of bundling aspects of trade-related development assistance is what makes the AfT initiative appear to be a novel approach in the first place.

Key players in the field of AfT are governments in donor and recipient countries, inter-governmental organisations and the private sector, while the principal challenge is to secure recipients' 'ownership' of AfT in the core areas of trade policy, trade development and adjustment to trade. In trade policy, AfT is mainly needed to bridge the compliance gap that faces developing countries with regard to multilateral and bilateral trading rules, as well as to improve domestic trade policy-making and strengthen the bargaining power of DCs in international negotiations. Trade development is primarily hindered by supply-side constraints, the removal of which requires both physical investments and regulatory reform. In the area of infrastructure, for example, it is important not only to focus on building roads, ports or communications systems, but also on related policy and regulatory improvements. Concerning adjustment to trade, developing countries need assistance coping with transition costs from trade liberalisation, such as the restructuring of production, retraining of labour, erosion of preferences, loss of fiscal revenue or declining terms of trade. On the whole, foreign trade has frequently not been adequately addressed in countries' development plans and poverty reduction strategies, while trade and commerce ministries rarely formulate cogent strategies to improve international competitiveness.

At the inter-governmental level, the WTO is the lead agency in efforts to 'mainstream' foreign trade into domestic development, which makes AfT more effective in this respect. The WTO has a particular interest in ensuring the effective use of newly created trading opportunities in the wake of liberalisation and in supporting its weaker member countries in this regard. At the same time, strategic partnerships between the WTO and other IGO stakeholders in AfT, like the World Bank and the International Monetary Fund, have the potential to significantly advance the AfT initiative. A case in point is the Integrated Framework for trade assistance to least-developed countries. In a similar way, enhanced networking and cluster-building, involving small and medium-sized as well as larger enterprises, can significantly promote trade development in the private sector. However, the success of AfT ultimately depends on the ability of recipient countries to set the preconditions for economic development, i.e. the right legislation, policies, institutions and infrastructure.

One of the core questions in the AfT debate relates to what exactly should be included in the agenda, what should be omitted, and where resources can be spent most efficiently. This study shed light on this issue by analysing the determinants of a successful trade-growth nexus. In an extensive empirical investigation of almost 100 countries, we identified those areas of the AfT agenda that are more likely (or likely at all) to raise economic growth rates through an increase in trade. Three broad areas have been examined that are relevant within the AfT agenda: institutions, infrastructure and human capital. Importantly, we were not interested in the direct effects of these policy areas on growth. Rather the indirect effects are more relevant, as the objective of AfT is to improve conditions in those areas that lead indirectly to higher economic growth rates through the channel of trade.

The empirical results show a clear tendency towards the areas of education and institutions. We find a significant impact of education overall (total years of schooling) on the trade-growth nexus; that is, countries with a better educated workforce are more likely to harness the gains from trade. At a more disaggregated level, we find that primary and secondary education are more important than tertiary education. Institutional quality is represented by constraints on the political executive branch, which were also found to be important determinants for a positive trade-growth linkage. For the third area, infrastructure, we could not establish any significant results. However this outcome must be regarded with caution as the indicators used measure the quantity but not the quality of the infrastructure. AfT resources would thus be spent most efficiently in the areas of institution building and education (at the primary and secondary level).

In addition, the role of individual countries, their respective governments, and other stakeholders such as the private sector, remains crucial to the AfT initiative. In this context, the challenge for governments in the recipient countries of AfT is to strengthen the role of trade in development strategies and to secure 'domestic ownership' and 'effective leadership' in the implementation of AfT. This is where Business Membership Organisations, as the institutional backbone of the private sector, could contribute. Formed through collective action of their members, they act as intermediary institutions between the government and the private sector and they lobby for their members' interests to the government. In doing so, they also give advice to the government regarding the development of the private sector. Due to this role, BMOs could be part of the AfT initiative and could be seen as beneficiaries of potential projects (e.g., capacity building) as well as multipliers of the AfT agenda and goals. In general, the use of BMOs could offer a variety of advantages, such as economies of scale and a higher probability of sustainability and ownership. However, BMOs face a variety of similar constraints that prevent them from fully exerting their potential. BMOs interviewed in Kenya, Uganda and Tanzania identified several challenges, especially regarding deficits in human resource and skilled labour as well as organisational and financial weakness.

As a consequence, we recommend several fields of intervention regarding BMOs. Above all, the institutional performance of BMOs is weakened by two principal problems. First, interaction between BMOs, governments and individual firms regarding trade policy issues is limited. BMOs are a focal actor in the consultation process between private sector and the government concerning the ex ante and ex post impact assessment of trade policy. However, no regular and continuous consultation process, using BMOs as an instrument for policy formulation, including the interest of the private sector, can be identified. Also, the development of structures which would support the implementation of the trade negotiation outcomes by BMOs, as well as

other trade related measures, e.g., changes in standards, appear to be only fragmentary. Given this context, interventions concerning BMO involvement would aim to improve the relations and exchange between these different levels. A specific measure could be the establishment of a trade policy council (including BMOs), mandated to analyse and monitor the risks of trade integration activities, in order to mitigate these risks and provide a format for a sustainable policy approach.

Second, BMOs themselves suffer from capacity problems that prevent them from fully exploiting their potential. With regard to the identified deficits of BMOs in three major areas (human resources and skills, organisational and financial as well as impact and monitoring systems), projects could aim at removing those deficits and assessing how BMOs could achieve positive results in terms of development policy. These actions would aim to build capacities in order to develop human resources in the areas of:

- trade finance and insurance, NTBs, and international standards to enhance advisory services of BMOs;
- business plan development, support for business start-ups, and developing regional business incubators;
- improvements of the marketing strategy of BMO services through training, and establishment of information sources on export markets and potential exporters;
- value chain assessments.

In relation to the organisational and financial weaknesses, areas of intervention could cover the creation of databases with information on local companies, markets, national and international standards, network and trade information as well as training on its implementation. According to many interview partners, an increased and especially sustained outreach of BMO services by establishing regional representations would potentially support regional knowledge and business development. The third central issue is the establishment of impact and monitoring systems to improve services and guarantee continuous quality assurance in private sector development.

Further research could concern the question of how to better integrate and engage the private sector in the AfT initiative. In this context, the impact and performance of BMOs, especially with regards to 'pro-poor growth', needs to be analysed in detail in order to determine their eligibility for promotion. In general, trade related assistance has traditionally been more focused on the international aspects of trade. However, to come to terms with these aspects, Aid for Trade also focuses on the domestic environment of trade. Thus, further research could shed light on how to integrate Aid for Trade strategies and programs into overall donor objectives and commitments in development. This could be explored for both, on country and on regional level.

As a comprehensive approach, Aid for Trade aims at the successful integration of developing countries in world markets by offering external assistance to developing countries in the negotiation, design, implementation and assessment of policies aimed at 'mainstreaming' foreign trade into domestic economic development. This ambitious initiative is, thus, not only a new and ambitious concept, involving several challenges that stakeholders face. In addition, AfT offers a unique opportunity to make trade an effective tool in enhancing economic growth rates and reducing poverty in developing countries.



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Appendix

1 Definition of variables and data sources

Variable	Definition	Source
GDPpcgrowth	Real growth of Gross Domestic Product per capita in per cent	World Bank (2008d)
In Initial GDPpc	Initial Real Gross Domestic Product per capita in constant 2000 US dollars (in logs)	World Bank (2008d)
Population Growth	Growth of total population	Heston, Summers and Aten (2006)
Investment	Investment share of real GDP (in logs)	Heston, Summers and Aten (2006)
Total Education	Average years of total schooling in the population of age 15 and over	Barro and Lee (2001)
Secondary Education	Average years of secondary schooling in the population of age 15 and over	Barro and Lee (2001)
Primary Education	Average years of primary schooling in the population of age 15 and over	Barro and Lee (2001)
Tertiary Education	Average years of tertiary schooling in the population of age 25 and over	Barro and Lee (2001)
Trade	Total exports and imports divided by Gross Domestic Product	World Bank (2008d) and Heston, Summers and Aten (2006)
Telecommunications	Total number of mainline phones divided by the total population (in logs)	World Bank (2008d)
Political Constraints	Polity IV, Political Constraints, scores 0 to 7; -66, -77, and -88 converted into 0	Centre for Systemic Peace (2008)
Roads	Total amount of paved roads divided by the total population (in logs)	World Bank (2008d)
Rails	Total amount of railways divided by the total population (in logs)	World Bank (2008d)
Power Generating Capacity	Total amount of kilowatt produced per capita (in logs)	World Bank (2008d)

2 Descriptive statistics, period 1971–2005

Variable	Observations	Mean	Standard Deviation	Minimum	Maximum
GDPpcgrowth	686	1.81	2.98	-10.35	20.16
In Initial GDPpc	686	7.62	1.60	4.44	10.59
Population Growth	686	1.81	1.88	-35.86	7.72
In Investment	686	2.68	0.61	0.19	4.06
Total Education	686	5.47	2.80	0.28	12.13
Secondary Education	686	1.57	1.19	0.03	5.74
Primary Education	686	3.68	1.66	0.18	7.69
Tertiary Education	679	0.26	0.26	0.00	1.65
Trade	686	0.70	0.46	0.09	4.04
In Telecommunications	686	-3.27	1.97	-8.60	-0.33
Political Constraints	676	4.51	2.30	0.00	7.00
In Roads	589	-6.71	1.45	-10.35	-3.64
In Railways	566	-8.62	1.23	-13.69	-5.35
In Power Generating Capacity	674	-8.40	1.75	-13.00	-5.08

3 Country sample

Algeria, Argentina, Australia, Austria, Bahrain, Bangladesh, Barbados, Belgium, Benin, Bolivia, Botswana, Brazil, Cameroon, Canada, Central African Republic, Chile, China, Colombia, Democratic Republic of Congo, Republic of Congo, Costa Rica, Cyprus, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Fiji, Finland, France, Gambia, Germany, Ghana, Greece, Guatemala, Guyana, Honduras, Hungary, Iceland, India, Indonesia, Iran, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kenya, Republic of Korea, Kuwait, Lesotho, Malawi, Malaysia, Mali, Mauritius, Mexico, Mozambique, Nepal, Netherlands, New Zealand, Nicaragua, Niger, Norway, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Rwanda, Senegal, Sierra Leone, Singapore, South Africa, Spain, Sri Lanka, Sudan, Swaziland, Sweden, Switzerland, Syrian Arab Republic, Taiwan, Tanzania, Thailand, Togo, Trinidad & Tobago, Tunisia, Turkey, Uganda, United Kingdom, United States, Uruguay, Venezuela, Zambia, Zimbabwe

Developing countries in bold.

4 Economic and trade figures for EAC countries

	EAC average ¹	Low income countries average	Kenya	Tanzania	Uganda
Population in million (2007)			37.5	40.4	30.9
Total GDP in US\$ billion (2007)			24.2	16.2	11.8
Gross National Income per capita in US\$ (2007)	370	574	640	410	370
GDP growth in % (2007)	6.3	6.4	7.0	7.1	7.9
Real growth in exports in % (average 2006–2008)	17.4	6.9	–2.2	11.3	7.0
Real growth in imports (average 2006–2008)	10.8	7.4	3.1	10.4	9.8
Real growth in total trade (average 2006–2008)	11.9	7.1	0.9	10.8	8.9
Trade as % of GDP (average 2006–2008)	0.61	10.2	0.58	0.65	0.59
Export as % of GDP (average 2006–2008)	19.9	35.8	22.7	25.5	20.0
Share of world total exports in % (2006)		0.02	0.04	0.02	0.01
Share of world population in % (2006)		0.19	0.56	0.60	0.46
Logistics Performance Index (LPI) ² (average 2006–2008)	2.23	2.29	2.52	2.08	2.49
Ease of doing business 2009 (rank x out of 181 countries)	127.2	138.3	82	127	111

¹ Tanzania, Uganda, Kenya, Rwanda and Burundi.

² The Logistics Performance Index (LPI) reflects the overall perception of a country's logistics based on over 1,000 responses to a survey of logistics performance evaluated in seven key subcategories. These categories include: efficiency of customs and other border procedures, quality of transport and IT infrastructures, international and domestic transportation costs, ease of shipments and logistics competence, and tracking ability and timeliness of shipments. The value of the index ranges from 1 to 5, with a higher score representing a better performance.

Sources: World Bank (2008d, 2009).

5 Means for the AfT variables of the empirical analysis and different country groupings, 2001–2005

Variable	All Countries ¹	Sub-Saharan Africa ¹	Kenya	Tanzania	Uganda
No. of Countries	98	26			
GDPpcgrowth	2.09	1.71	0.94	3.84	2.33
Initial GDPpc	7,956	730	403	268	240
Population Growth	1.50	2.36	2.64	2.6	3.23
In Investment	14.93	8.63	8.73	4.01	3.34
Total Education	6.54	3.65	4.35	2.69	3.58
Primary Education	4.16	2.79	3.63	2.50	2.96
Secondary Education	2.03	0.81	0.68	0.16	0.59
Tertiary Education	0.41	0.09	0.05	–	0.04
Trade	0.81	0.73	0.56	0.46	0.39
Telecommunications	0.22	0.027	0.0091	0.0042	0.0024
Roads	0.0046	0.0009	0.00027	0.00018	0.00059
Railways	0.00023	0.00013	0.000074	0.00013	–
Power Generating Capacity	0.00086	0.00013	0.000035	0.000025	0.000012
Political Constraints	5.36	3.92	5.4	3	3

¹ Only countries included in the regression in Chapter 3 are used for the computation of the averages.

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