



UNITED NATIONS

AID **for** TRADE **and** HUMAN DEVELOPMENT

A Guide To Conducting Aid For Trade Needs Assessment Exercises





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for Trade Needs
Assessment Exercises**

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Acronyms and abbreviations

AfT	Aid for Trade
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated Systems for Customs Data
CEB	Chief Executive Board
CEI-RD	Dominican Republic Center for Exports and Investments
CGE	Computable General Equilibrium
CIS	Commonwealth of Independent States
CIF	Cost, Insurance and Freight
CRS	Credit Reporting System
CITES	Convention on International Trade in Endangered Species
DFID	Department for International Development (United Kingdom)
EC	European Commission
EEC	Eurasian Economic Community (or EurAsEC)
EU	European Union
EurAsEC	Eurasian Economic Community
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FOB	Free on Board
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HDIA	Human Development Impact Assessment
HIV/AIDS	Human Immuno-deficiency Virus / Acquired Immune Deficiency Syndrome
ICSID	International Centre for Settlement of Investment Disputes
IMF	International Monetary Fund
ITC	International Trade Centre
kWh	Kilowatt hour
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MFN	Most Favoured Nation
MITI	Ministry of International Trade and Industry
NGO	Non-Governmental Organization

NTFC	National Trade Facilitation Committee
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PEST	Political, Economic, Social and Technological (analysis)
PPA	Participatory Poverty Assessments
PRSP	Poverty Reduction Strategy Paper
PSI	Pre-Shipment Inspection
PSIA	Poverty and Social Impact Analysis
SADC	Southern African Development Community
SEA	Strategic Environmental Assessment
SIA	Social Impact Assessment
SIVUCEX	Single Window Integrated System for International Trade (<i>Sistema Integrado de Ventanilla Unica de Comercio Exterior</i>)
SME	Small and Medium Enterprise
SOCAT	Social Capital Assessment Tool
SOE	State Owned Enterprise
SPECA	United Nations Special Programme for the Economies of Central Asia
SPS	Sanitary and Phytosanitary Standards
SWOT	Strengths, Weaknesses, Opportunities and Threats
TIR	Transport Internationaux Routiers
TBT	Technical Barriers to Trade
UN	United Nations
TRIPS	Trade Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNECE	United Nations Economic Commission for Europe
UN/CEFACT	United Nations Centre for Trade Facilitation and Electronic Business
UNESCAP	United Nations Economic Commission for Asia and the Pacific
USAID	United States Agency for International Development
UNECLAC	United Nations Economic Commission for Latin America and the Caribbean
UNESCWA	United Nations Economic and Social Commission for Western Asia
UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services
VAT	Value Added Tax
WTO	World Trade Organization

Executive summary

This guide is designed to help policy makers, trade officials and researchers conduct needs assessment studies on trade and human development under the Aid for Trade (AfT) initiative conceived at the 2005 World Trade Organization (WTO) Ministerial Conference in Hong Kong.

The AfT initiative is one of the most important development-related outcomes in recent years. The declaration in Hong Kong stated that AfT should help developing countries build supply-side capacity and trade-related infrastructure to help them benefit from trade agreements and, more broadly, to enhance the contribution of trade to development. The AfT initiative recognizes that existing trade negotiations need to be complemented by stronger domestic policy and international cooperation. Least Developed Countries (LDCs) already receive assistance under the Integrated Framework for Trade Related Technical Assistance to LDCs, and this guide can be used to inform and update the Diagnostic Trade Integration Studies under the Integrated Framework. As with LDCs, many developing and middle-income countries also continue to face problems with productive capacity: they generally have access to other markets but cannot produce in sufficient quality or quantity. This can be because infrastructure is weak, markets are isolated or distant, and bureaucracy is onerous or international rules too complex. According to estimates of the Organisation for Economic Cooperation and Development (OECD), Official Development Assistance (ODA) commitments in the aid categories associated with the definition of AfT accounted for \$21 billion on average between 2002 and 2005. Assuming that donors meet commitments to scale up aid up to \$130 billion in 2010, ODA in the categories most closely associated with AfT could increase by \$8.5 billion.

The trade needs assessment reports resulting from using this guide are intended to make trade and development policies more integrated with each other and thus conducive to human development. The needs assessments will result in concrete and actionable recommendations aimed at mainstreaming trade in national development strategies. The regional dimension, however, remains crucial. Maximizing coordination between regional economic communities and individual member countries will help ensure agreement on which projects are ready for support and what their implementation time-frame should be. Typically, an AfT needs assessment contains chapters on the macroeconomic and business environment; trade and investment policy; trade facilitation; and various sectors of the economy and the analysis of the impact of specific trade measures on human development. The guide does not suggest trade policy advice or provide regional and country analysis, but presents tools and methods for looking at trade policies from a human development point of view. Finally, the AfT needs assessments should not make AfT conditional on trade liberalization. Rather, the primary intention is to use AfT for the development of trade, using whatever means are appropriate.

Trade and human development

Poverty is traditionally defined as a lack of income or ability to consume. Yet, the human development approach goes beyond income and consumption. Human development is about expanding the ability of people to make choices that improve their lives. Whilst consumption and income are important, human development has been defined as ‘human flourishing in its fullest sense — in matters public and private, economic and social, and political and spiritual’ — and, according to Nobel prize-winner Amartya Sen, as “a process of enlarging people’s choices and freedom.” Since women have the most to gain from human development, gender must form an intimate part of the needs assessments and should not be included just as a subheading or stand-alone section. The Millennium Development Goals (MDGs), of which 3 and 5 deal with gender equity and maternal health, are necessarily linked with the concept of human development and trade. Even if the MDGs do not necessarily reflect all aspects of human development, they comprise the most comprehensive set of human development goals and targets so far adopted.

The gains from trade are numerous, and extend beyond the immediate commercial benefits. Trade and investment can contribute to human development by helping to raise productivity, employment and economic growth. Trade and investment can also increase the variety and quality of goods available to consumers, and help lower the likelihood of political conflicts between countries. Yet, the links between human development and trade are complex and not always easy to discern. They depend partly on country-specific circumstances. To what extent does poverty exist, and what type? What kind of trade reform is involved? What kind of natural endowments does the country have? Many developing countries suffer from widespread rural poverty, although some do not; many are members of the WTO, although not all; most countries are involved in regional trade agreements; and several are rich in natural resources, while some have none. These variations between countries underline the requirement for the needs assessment exercises to be nationally-owned and driven.

Trade and underlying trade policies are redistributive in their nature, meaning that they impact different population groups in different ways. Therefore, trade liberalization may imply a net welfare transfer from one economic sector or group to another. Policy changes and trade agreements are, nonetheless, only one of the factors behind a country’s trade performance and their implementation might be not sufficient to boost trade, exports and growth. Trade policy should be addressed together with other aspects of industrial policy and the macroeconomic setting. Country-specific factor endowments, the business climate and comparative advantages can be at least as important in the current global trading environment.

Despite the variations between countries and the challenges of linking trade policy and human development, it is possible to identify a number of standard links between human development and trade. The economic growth that may come with trade expansion is likely to enhance the rate of human development but not if it is accompanied by environmental degradation, poorer health care and weakened security. The relationships between trade, economic growth and human development are not automatic, and indeed it is possible to experience economic growth (accompanied by

a significant level of trade) without any impact on human development. This guide looks at trade and human development from multiple perspectives, including gender and environmental considerations. This entails the identification of existing patterns in the economy, market opportunities to increase people's well-being, and the risks arising from globalization that people should be prepared to face.

Successfully using trade to maximize the rate of human development depends on the coherence of national and international policies. Government policy, including trade policy, has a crucial role to play. This guide is not a blueprint and does not cover the relationship between trade and human development in a comprehensive or exhaustive manner. Rather, it aims to enable countries to systematically analyse their capacity constraints, identify their needs in the current international trading context and express them in a document embodying a credible and actionable programme that enables them to benefit fully from AfT.

Trade needs assessments

The most important goal of the needs assessment studies is to identify a set of policy recommendations and technical assistance needs aimed at improving the contribution of trade to human development and poverty reduction. This set of recommendations should:

- help overcome the identified constraints;
- meet the costs of adjusting to current or anticipated trade agreements;
- tackle institutional and infrastructure capacity limitations;
- suggest action plans to remove bottlenecks and seize opportunities.

In order to derive these recommendations, the needs assessment studies should analyse the existing and potential impact of trade on human development. The use of participation techniques and public consultations has had an increasingly beneficial impact on policy-making. Participation brings political, legal and social benefits and can reduce the risks of strong opposition and unrest. Trade policy is no different. The analysis should include the perspectives of key stakeholders in government, the private sector, academia and civil society. Thus, the main objectives of the analysis are the following:

- review current investment and trade policies and their linkages with economic growth and human development;
- assess the country's business environment and investment climate;
- analyse selected existing (ex-post) trade policies and agreements — bilateral, regional, and WTO — and those under negotiation (ex ante) for economic growth, employment, equity and poverty, policy space and public sector capacity implications;
- review economic and export performance as well as any specific constraints that the country's exports face in international markets;
- analyse key economic sectors for expansion of output, productivity, exports, employment and sustainability;
- consider the impact of the above on poverty, inequality, social exclusion and regional disparities, as well as on policies to address these and related development challenges.

This is not a checklist but provides an indication as to the content of the needs assessment exercises. Each country needs assessment will differ depending on its specific circumstances. The guide also proposes that the AfT study establishes a matrix of specific policy recommendations and institutional reforms, outlining ways in which trade might contribute more to economic growth, human development and poverty reduction.

The second chapter briefly describes how trade can be mainstreamed into government policies. The third chapter describes the link between trade and human development from a theoretical perspective, examining the relationship between trade and such factors as gender, environment and poverty. The bulk of this guide, beginning with chapter four, offers practical guidance on undertaking AfT needs assessments. Concepts such as trade mainstreaming and ownership should be central in any approach to this exercise.

While the human development perspective should be reflected throughout the AfT study, practical and operational recommendations should be established on a sector-by-sector basis. Quantitative and qualitative tools and methods to address these issues are presented in chapter 8 (sector assessments — including SWOT, value chain analysis) and 9 (trade policy impact assessment — HDIA, PSIA, CGE, the gravity model).

1. INTRODUCTION AND OVERVIEW

1.1 Background and objectives

This guide is designed to help policy makers, trade officials and researchers conduct needs assessment studies on trade and human development under the Aid for Trade (AfT) initiative conceived at the sixth WTO Ministerial Conference in Hong Kong in 2005. The concept of human development is central to this trade initiative. The needs assessment reports resulting from the guide are intended to better integrate trade and development policies and help improve government planning. The needs assessments will result in a policy action matrix presenting concrete and actionable recommendations based on the analysis, which are aimed at mainstreaming trade in national development strategies. These recommendations should help coordinate policy domestically and internationally, towards the larger goal of poverty reduction and human development.

The guide first establishes the rationale behind the needs assessments and introduces the AfT initiative. A dedicated chapter explains the logic connecting trade with human development. The recommended structure of the study follows, with suggestions as to the organization of the needs assessments. Outlines of the substantive chapters are then presented. Typically, an AfT needs assessment will contain chapters on the macroeconomic and business environment; trade and investment policy; trade facilitation; and various sectors of the economy or the analysis of the impact of specific trade measures on human development. This list is not definitive and can be adapted as required.

The aims of human development are reflected in the Millennium Development Goals (MDGs), which among other things aim to eradicate extreme poverty and hunger, improve access to education and health, empower women and ensure environmental sustainability. The specific, quantifiable goals expressed in the MDGs correspond with the aims of human development. For example, gender inequality is an obstacle to human development because in many societies women work more than men, earn less, go to school less and find it more difficult to gain credit, knowledge, information and wealth.¹ Improving women's capabilities and choices is thus inextricable from development. This guide, therefore, is a tool that aims to contribute to countries' efforts to better use trade and trade-related assistance towards the achievement of the MDGs, principally the achievement of MDG 1 ('Eradication of extreme poverty and hunger') and MDG 8 ('Develop a global partnership for development'). It also aims to contribute to other MDGs such as the promotion of gender equality, improved health and education, and environmental sustainability.

1.2 Aid for Trade

The Aid for Trade initiative is one of the most important development-related outcomes of the sixth World Trade Organisation Ministerial Conference in Hong Kong in 2005. The Ministerial Declaration agreed in paragraph 57 that AfT should aim to help developing countries build supply-side capacity and trade-related infrastructure to help them benefit from WTO trade agreements and, more

¹ UNDP (2003).

broadly, to enhance the contribution of trade to development.²

The task force established after the Hong Kong Ministerial Conference recommended that the initiative should cover six broad categories:

- trade policy and regulations, including training trade officials, helping governments implement trade agreements and complying with rules and standards;
- trade development, including providing support services for business, promoting finance and investment, conducting market analysis and e-commerce;
- trade-related infrastructure, which includes building roads and ports;
- building new productive capacity, and improving existing capacity to produce goods and services in various sectors of the economy;
- trade related adjustment, which includes financial assistance to meet adjustment costs from trade policy reform, including balance of payment problems resulting from lost tariff revenues or from the erosion of preferential market access;
- other trade-related needs not covered under the above categories.

The task force further recommended that AfT should build on existing trade-related assistance mechanisms as well as use existing guidelines for aid delivery, in particular the Paris Principles on Aid Effectiveness.³ In addition to emphasizing a need for strengthening the monitoring and evaluation of AfT flows at global, regional and country levels, the Task Force also recommended strengthening country ownership of aid programmes,

and country-based formulation of trade-related needs and priorities. It also recommended strengthening the donor response to these trade-related needs and priorities.

The task force made no proposals about financial resources needed, where the money should come from or how it should be prioritized. The recommendations do not set out any mandatory obligations or responsibilities on the part of donor countries. However, according to OECD estimates, Official Development Assistance (ODA) commitments in the aid categories more closely associated with the Task Force's definition of AfT accounted for nearly \$21 billion on average between 2002 and 2005 (\$11.2 billion to build economic infrastructure, \$9 billion to promote productive capacities and \$0.6 billion for increasing the understanding and implementation of trade policy and regulations). In 2005, this amount represented around a third of total sector allocable ODA. Assuming that donor commitments to scaling-up aid up to \$130 billion in 2010 are met, ODA in the categories most closely associated with AfT could increase by \$8.5 billion.

Accordingly, the task force placed the onus on countries that aspired to benefit from AfT to determine their trade-related needs and priorities in a demand-driven fashion and within the overall context of national development or poverty reduction strategies. For countries whose trade-related needs and priorities have not been identified, a first step could be for the government to conduct appropriate national needs assessments, involving consultations with all relevant stakeholders, and taking into account current

² http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm#aid_for_trade.

³ http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html. United Nations (2005).

trade policies and agreements and their poverty reduction and human development implications.

It has been recognized that some countries require technical and financial assistance to support this process leading to an action plan — a set of policy recommendations, priority technical assistance needs, specific projects to overcome the identified constraints as well as adjustment measures related to current trade agreements — that will constitute the basis for negotiating AfT funding support from development partners.

The eligibility criteria for AfT initiatives and funding are usually that the country should be a developing country or Least Developed Country (LDC). Economies in transition, which are not formally classified as developing countries, will also benefit. It is expected that AfT activities in all countries will focus on the harmonization of free trade agreements (FTAs), WTO accession or membership, capacity-building and trade facilitation. Given that AfT is a demand-driven programme that responds to the needs of recipient countries, it is expected that trade-related assistance will also continue to concentrate on diversification of exports, trade-related infrastructure, trade policy and regulations and building productive capacity.

1.3 The need for a guide

This guide has been developed in light of the general recognition that trade can increase the rate of economic growth, which in turn has the potential to raise the level of human development. However, the link between trade and human development is not always clear and requires analysis. The guide aims to help meet this analytical challenge. The second chapter describes how trade could be mainstreamed

into government policies. The third chapter describes the link between trade and human development from a theoretical perspective, while chapter four onwards offers practical guidance for undertaking AfT needs assessments.

Successfully using trade to maximize the rate of human development depends on the coherence of national and international policies. This guide aims to help improve government and international policies. With appropriate government policies, increased growth can lead to poverty reduction, a more equitable distribution of income and improved social services. But the relationships between trade, economic growth and human development are not automatic, and indeed it is possible to experience economic growth (accompanied by a significant level of trade) without any impact on human development.

The guide is not a blueprint and does not cover the relationship between trade and human development in a comprehensive or exhaustive manner. Rather, it aims to enable countries to systematically analyse their capacity constraints, identify their needs in the current international trading context and express them in a document embodying a credible and actionable programme that enables them to benefit fully from AfT.

1.4 Purpose of Aid for Trade needs assessment studies

The most important goal of the needs assessment studies is to identify a set of policy recommendations and technical assistance needs aimed at improving the contribution of trade to human development and poverty reduction. This set of recommendations should:

- help overcome the identified constraints;

- meet the costs of adjusting to current or anticipated trade agreements;
- tackle institutional and infrastructure capacity limitations;
- suggest action plans to remove bottlenecks and seize opportunities.
- analyse key economic sectors for expansion of output, productivity, exports, employment and sustainability.

In order to derive these recommendations, the needs assessment studies should analyse the existing and potential impact of trade on human development and vice versa, with the aim of mainstreaming trade and human development within the development process. Key objectives are to reduce poverty, narrow inequality and promote gender equity. Where appropriate, the analysis should make use of disaggregated data by sex, age, location or ethnicity.

This supporting analysis should include the perspectives of key stakeholders in government, the private sector, academia and civil society. The main objectives of the analysis are to:

- review current investment and trade policies and their linkages with economic growth and human development;
- assess the country's business environment and investment climate;
- analyse selected existing (ex post) trade policies and agreements — bilateral, regional, and WTO — and those under negotiation (ex ante) for economic growth, employment, equity and poverty, policy space and public sector capacity implications;
- review economic and export performance as well as any specific constraints that the country's exports face in international markets;

This is not a checklist but provides an indication of the content of the needs assessment exercises. Each country needs assessment will differ depending on specific circumstances. The guide also proposes establishing a matrix of specific policy recommendations and institutional reforms that outlines ways in which trade might contribute more to economic growth, human development and poverty reduction.

The AfT needs assessments should not be considered in national isolation. They should aim to maximize coordination between regional economic communities and individual member countries to ensure agreement on which bankable projects are ready for support, including their implementation time-frame. By emphasizing the regional dimension, trans-border infrastructure, customs, communications, and regulatory reforms will be optimized to play the central role of helping to consolidate regional markets, integrate landlocked countries, realize economies of scale and spur competitiveness.

Ultimately, an approach that goes beyond national borders will enable the production of multi-year costed programmes for AfT projects and activities with a proposed financing framework that captures different sources of finance, and which covers cross-border projects. Such multi-year programmes will be key to anchoring trade in the long-term development strategies of each sub-region.

2. TRADE MAINSTREAMING

In many countries, trade is not fully incorporated into national development policies. Mainstreaming trade into development policies can help harness the benefits of trade, mitigate its possible negative impacts and improve the rate of development. The AfT needs assessment should help to mainstream trade into integrated national development strategies.

International trade, alongside appropriate domestic policies, can raise household incomes and reduce the price of daily consumption items. Countries can use export revenue to access a wider range of goods and services, as well as to gain technologies and knowledge needed to increase the productivity and competitiveness of local enterprises. Trade also stimulates entrepreneurship, creates jobs and promotes learning. Finally, international trade attracts foreign direct investment, which in turn can provide new opportunities for employment, production and exports. On the other hand, the transition towards a new trade regime can be painful, especially for the poor and most vulnerable groups. The loss of jobs in selected sectors, temporary reduction in government spending due to re-

duced tax revenues, and increasing food prices for some product groups are some of the examples of possible short-term trade-related negative shocks that some countries have experienced.

Given that the relationship between trade and improved incomes is not automatic, and that it needs to be managed, it is extremely important to make trade compatible with national development strategies. For trade and investment to raise household incomes and reduce poverty they need to be integrated into a national poverty-reduction strategy. This requires raising the profile of trade within the context of development, and improving coordination between public policies, sequencing policies in the right order, mobilizing a range of stakeholders from government agencies to donors and the private sector and upgrading capacities. Trade mainstreaming is so important that it could be worthy of a separate chapter or section within the AfT needs assessments. Trade mainstreaming is inevitably interconnected with the concepts of national ownership and policy space (see Box 2.1).

Box 2.1 Policy space

The concept of policy space achieved prominence in the early 2000s, partly as a response to the UNCTAD XI and XII conferences. It can be defined as the ability of governments to adopt and promote policies adapted to their country's development needs. The concept was developed partly in response to shortcomings in the Washington Consensus, a set of economic guidelines promoted during the 1980s and 1990s, which urged standard policies on most developing countries: budgetary restraint, current- and capital-account liberalization, privatization and deregulation. The idea of policy space has particular relevance for trade policy, where some commentators charge that the international trading environment has limited the ability of countries to pursue trade policies that suit their development requirements. Governments thus require policy space to pursue human development goals.

Critics of the Washington Consensus and others argue that there is no one-size-fits-all blueprint for economic development.* A number of development options are available, including in the areas of investment, fiscal and trade policy. Some of these options can help promote productive capacity, which is seen as increasingly important for poverty reduction and economic growth.** If countries are being asked to liberalize trade, albeit should not impede their ability to develop products to sell in foreign markets. Proponents of the infant-industry argument suggest that unless developing countries have room within which to promote certain industries over a number of years, they may remain stuck with low value-adding activities. Policy space can thereby help industries to move up the value chain.

Nevertheless, when maintaining policy space, developing countries need to carefully assess how it impacts their trade policy options. For example, a regional commitment to reducing trade barriers (which usually involves a restriction on the ability to alter tariff levels and other trade-related policies) may increase trade flows and inward investment. These countries must assess whether the gains from regional liberalization outweigh the benefits of maintaining the trade barriers. Most economists would favour the former course of action, although some may prefer the latter to protect an industry with a view to establishing a future comparative advantage.***

Malaysia has historically placed a high value on maintaining policy space by, for example, resisting advice from the International Monetary Fund not to impose capital controls to stem capital flight in the late 1990s. It also reneged on a commitment under the ASEAN Free Trade Agreement to lower tariffs on automobiles. The aim was to protect its domestic carmaker, Proton. Kuala Lumpur believed that it could establish an internationally competitive car industry by changing tariff policy as it saw fit. Whether this strategy to maintain space was successful is another question. In contrast, Slovakia's car industry has achieved considerable success using a more open strategy. In 2007, national per capita car production at three mostly export-orientated plants — Volkswagen, Peugeot Citroen and Kia — was the highest in the world. However, this is partly also due to the country's proximity to Europe and membership in the European Union.

* Gay (2007); Gore (2000); Fine, Lapavistas and Pincus (2003); Rodrik (2002).

** UNCTAD (2005).

*** Chang (2002).

2.1 Trade mainstreaming and national ownership

The process of trade mainstreaming must be based on national ownership and political commitment. Basing analysis and recommendations on actual conditions in the country rather than on a general template helps achieve the appropriate level of specificity. In part, this means ensuring that the country needs assessments are **owned** by national policy makers and stakehold-

ers, who can identify important features of the economic and human development environment.

National ownership also makes it more likely that recommendations will be carried out. If policy makers and national researchers drive the process — rather than measures being imposed from outside — they may be more willing to see them through to their conclusions. The objective of the AfT needs assessments

may also partly be to develop the capacity of national researchers, which means that they should be able to update the needs assessment studies and to conduct new ones in future. In some cases, the development of AfT studies may in part be a learning process.

Practical experience has shown that national ownership can be fostered through:⁴

- strong political support;
- early involvement of stakeholders;
- broad-based participation;
- positive incentives;
- a common understanding of objectives;
- measurable objectives and outcomes.

International agencies can play an important role. They can help guide national researchers through the process and compare the national needs assessments with others in the region and around the world. Comparisons help discern overarching themes without giving the appearance of blueprints. They can help improve international policy coordination. Unusual comparisons can often produce surprising results. Finally, development partners within a country can

help foster national ownership by playing a coordinating role and by responding to the needs of government.

Experience has shown that trade can be institutionalized by incorporating it into government policy and national laws. A notable example of trade mainstreaming in action was Japan's powerful Ministry of Economy, Trade and Industry, formerly known as the Ministry of International Trade and Industry. The Ministry implemented and coordinated much of Japan's post-war economic strategy. Its role covered trade policy in the very broadest sense, and helped generate rapid growth in Japan until the 1980s.

As shown in Box 2.2, in most low-income countries a key national development strategy statement where trade objectives should be mainstreamed is the Poverty Reduction Strategy Paper (PRSP). Trade can also be integrated in other policy and organizational areas, including government ministries and departments, inter-agency coordination, foreign policy, investment policy, public-private initiatives, environmental policies, dialogue with donors, and international alliances with like-minded countries at forums such as the WTO.

Box 2.2 Development as an entry point for trade mainstreaming

As indicated by Sok (2006), there has been a separation between 'trade and development cultures' until recently. Trade has been narrowly focused on trade policy, legal reforms and WTO accession, missing out on opportunities for increasing trade by capitalizing on existing development programs and financing. To address this shortcoming, linkages between trade and development have to be made more visible. Development initiatives to reduce poverty through broad-based and equitable economic growth, as well as financing measures such as loans, credits and guarantees for macroeconomic adjustment, could be better integrated and re-focused to promote trade. The two cultures of trade and development also need to be reconciled through better coordination and a coherent framework such as PRSP as well as the incorporation of a trade component into development programmes

⁴ United Nations (2005).

and projects. These development projects can provide entry points for the mainstreaming of trade, for example, infrastructure projects connecting productive rural farming areas to agricultural markets or offering landlocked countries an outlet to the sea through transit corridors. Thus, the objectives of trade mainstreaming should include the following:

- policies and programmes to bring together trade, development and finance communities (Sok 2006);
- advocacy on sound trade policy and incorporation of trade issues in sector activities (Tsikata 2006);
- accession to WTO.

The experience of the World Bank and the Department for International Development (DFID-UK) with integrating gender and environment in their development work could be applied to the mainstreaming of trade through the following actions (Tsikata 2006):

- participatory institutional sector strategy involving all the key stakeholders (government, donors, private sector, civil society);
- conceptual framework for integration of trade into operational strategy;
- development of diagnostic tools;
- identification of dedicated staff to mainstream trade at the operational level;
- establishment of formal links with related sectors, e.g., trade, development and finance (Sok 2006);
- monitoring of mainstreaming against benchmarks;
- identification of skills mix, gaps and strategy for the medium term.

Examples of trade-related activities by region include:

- **Europe and Central Asia:** support for WTO accession, a more favourable export tariff structure, trade and transport facilitation, diagnostic work;
- **East Asia:** initiatives to enhance competitiveness;
- **Latin America, the Caribbean, Middle East and North Africa:** needs assessments to identify trade policy and technical assistance needs, export development;
- **Sub-Saharan Africa:** trade facilitation, e.g., integrating sanitary and phytosanitary standards into policy, national strategies and projects, and trade needs assessments.

Sources: <http://www.tradeforum.org/news/fullstory.php/aid/1089>. http://www.worldbank.org/ieg/trade/docs/trade_evaluation.pdf; <http://www.mcc.gov>.

2.2 Levels of trade mainstreaming

Key to the success of trade mainstreaming initiatives is maintaining cohesion and coordination among the different groups in the public and private sectors, labour, other civil society organizations as well as development partners. This can be achieved by creating coordinating

mechanisms composed of representatives of the major stakeholder groups. They will promote broad-based consultations between the business, labour and other non-governmental organizations, and relevant government agencies to formulate trade strategies, action plans and project proposals using diagnostic tools such as SWOT and value chain analysis to identify needs.

Trade can be mainstreamed at the policy, institutional and donor-government levels:⁵

Policy. Mainstreaming trade at the policy level means integrating trade with national development strategies and PRSPs, as suggested above, and with sectoral policies. In order to understand how trade will affect the poor in a particular country, a comprehensive review of the economy needs to be undertaken at sectoral level or at sub-sectoral level, for example covering specific commodities and manufacturing.

Institutions. Lessons from earlier experience show that trade-related aid works best if a suitable institutional set-up is achieved beforehand. Some time should be devoted to determine what particular set-up will work in the specific country concerned. An AfT dedicated national focal point may be set up, usually in the Ministry of Trade. Any existing interdepartmental committees (e.g. Trade Facilitation Committee) should also be used in order to avoid duplication and ensure simplicity. Apart from government stakeholders, other institutions that should be involved include academia, think tanks, business associations, trade unions, standard and quality control agencies, investment promotion agencies and export promotion boards.

Government-donor dialogue. The mainstreaming of trade will be better achieved if, during dialogue between government and donors, trade-related issues are routinely made central to discussions. Trade should be on the agenda for consultative group and roundtable meetings as an integral part of all development-related dialogue rather than in an ad hoc manner.

Good examples on how to implement trade mainstreaming can be taken from the experiences collected in trade facilitation.⁶ Trade mainstreaming and trade facilitation are inextricably linked, since trade facilitation comprises a range of 'behind-the-border' issues that require the involvement of several government institutions and other stakeholders. The coordination of these institutions and stakeholders is particularly important. Trade facilitation itself will need to be mainstreamed, so that policy makers, institutions, government and donors come to see trade not as an isolated issue, but as something which should underlie a number of their activities. A practical and effective mainstreaming initiative is to establish a National Trade Facilitation Committee (NTFC). The Committee (see Box 2.3) should be responsible for a range of trade-related topics, such as reforming trade and investment policy, removing bottlenecks, addressing infrastructural weaknesses and developing human resources capacity.

⁵ United Nations (2005).

⁶ Trade facilitation is defined by the WTO and OECD as the simplification and harmonization of international trade procedures, including the activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade.

Box 2.3 National Trade Facilitation Committee

The main purpose of the National Trade Facilitation Committee (NTFC) is to create a sustainable and transparent consultative mechanism to serve as an inter-institutional national forum where all interested parties in the nation's international trade (notably from both the public and private sectors), work together to identify their respective trade facilitation problems and priorities. Given the considerable importance of non-tariff barriers to trade imposed by restrictions on international and transit transport, the participation of transport authorities (for example the Transport Ministry), transport operators and freight forwarders is essential. Some countries have decided to create national trade and transport facilitation committees to ensure intersectoral cooperation. The scope and objectives of the NTFC include:

- improving the effectiveness of national trade facilitation;
- establishing and maintaining a genuine partnership with all relevant stakeholders;
- identifying and prioritizing national trade facilitation related problems, and suggesting measures to overcome them;
- assisting the government in formulating and implementing a national trade facilitation policy;
- enabling an active participation in regional and international trade facilitation forums;
- providing a national forum for information collection and dissemination, and knowledge sharing on trade facilitation issues (national, regional and international);
- facilitating awareness-raising of issues related to trade facilitation;
- increasing the priority of trade facilitation within the government.

Some lessons from national trade facilitation bodies can be found at http://www.unctad.org/en/docs/sdtetlb20051_en.pdf.

3. TRADE AND HUMAN DEVELOPMENT

3.1 Human development and its relation to economic growth

Poverty is traditionally defined as a lack of income or ability to consume. But the human development approach goes beyond what it sees as a limited definition of income and consumption. The human development approach makes people the ends rather than the means of development, so that increased income and consumption are valuable only insofar as they improve people's lives. Human development is two-sided. It involves forming people's capabilities through improved health, knowledge and skills. It also involves using these capabilities to achieve what is valued. The approach also places more emphasis on the quality and distribution of growth than conventional measures like GDP. The underlining objective of human development is to enable people to enjoy long, healthy and creative lives.

The UNDP has published a Human Development Index annually since 1990, using three indicators — education, longevity and income — as proxies for knowledge, a long and healthy life and standard of living.⁷ A score is calculated for each indicator and an overall index value assigned to each country, enabling international comparison. The relationship between the three indicators is multifaceted. More money tends to give people more choices. Living longer suggests good health, which in turn indicates a higher quality of life. A decent level of education also contributes to personal fulfilment. Countries with

high incomes do not always achieve widespread education or good health (although they tend to). Similarly, education and health often, but do not always, lead to wealth creation. Each indicator links with others and must be addressed in its own right.

Higher income is one of the three variables which can improve human development. Economic growth can create jobs and boost government revenues, part of which can in turn be diverted into further investment in health and education. But there is nothing inevitable about the relationship between economic growth and human development. A Commonwealth Secretariat/Overseas Development Institute handbook on trade negotiating strategies suggests, '...for growth to be effective in reducing poverty it has to be *managed*. Few of the poorest countries can achieve the levels of growth that are sufficient by themselves to have a significant impact on poverty. In such contexts, growth and redistributive strategies become key channels for achieving poverty reduction objectives'.⁸

Increased trade and economic growth can improve human development. But human development is not just valuable as an end in itself. The direction of causality can run the other way — from human development to increased economic growth and trade. This is particularly relevant in countries where human development is seen as a 'soft' concern, which should receive a lower priority than the 'hard' concern of wealth creation. In reality, the two are linked.

⁷ See UNDP Human Development Report (any year) for the method of calculation of the HDI.

⁸ Stevens and Philips (2007).

Many successful countries invested strongly in human development policies at an early stage. Singapore, which developed using an export promotion strategy, provided universal health care and education, reasoning that a healthy and contented workforce would be more productive. The Republic of Korea placed high priority on tertiary education and linked university research with industry, much of which was export-oriented. Korea had the world's highest rate of university enrolment in 2004 and tertiary enrolments in technical areas were over twice the OECD ratio. These strong human development policies were necessarily state provided. In the fast-growing Asian economies, overall public investment grew rapidly in the 1980s and 1990s. In the Republic of Korea, the public investment to GDP ratio grew by 14 percent between the 1970s and the 1980s, and by an additional 14 percent between the 1980s and the 1990s. During the same period, Thailand's ratio grew by 16 percent and 14 percent respectively, and in Malaysia the ratio rose by 60 percent.⁹ This public investment also included spending on infrastructure and research and development.

An emphasis on gender, education, health, environmental sustainability and poverty reduction can help improve economic growth for a number of reasons:

- In the words of David Landes, "In general, the best clue to a nation's growth and development potential is the status and role of women".¹⁰ Gender issues cut across all areas. If more women participate in the workforce, the pool of available labour is bigger. But gender policy can contribute to economic growth in more specific ways. Improved female literacy can

increase knowledge and productivity among women; lower population growth (and raise GDP per capita, as long as economic growth remains constant or higher); lower infant mortality; lower school dropout rates; and improve nutrition.

- Increasing the rates of primary, secondary and tertiary enrolment can increase the availability of skilled labour and human capital. A skilled engineer, for example, may add more value than a shopkeeper. Increased levels of university education have the potential to improve domestic innovation.
- Better schooling helps spread entrepreneurship. If a shoemaker can read, he might be able to read about new production techniques and move into new areas.
- Credit brings new people into the productive economy. Enabling a farmer to borrow money to buy a second or third cow may allow him to sell the surplus milk.
- People who live longer and are healthier tend to work longer and can build up new skills and knowledge. Someone in the advanced stage of AIDS may be unable to contribute to the productive economy. The economies of several African countries have suffered heavily through this source of depletion in human resources.
- Reduced income differentials can improve social harmony. Political and social stability provide a basis for economic growth.
- In the era of climate change, it is increasingly recognized that environmental well-being has intrinsic benefits. Many poor developing countries have suffered disproportionately from extreme weather because they

⁹ UNDP (2005): 52 and table 10: p53, cited in Malhotra (2008): 2

¹⁰ Landes (1999).

do not have the capacity or budget to mitigate its impact. Floods in coastal areas have destroyed crops and caused widespread human and infrastructural damage, as has drought in sub-Saharan Africa.

- In recent years, economists have placed increased emphasis on the role of technology and productivity growth. Although a number of countries, mostly in East Asia, developed to a certain level using high savings and investment rates, the international opening of markets means that developing countries must increasingly compete on grounds of efficiency rather than production volume. This means that developing countries

must place increasing emphasis on domestic research, development and innovation, each of which requires an educated workforce.

The MDGs are necessarily linked with the concept of human development and provide an already well-established monitoring mechanism.¹¹ Even if they do not necessarily reflect all the aspects of human development, they comprise the most comprehensive set of human development goals and targets yet adopted. Box 3.1 and Table 3.1 highlight MDG goals targets and indicators that are expressly linked with trade. Annex 1 provides a detailed description of all the MDGs with targets and indicators.

Box 3.1 Millennium Development Goals and their links with trade



Goal 1: *Eradicate Extreme Hunger and Poverty*



Goal 2: *Achieve Universal Primary Education*



Goal 3: *Promote Gender Equality and Empower Women*



Goal 4: *Reduce Child Mortality*



Goal 5: *Improve Maternal Mortality*



Goal 6: *Combat HIV/AIDS, Malaria and Other Diseases*



Goal 7: *Ensure Environmental Sustainability*



Goal 8: *Develop a Global Partnership for Development*

MDG 8 expressly indicates trade-related targets, namely:

- target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance,

¹¹ The eight MDGs — which range from halving extreme poverty to providing universal primary education, all by the target date of 2015 — form a blueprint agreed to by all the world's countries and leading development institutions (see Annex 1).

- development and poverty reduction — both nationally and internationally;
- target 8.B: Address the special needs of LDCs. Includes: tariff and quota-free access for LDCs' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction;
- target 8.C: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome.

Progress towards these targets is measured vis-à-vis the following set of indicators:

- (8.6) proportion of total developed country imports (by value and excluding arms) from developing countries and LDCs, admitted free of duty;
- (8.7) average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries;
- (8.8) agricultural support estimate for OECD countries as a percentage of their gross domestic product;
- (8.9) proportion of ODA provided to help build trade capacity.

3.2 Trade and human development: theory and framework

As discussed earlier, the links between human development and trade are not automatic, and they are complex and not always easy to discern. They depend partly on country-specific circumstances. To what extent does poverty exist, and what type? What kind of trade reform is involved, and at what stage of trade reform is the country at? What kind of natural endowments does the country have? Many developing countries suffer from widespread rural poverty, although some do not; many are members of the WTO, although not all; most countries are involved in regional trade agreements; and several are rich in natural resources, while some have none. These

variations between countries underline the requirement for the needs assessment exercises to be nationally-owned and driven.

Despite the theoretical challenges of linking trade policy and human development, it is possible to present a basic procedure for analysing the human development impact of trade, based on commonalities among countries. As suggested above, by definition the increase in economic growth that often comes with trade liberalization (see table 3.1) is likely to enhance the rate of human development. However, if economic growth is accompanied by environmental degradation, poorer health care, less leisure time, lowered security or other concerns, then it may have a negative impact on human development.

Table 3.1 Selected mechanisms through which international trade can have economic growth effects

Source of growth	Associated aspect of trade
1. Static and dynamic efficiency gains arising from specialization according to current comparative advantage	☐ Openness ☐ Exposure to international trade competition
2. Increased capacity utilization	☐ Increased import capacity
3. Increased investment	☐ Economies of scale through selling to domestic and external markets ☐ Reduced costs of capital goods through imports ☐ Reduced costs of wage goods through imports
4. Increased technology acquisition and learning	☐ Buyer–seller links ☐ Machinery and equipment imports embodying foreign technology ☐ Exports that have great potential for learning through technology transfer
5. Structural change	☐ Composition of exports and imports ☐ Product and market diversification
6. Releasing the balance-of-payments constraint on economic growth	☐ Export growth ☐ Import substitution ☐ Reduced income elasticity of imports ☐ Increased elasticity of export growth with respect to growth of world income ☐ Reduction of non-essential imports

Source: UNCTAD 2004.

In addition to income, a number of transmission channels can be identified, including employment, prices, taxes and transfers, and the access to goods, services and assets. In turn, four pillars of human development can be seen to be

related to trade: productivity, equality, sustainability and empowerment.¹² Table 3.2 summarizes links between trade and these key pillars of human development and relates them to the MDGs.

¹² UNDP Colombo Regional Centre (2008 - draft).

Table 3.2 Relationship between trade, MDGs and the pillars of human development

Pillar of human development	Related MDGs	Relationship with trade
Productivity	1, 2, 3, 4, 5, 6	Increased productivity (achieved partly through better education and health care) enhances human capabilities, allowing people to benefit from trade. It also raises the economic growth rate. MDGs 1-6 all relate to improvements in health, gender, education and incomes, each of which can enhance productivity.
Equality	1, 2, 3	Enhanced equality can help ensure that all groups benefit sufficiently from trade policy changes. A more equitable income distribution may render trade policy changes more sustainable. Trade policy should aim to help eradicate extreme poverty and hunger, as well as improve education and gender balance.
Sustainability	1, 2, 3, 4, 5, 6, 7	Sustainability means preserving developmental achievements. Trade-related changes must ensure that resources are not used in a way that depletes them or prevents future generations from improving their welfare. It is not just MDG7 that relates to sustainability. MDGs 1-6 each contribute to the long-term success of trade-related changes.
Empowerment	1, 2, 3, 5, 8	This refers to the ability of people to influence the processes and events that affect their lives. If changes to trade policy cause a worsening of working conditions or result in more menial labour, they can reduce empowerment. Conversely, if trade policy changes increase incomes or improve working conditions they can give people greater control over their own lives. Most of the MDGs contribute to empowerment. The creation of a global partnership for development, MDG8, is intended partly to institutionalize empowerment as a development issue.

Source: Adapted from *Resource Book for Human Development Impact Assessment of Trade Policy*, draft, UNDP Regional Service Centre, Colombo, 2008.

The AfT study can look at human development from multiple perspectives. The first entails the identification of existing patterns in the economy and the relative opportunities to increase well-being, as well as the increased risks from globali-

zation. In doing so, the study should focus on opportunities and threats that are explained by stronger interactions with international markets. While the human development perspective should be reflected throughout the AfT study, prac-

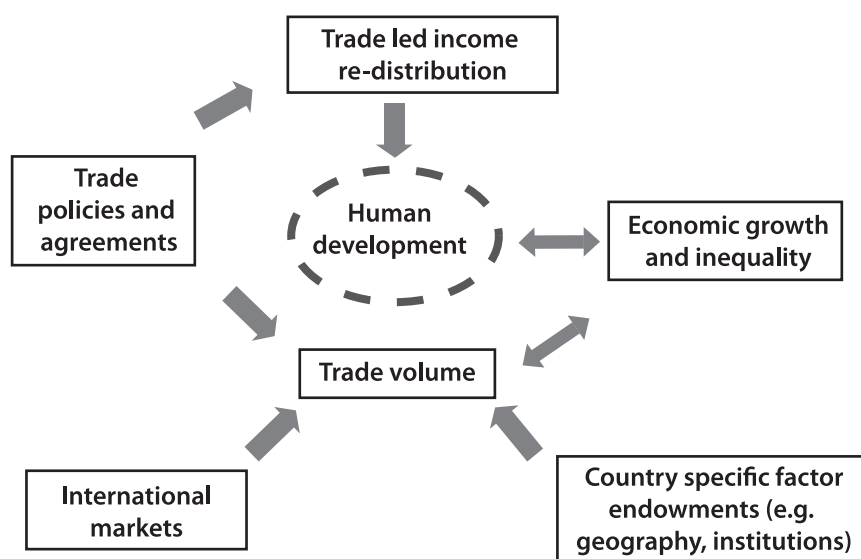
tical and operational recommendations should be grounded sector by sector. Secondly, the opportunity of conducting a policy impact assessment, rather than a generic policy review, should be considered (e.g. WTO accession, Trade-Related Aspects of Intellectual Property Rights [TRIPs], or regional trade agreements). This chapter offers an overall framework, while more specific tools are described in chapters 8 (sector assessments) and 9 (trade policy impact assessment).

Trade and underlying policies are redistributive in their nature, meaning that they impact different population groups in different ways. Therefore, trade liberalization may imply a net welfare transfer from one economic sector or group to another. A protected sector (e.g. car production), including its firms and workers, may lose from a tariff reduction while other enterprises and workers employed in an export-driven sector (e.g. textile, electronics, apparel) may gain from an increased access to foreign markets. Changes in the country's trade volumes and its relationship with internal economic growth and inequality may explain how economic variables influence people's lives. It must be acknowledged that, while trade gains usually are consolidated only after five or more years, the negative impact on losers is often immediate. Therefore, the analysis should differentiate between short-term and long-term effects. Trade liberalization, as previously discussed, may force households to adopt coping strategies to mitigate the effects of job loss and increased vulnerability. Coping strategies take the form of arrangements between individuals (e.g. family support) and communities (self-help groups), when savings, job or health insurance are absent. Without state support, these strategies

(e.g. consumption loans, selling of assets) may translate in a net reduction of living standards, while producing changes in inequality and gender equality. Long-term coping mechanisms include moving into the shadow economy and labour migration. According to the OECD Employment Outlook, 'The impacts of globalization on labour markets are manageable, but international economic integration increases the urgency of enacting pro-growth and pro-employment policies, which also ensure that political support for open trade and investment will not be eroded by excessively high level of insecurity or inequality'.¹³ An effective and adequate welfare system must be in place to reduce insecurity and provide opportunities for the newly unemployed to get back into the labour market.

Policy changes and trade agreements are nonetheless only two of the factors behind a country's trade performance. Their implementation might be not sufficient to boost trade, exports and growth. Country-specific factor endowments and comparative advantages (such as a relatively cheap and highly educated workforce and availability of land) are even more important in the current global trade environment. Enterprises will also find themselves in already established international markets which have specific rules and dominant players. The current trade architecture and protectionist policies in most developed countries in sectors of particular interest to developing countries are regarded as a significant obstacle for developing export productive capacity in emerging economies. Starting from these basic notions, the inter-linkages between human development and trade can be mapped using a step-by-step process as outlined in Figure 3.1.

¹³ OECD (2007).

Figure 3.1 Trade and human development

In summary, the analysis should include:

- immediate redistribution effects of trade liberalization with special attention to vulnerable groups (e.g. farmers, informal sector, gender inequalities);
- estimated impacts of liberalization on trade volumes, economic structure and inequality (e.g. wages and factor productivity);
- expected risks of potential trade shocks and their impact on the economy (e.g. food and energy prices).

Among other factors, the following impacts of trade are relevant for an Aft analysis:

- impact on access to services: changes in type and quality of service (and goods) available;
- impact on health and education: changes in well-being, physical capabilities, changes in access to and/or quality of learning;
- impact on lifestyle and culture: changes in the ways in which in-

dividuals and families organize themselves, including changes in gender roles;

- impact on income and inequality;
- impact on household expenditure patterns, including consumer basket;
- impact on food security;
- impact on the environment.

The changes in trade patterns are transmitted to households through the following three main channels: prices, production and social expenditures.

- **Prices.** Changes in prices modify the prices at which households and individuals sell and buy products. A case in point is the adverse effect of declining agricultural commodity prices (e.g. coffee, cotton) on small-scale farmers. Many households have been forced to sell assets and cut down essential expenditures (e.g. food and children's school fees) due to price changes. Box 3.2 provides further details.

Box 3.2 Price channel: International and national prices

Even if trade policies are liberalized and tariffs do not impose substantial increases on consumption prices, the price that households find in the marked (retail price) may be different from the border price. Usually, lack of competition, poor transport infrastructure and underdeveloped retail channels are responsible for considerable increases in final consumer prices.



For the purposes of the AfT needs assessment, each stage in the process can be analysed to determine the impact of a change in price on the household, and an attempt made to determine whether transmission mechanisms are working. The transmission from the wholesale price to the retail price may not operate effectively if there are problems with distribution, taxes, regulation or cooperatives. This process may be done anecdotally, for a representative good, or, if possible, for all likely goods in a proposed trade liberalization to establish to what extent the price effects of the proposed or actual liberalization pass through to the household.

Source: Adapted from McCulloch et al (2001).

- **Employment and productive capacity.** Trade liberalization and increased trade volumes likely change incentives for individuals and enterprises and have an impact on wages (employees) and profits (entrepreneurs). They may increase or decrease overall and wage inequalities and the size of the shadow economy.
- **Government revenues and social expenditures.** Trade policy changes have short-term and long-term direct impacts on gov-

ernment revenues, which in turn may influence social expenditures. The main impact is expected due to a reduction of tariff and excise revenues.

Box 3.3 poses and answers a series of questions related to the previously identified transmission channels. It highlights how transmission channels may influence the impact of trade liberalization, and the related outcome that can be obtained in the attempt to reduce poverty and social exclusion.

Box 3.3 Trade, trade policy and poverty: What are the links?

Will the effects of changed border prices be passed through to the rest of the economy?

Trade policy and shocks operate primarily via prices. If price changes are not transmitted, for instance when governments continue to fix the internal prices of goods which they have ostensibly liberalized internationally, the most direct effects on poverty (positive or negative) will be nullified.

Is reform likely to destroy effective markets or create them and will it allow poor consumers to obtain new goods?

Perhaps the most direct effect of trade reform on poverty is via the prices of goods/services in which poor households have large net positions. The largest price shocks occur when either the initial or final price is finite and the other infinite (i.e. when there is no market). A shock that completely undermines an important market — e.g. for a cash crop or a form of labour — is likely to have major poverty implications. Similarly, bringing new opportunities, goods or services to the poor can greatly enhance welfare.

Is it likely to affect different household members differently?

Within a household, claims on particular goods and endowments of particular assets (labour) are typically unevenly distributed. This raises the possibility that poverty impacts are concentrated on particular members, usually females and children, who may lose personally even when the household in aggregate gains.

Will its spillovers be concentrated on areas / activities of relevance to the poor?

Sectors of an economy are interlinked and, if substitutability is high, a shock will be readily transmitted from one to another. Frequently, the diffusion will be so broad that it has little effect on any particular locality or sector, but sometimes — e.g., where services are traded only very locally — the transmission is narrow but deep. Then it is necessary to ask whether the second round effects have serious poverty implications. Agricultural stimuli can confer strong benefits on local economies via benign spillovers.

What factors are used intensively in the most affected sectors? What is their elasticity of supply, and why?

Changes in the prices of goods affect the functional distribution of income according to factor intensities. Predicting either the price effects or the factor intensities of affected sectors can be complex, as was seen with the Latin American reforms of the 1980s and 1990s. In addition, if factor supplies show some elasticity, part of a trade shock will show up as changes in employment rather than in factor prices. In the limit, a perfectly elastically supplied factor will experience only employment effects. This is most pertinent for labour markets. If the prevailing wage is determined by subsistence levels, switching people from one activity to another has no perceptible effect on poverty. If, on the other hand, the trade-affected sector pays higher wages (because, say, it has an institutionally enforced minimum wage), increases in activity will tend to reduce poverty and declines increase it. The formal/informal divide is important in this respect. In all this, it is important to remember the difference between the functional and the personal distribution of income. Falling unskilled wages generate poverty only to the extent that the poor depend disproportionately on such wages.

Will the reform actually affect government revenue strongly?

One's immediate reaction is that cutting tariffs will reduce government revenue.

While in the limit this clearly true — zero tariffs entail zero revenue — many trade reforms actually have small or even positive revenue effects, especially if they convert non-trade barriers into tariffs, remove exemptions and get tariff rates down to levels that significantly reduce smuggling. Even where revenue falls, it is not inevitable that expenditure on the poor will decline. That, ultimately, is a policy decision.

Will it lead to discontinuous switches in activities? If so, will the new activities be riskier than the old ones?

If a trade liberalization merely changes the weights of a given set of outputs in total economic activity, it will most likely reduce risk: foreign markets are likely to be less variable than domestic ones, and even if they are not, risk spreading is likely to reduce overall risk. If, however, trade reform leads to more or less complete changes in activities, there is a possibility that risk increases if the new activity is riskier than the old one.

Does the reform depend upon or affect the ability of poor people to take risks?

The very poor are likely to be seriously risk averse. As the consequences of even small negative shocks are so serious for them, they will tend not to welcome a change that raises mean income and increases their chances of higher incomes if at the same time it also increases their chances of lower incomes. This might make them unwilling to adjust to seize opportunities that are beneficial in mean income terms and hence leave them only with the negative elements of a reform package. Similarly, if a reform makes it more difficult for the poor to continue their traditional insulation strategies, it may increase their vulnerability to poverty even if it increases mean incomes.

If the reform is broad and systemic, will any growth it stimulates be particularly unequalizing?

Economic growth is the key to sustained poverty reduction. Only if it is very unequalizing, will growth increase absolute poverty. One possible concern is if liberalization strongly increases exports of minerals or plantation crops at the expense of other more labour intensive goods. Even here, however, while the initial impact of such a shock may hurt the poor, if it induces long-lived increases in economic activity, the demands for non-traded goods and services is likely eventually to trickle down into income growth for the poor. In such cases, however, there is a strong case for speeding up the redistribution through more direct measures such as social programmes.

Will the reform imply major shocks for particular localities?

Large shocks can create qualitatively different responses from smaller ones — for example, markets can seize up or disappear altogether. Thus, if a reform implies very large shocks for particular localities, mitigation in terms of phasing or, better, compensatory-complimentary policy could be called for. There is a trade-off, however, for typically larger shocks will reflect bigger shortfalls between current and potential performance and hence larger long-run gains from reform.

Will transitional unemployment be concentrated on the poor?

The non-poor will typically have assets that carry them through periods of adjustment. This might be unfortunate for them, but it is not poverty strictly defined. The poor, on the other hand, have few assets, so even relatively short periods of transition could induce descent into deep poverty. If the transition impinges on the poor, there is a strong case for using some of the long-run benefits of a reform to ease their adjustment strains.

Source: Winters (2000).

3.3 Trade, gender and human development

Gender should be central to any analysis of trade and its dynamics. Any gender analysis starts from the acknowledgment that policies have different impacts on men and women (and boys and girls) and influence their economic and social behaviours (and opportunities) differently.

One of the examples often cited in the literature is the employment of young women in export-oriented textile companies in Asia. The experience shows that the expansion of export industries may generate new employment opportunities for women. Nonetheless, while economic opportunities allow for greater freedom and economic independence, additional burdens may fall on women and mothers. The question of gender and trade has a multiple interface with economic and social dimensions, because of women's contemporary roles as economic agents and caretakers. The situation is further complicated by cultural norms, and the lack of support services that are available in western economies. The sequencing of trade liberalization decisions should take into account their impact on gender equity.

The identification of gender barriers should also be central to AfT needs assessments. The main question is if and how a change in the current trade patterns influences the situation of men and women and contributes to gender equality. Gender equity can be defined by 'recognizing that men and women often have different needs and priorities, face different constraints, have different aspirations and contribute to

development in different ways'.¹⁴ The opening of an economy to international trade often implies adverse short-term negative shocks or adjustments, and given women's vulnerability that is exacerbated by existing inequalities, the negative effects of trade liberalization are likely to be felt more by women than men. Shuttle trade, for example, has helped women escape from unemployment and poverty, but it has also increased vulnerability and economic risks.¹⁵

Gender inequality, if interpreted through its economic dimension, can be described by looking at differences in:¹⁶

- employment opportunities (participation rate in all sectors and occupations);
- returns from labor (wage equality);
- conditions of work and quality of employment;
- access to basic services (such as health and education);
- access to resources (such as land, credit and business services);
- empowerment (participation in decision-making);
- distribution of income inside and outside the household (or poverty levels).

Taking this into account, the AfT study should first briefly summarize the country positioning towards gender equality through the use of secondary data, including two key indices, the Gender Related Development Index and Gender Empowerment Measure.¹⁷ Box 3.4 highlights other dimensions that should be taken into account throughout the analysis (i.e., employment opportunities, market pressures and access barriers) to substantiate research findings.¹⁸

¹⁴ DFID (2002).

¹⁵ Shuttle trade refers to the activity in which individual entrepreneurs buy goods abroad and import them for resale in street markets or small shops. Often the goods are imported without full declaration in order to avoid import duties.

¹⁶ UN Inter-Agency Network on Women and Gender Equality (2004).

¹⁷ The HDI has been reworked to highlight gender issues and those two separate but strongly linked indices have been developed (see UNDP 2007/2008 Human Development Report).

¹⁸ An example of a gender analysis of trade policies is the report China's Accession to WTO: Challenges for Women in the Industrial Sector produced by UNDP, UNIFEM, China International Centre for Economic and Technical Exchange, and the National Development Reform Commission. The Women's Edge Coalition has tested a Trade Impact Review (TIR) framework to study benefits and drawbacks of trade agreements.

Box 3.4 Measuring the impact of trade on gender

Gender statistics should be collected around the following three dimensions:

1. Impacts on employment opportunities

- disaggregation of national and sector employment statistics by sex;
- gender analysis of export sectors: percentage of women employed and growth rate of women employment;
- foreign direct investments: percentage of women employed and growth of women employment;
- percentage of women employed in the informal sector and new entry in the formal sector;
- number of women involved in petty trading;
- changes in the previous data after trade liberalization or forecast about those changes;

2. Impacts determined by market changes on gender discrimination and wage differentials

- gender wage and productivity differentials;
- gender wage discrimination in the export sector, comparison with other sectors;
- gender wage discrimination in foreign direct investment (FDI), comparison with other employers (state, private sector);
- percentage of female professional & technical workers;
- percentage of business women (i.e. women entrepreneurs, CEO, depending on available statistics);
- women's underemployment;
- stability of women's employment;
- percentage of women employed as shuttle traders;
- gender discrimination in the workplace (source: employment surveys);
- changes in the previous data after trade liberalization or forecast about those changes;

3. Impacts on barriers to access resources and services by women

- implementation of the labor legislation in regards to women's rights (e.g. maternity leave);
- access to social security, health and education;
- access to financial services including microfinance;
- availability of child care services and related costs (e.g., free of charge by the state) in relation with available resources;
- dynamics of fertility of employed women.

Gender should also be integral to any sectoral analysis. Many developing countries are dominated by agricultural production. Low agricultural productivity can cause poverty and restrict export competitiveness. Since gender inequalities may

contribute to continued challenges in raising agricultural productivity, gender analysis of the agricultural sector is fundamental. In most developing countries, women play a crucial — and often underestimated — role in agriculture. Dis-

cussions should include specific ways of enabling women to better contribute to, and benefit from, increases in agricultural exports. It will be important to discuss how increased agricultural exports will affect domestic food security.

An analysis of low productivity and its causes may include a discussion of the existing use of tools and technologies. For example, women often have less access than men to modern technologies in agriculture, with important implications for economic growth and export opportunities. A study in Burkina Faso showed that shifting existing resources between men's and women's plots within the same household could increase agricultural output by 10 to 20 percent.¹⁹ A study in Kenya concluded that giving women farmers the same level of agricultural inputs and education as men could increase their yields by more than 20 percent.²⁰

Such analysis can also help reveal the impact of low skills and knowledge on agricultural productivity. Improved training is vital in easing shortages of skilled labour in both rural and urban areas, although both women and men must have the basic education to allow them to benefit from upskilling. Girls generally lag behind boys in primary and secondary education, while tertiary education is also often gender-biased.

Land ownership is also likely to affect productivity. Land is the most important asset for households and a key input for production and as collateral for financial and credit services. However, in many countries, women are less likely than men to own or control assets, and therefore have limited opportunities to effectively participate in economic activities. Ensuring women's property

and inheritance rights is a crucial step in empowering women and improving productivity.

The dimensions of human development are often interlinked. Box 3.5 highlights a possible strategy — fair trade — for linking sustainable trade with gender empowerment. Furthermore, it is important to consider trade and environment from the dimension of gender. In many developing countries, women play a key role in the production of environmentally friendly goods and services such as organic agricultural products and medicinal herbs and plants. International markets provide opportunities for such products: fair trade labels often work with women's associations to market their products in Europe and the United States.

3.4 Trade and environment

Trade has an undeniable impact on the environment. The production and exchange of goods and services can deplete natural resources and produce waste and emissions. Linkages between trade and environment have been recognized at all levels, including formal multilateral negotiations. This recognition dates back to the Marrakesh Agreement establishing the WTO, and is now reflected in the works of the WTO Committee on Trade and Environment. As shown in OECD (2006) an integrated approach to poverty, trade and environment is crucial for the following reasons:

- environmental degradation hits the poorest the hardest, since poor people depend for survival on a wide range of natural resources;
- environmental commons (such as grazing lands, waters and forests)

¹⁹ Udry, Hoddinott, Alderman and Haddad (1995).

²⁰ Saito, Mekonnen, and Spurling (1994).

Box 3.5 Fair trade initiative

Economic benefits	Social benefits	Environmental benefits
• High quality production processes may attract and be preferred by some global buyers • Individual suppliers may be able to command higher prices by directly accessing premium niche markets • Individual suppliers may be able to negotiate fixed prices and be less affected by global commodity price fluctuations • Suppliers may develop longer term, more stable partnerships with buyers	• Improved overall working conditions • Lower absenteeism and employee turnover • Improved productivity. • Greater equity for, and consideration of, the specific needs of female employees • May enable indigenous crafts and production methods to gain wider market access • Suppliers may develop longer term, more stable partnerships with buyers	• Provides opportunities to raise awareness and change practices to minimize the environmental damage caused by production processes • Improved, more carefully considered, production processes may reduce the use, for example, of pesticides, through attention to worker health and safety • May provide an easy link to other standards such as organic production standards, which inherently reduce environmental damage
Economic disadvantages	Social disadvantages	Environmental disadvantages
• Could create dependence on small niche markets. • Could prompt buyers to go elsewhere as part of a 'race to the bottom'.	• Creates 'islands of wealth' with limited benefits for the wider community • Does not account for loss of equivalent trade in 'buying' countries • Does nothing to reduce the social and cultural impacts of consumerism as a whole	• Does not account for externalities such as carbon dioxide emissions from air transportation of goods • Does nothing to reduce the environmental impacts of consumerism as a whole

Source: UN Inter-Agency Network on Women and Gender Equality (2004).

contribute significantly to the income of poor people but are vulnerable to unsustainable use;

- the poor (particularly women and children) are heavily affected by environmental health problems such as lack of safe water and san-

itation, indoor air pollution and exposure to chemicals and vector-borne diseases;

- the majority of the rural and urban poor live in ecologically fragile areas or environments with high exposure to environmental hazards;

- women are often more vulnerable than men to environmental degradation and resource scarcity. They typically have weaker and more insecure rights to the resources they manage (especially land), and spend longer hours on collection of water, firewood, etc;
- ignoring the environmental sustainability of growth may lead to short-run economic gains for some, but risk undermining long-term growth and poverty reduction;
- involving poor people themselves, and building on their views and knowledge, is key to ensuring good governance of environmental resources as their access to natural resources are crucial to the fulfilment of basic human rights such as food, housing and health.

Trade and development policy traditionally revolve around economic and social issues, but ideas about development are increasingly driven by environmental concerns. MDG 7 involves a commitment to the goal of environmental sustainability. In the 1990s, environmental impact assessments of new investments, production facilities and trade agreements grew considerably to provide adequate information for decision-making both in private and public organizations. International organizations, governments, NGOs as well as think tanks and academia were involved in defining the framework. Several approaches were applied in practice and in some countries they were codified by law. The European Union has enacted a few directives to define the obligation of conducting environment assessments, while similar rules have been applied in other OECD countries. For example, the Directive on Strategic Environmental Assessment²¹ requires that 'environmental

assessment shall be carried out for all plans and programmes, which are prepared for agriculture, forestry, fisheries, energy, industry, transport, waste management, water management, telecommunications, tourism, town and country planning or land use'. Though trade is not expressly mentioned, it should be clear that trade policies and agreements can influence the priorities and objectives of the plans and programmes for the sectors listed above.

Evaluating the impact of trade on the environment remains challenging. It can appear that the expansion of trade improves social and economic well-being, while it may bring negative consequences for the environment. For example, the intensification of agriculture and the shift towards monoculture may bring immediate advantages to exporting farmers, but it often also brings negative impacts on biodiversity and the environment in the medium and long term, which can then result in degradation of agricultural land.

Possible trade policy impacts on the environment may include:

- *stress transmissions to the environment*: harmful effects of export incentives (e.g., agriculture subsidies) on land degradation and rural livelihood; magnified pressure on land, water resources and ecosystems in export processing zones;
- *potential benefits*: adoption of green technologies due to increased trade in environmental goods and services; improved access to modern technologies; new market opportunities to certified products and increased efficiency in the use of scarce resources due to free competition.

²¹ European Directive 2001/42/EC.

The AfT study should first look at the ratification and implementation of multi-lateral environmental trade agreements (e.g., Convention on International Trade in Endangered Species of Wild Fauna and Flora [CITES], and the Convention on Biodiversity), while reviewing the overall trade policy framework. The inclusion of more stringent environmental requirements is at the centre of the international debate, since health and environment standards may restrict the access to OECD markets and expose developing countries to increased vulnerability (i.e., external regulatory changes). The suspicion is that health and environmental requirements are a cover for protectionist policies. The solution lies with enhanced cooperation between importers, exporters and standard setting organizations. At the time of writing, negotiations were far from completed.

The option of including environmental elements into trade agreements (e.g., North American Free Trade Agreement) should be considered while drafting AfT recommendations. Enhanced cooperation on trade and environment offers additional support for the cause of sustainable development. Environment-related measures, if properly incorporated into trade agreements, could help level the playing field, allowing for increased competition and better allocation of scarce resources. The AfT action matrix should include measures designed to minimize negative environmental impacts and magnify opportunities for sustainable development.

The methods used for analysing linkages between trade and environment

are often built around a few well-defined steps that are used for both the ex ante analysis of trade agreements or the expansion of a sector or industry (see examples in box 3.6):

- preliminary screening to set the priorities of the analysis by, for example, identification of sectors mainly to be influenced by introduced trade measures;
- identification of (and consultation with) relevant stakeholders;
- assessment of likely environmental impacts of introduced actions or measures for most sensitive sectors and identification of the significance of those impacts;
- production of relevant policy recommendations.

The European Commission's (EC) Sustainability Impact Assessment (SIA) method, or the more widely used Strategic Environmental Assessment (SEA), can be used to assess the impacts of trade on all aspects of sustainable development.

The EC developed a sophisticated tool known as Trade SIA to monitor these impacts. Methods to some extent overlap and the choice should be context-specific. Box 3.7 provides further details on these assessment tools. The AfT study should identify gaps in the country's institutional framework, with regard to its capacity to assess trade-related impacts on environmental sustainability. It should examine the existence of appropriate co-ordination bodies and the allocation of human resources.

Box 3.6 The potential of Strategic Environmental Assessment in relation to oil and gas investments

Sakhalin Island, Russia: A variety of operators hold a number of blocks around Sakhalin Island. The cumulative impacts of these oil and gas infrastructure projects have not been assessed together, resulting in multiple pipeline systems and no clear picture of the combined impact of the component parts of these projects. The progress of the individual investments is being harmed by the absence of a strategic assessment.

Baku-Tbilisi-Ceyhan (BTC) pipeline: No formal SEA has been undertaken for the proposals for the BTC pipeline or the wider Caspian Sea oil and gas developments, meaning that a whole range of alternatives for, and the cumulative impacts of, the different components of the project have never been assessed. Even the Environmental and Social Impact Assessment conducted for BTC was split into three separate sections, limiting the options for consideration.

Norwegian management of the Barents Sea: The Norwegian government recognized the importance of protecting the Barents Sea ecosystem and other marine areas and is developing integrated management plans for its coastal and marine areas, starting in 2002 with the Barents Sea. The plan will address the impacts of fishing, aquaculture, oil operations and shipping. It will attempt to ensure that the accumulated effect on the ecosystem does not exceed the tolerance of the ecosystem.

UK Offshore Oil and Gas Industry: The former Department of Trade and Industry (DTI) was the principal regulator of the offshore oil and gas industry in the UK. It used SEA proactively to strike a balance between promoting economic development of the UK's offshore oil and gas resources and effective environmental protection. In 1999, the DTI began a sequence of sectoral SEAs of the implications of further licensing of the UK Continental Shelf (UKCS) for oil and gas exploration and production (before the EU SEA Directive came into effect in 2004). See www.offshore-sea.org.uk.

Source: OECD (2006)

Box 3.7 Additional resources on environmental impact assessment

Resources on trade and environment	Source EC	References
Trade SIA is a process undertaken during a trade negotiation which seeks to identify the potential economic, social and environmental impacts of a trade agreement. A Trade SIA has two main purposes: - to integrate sustainability into trade policy by informing negotiators of the possible social, environmental and economic consequences of a trade agreement; - to make information on the potential impacts available to all actors (NGOs, aid donors, parliaments, business etc.).		Handbook for Trade Sustainability Impact Assessment, European Commission, External Trade, March 2006 http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127974.pdf.

Integrated Assessment of Trade-Related Policies Integrated assessment of Trade-Related Policies uses a range of impact assessment tools to evaluate the environmental, social and economic impacts of trade liberalization and trade-related policies at the national level, providing this information to policy and decision makers with information necessary for informed decision-making.	UNEP	UNEP dedicated website, www.unep.ch/etb/areas/IntTraRelPol.php. <i>Training Resource Manual</i> <i>Integrated Assessment</i> (with focus on trade-related policies), UNEP 2001. www.unep.ch/etb/publications/intAssessment/refmaniaFinal.pdf. <i>Integrated Assessment and Planning for Sustainable Development, Guidelines for Pilot Projects</i>, UNEP, March 2004, www.unep.ch/etb/events/Events2005/midTermReview/IAP-GuidePilPro.pdf.
OECD Guideline for Strategic Environmental Assessment Drawing on practical experience and established 'good practices', the guideline points to ways to support the application of SEA for 'integrating environmental considerations into policies, plans and programmes and evaluating their inter linkages with economic and social considerations'. In view of the great diversity of circumstances across different countries, it seeks to provide a commonly agreed upon and shared model with the flexibility to develop appropriate applications of SEA to a diversity of needs. It is presented in the context of a rapidly emerging framework of international and national legislation on SEA in both developed and developing countries.	OECD	OECD (2006) <i>Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-Operation</i> www.oecd.org/dataoecd/4/21/37353858.pdf.

4. AID FOR TRADE NEEDS ASSESSMENT: STRUCTURE AND PROCESS

The AfT needs assessments should be nationally owned, orientated toward human development and capable of producing useful recommendations which contribute to improving the links between trade and human development. It is important, therefore, that the outline and process adopted are appropriate for the task at hand.

4.1 Structure of the Aid for Trade needs assessments: Outline of chapters

As already indicated, the structure of the AfT needs assessment presented below is not a blueprint and the content and the order of the chapters can be adapted according to country-specific circumstances. The important point is that the analysis in each chapter should result in a list of recommendations to be presented at the end of the report in the form of an action matrix. The possible content of the chapters is discussed in chapters 5-9 of this guide. The suggested chapters for the AfT needs assessment are as follows:

(1) *Introduction*

This chapter lays out the areas of coverage, presents a short country background and establishes key analytical questions to be tackled.

(2) *Macroeconomic and business environment*

Here, relevant features of the macroeconomic environment can be highlighted, particularly those which relate to poverty and human development. Macroeconomic analysis should be presented only insofar as it supports the analysis

and recommendations on trade and human development. The business environment section should provide a picture of the country's overall competitiveness and identify the main barriers and obstacles.

(3) *Trade and investment policy*

This chapter should review trade and investment policies and explain country specific dynamics of trade and investment flows. It should discuss policies and institutions, trade agreements and market access. Examples of needs identified should address such issues as WTO accession, trade negotiations strategy and reforming trade-related legislation.

(4) *Trade facilitation*

This chapter should be treated separately from trade policy because the challenges of trade increasingly concern issues such as customs procedures, transportation costs, red tape and other behind-the border barriers to trade. In this chapter, the purpose of the assessment is to identify the underlying causes of inefficiency, poor service delivery and high cost related to the movement of goods, so that systemic problems, not just symptoms, are addressed.

(5) *Sectoral analysis*

It is suggested that several important sectors that have a potential to address the needs of the poor via trade should be chosen for a deeper analysis. The dedicated section should give a general overview of the sectors identified to highlight economic opportunities (or risks) which have a high potential for human development. If necessary, expected impacts on the environment should be considered.

(6) Trade policy impact assessment

The assessment of a country's trade policy may require a separate chapter to present a formal and structured impact analysis. In particular, it should focus on priority trade policies and measures that are expected to affect the population and especially the poor.

(7) Conclusions and action matrix

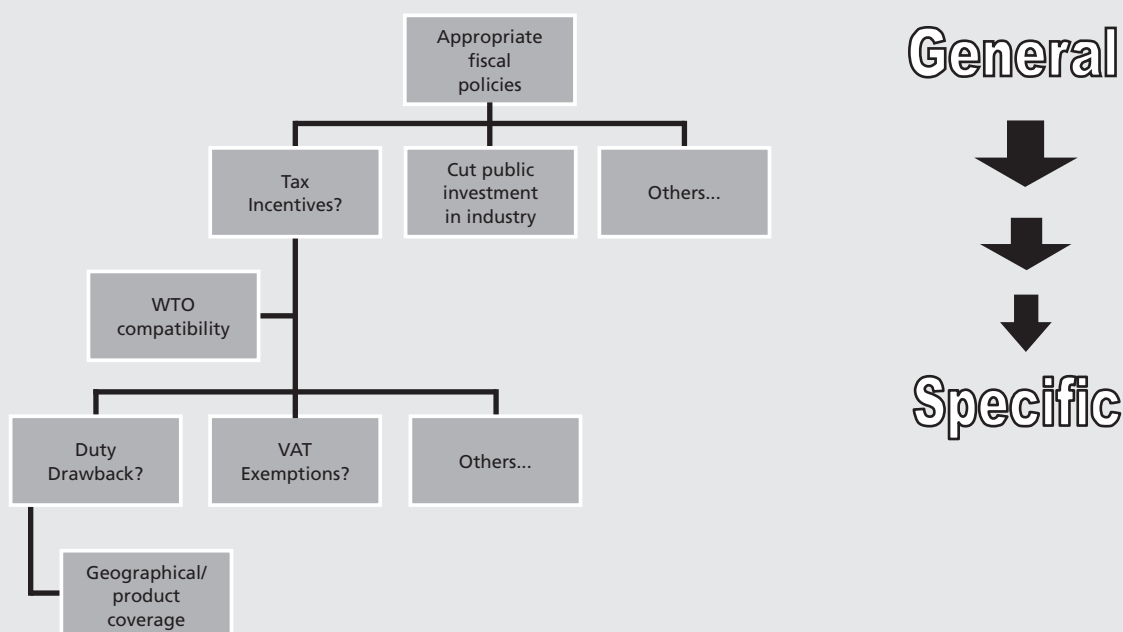
This chapter should summarize the discussion and draw out implications from the analysis. It should also present the

recommendations resulting from previous chapters. The recommendations might take the form of an action matrix (see table 10.1). A second table should highlight the need for donor assistance (see table 10.2). Before presenting the action matrix, the AfT study should map donor AfT commitments, underlining the eventual need for donor coordination. Conclusions should highlight capacity gaps and propose domestic actions and technical assistance projects that are required to overcome those weaknesses.

Box 4.1 Research tips: Specificity of recommendations

The intended outcome of the AfT needs assessment study is a list of specific, actionable recommendations aimed at improving the links between human development, trade and economic growth. The analysis in the needs assessments is not an end in itself, but should support and explain these recommendations.

The recommendations should be as specific as possible without being so detailed as to result in micro-management. For example, it is not enough to recommend that fiscal and trade policies should be 'appropriate'. What may be required is a discussion of what kinds fiscal or trade policy (or both) can help industrial products become more competitive. The figure below illustrates some of the ways in which this proposal could be further specified. Are tax incentives appropriate? If so, what kind? Should they apply in all geographical and product areas? Do they meet WTO requirements? Recommendations should still take into account which institutions will carry them out and how they will do so.



The difficulty of making useful recommendations lies in striking the correct balance between the general and the specific. Recommendations should be general enough that they achieve useful and wide-ranging change, but specific enough that they make sense in the particular environment of the country concerned. Below are examples of policy recommendations which achieve the right balance:

- **“Update current customs-related legislation**, in particular the outdated 1974 Import of Goods (Control) Act, to address gaps and bring it into line with modern trade practices.”
- **“Remove the ability of the Ministry of Finance to grant discretionary import duty exemptions** (in excess of 1 billion annually). This will help stabilize government finances and enable trade policy to be orientated more toward human development.”

Each of these policy recommendations should be further clarified and expanded during the analysis. A policy recommendation is not as useful as it could be if it is not realistic and does not take into account human realities such as internal politics and institutional arrangements. And a policy or set of policies that works in one country may not work in another. Generic policy rules which do not take account of the specific national context, such as culture and institutional arrangements, are less valuable than they otherwise might be.

4.2 Research design and work plan

A clear work plan should be developed for all stages on which the preparation of the AfT study can be divided (see table 4.1). The work plan should be feasible and realistic, and correspond with the local context. The work plan will need as well to be periodically revised and updated taking into account the possibility of unexpected events. In addition, the timing of the AfT study should, when possible, be coordinated with the national poverty reduction strategies agenda to properly present AfT’s recommendations in planning sessions. To avoid delays and mission creep (i.e., expanding the objectives of the mission beyond its original purpose), the objec-

tives and deliverables should be clearly defined from the beginning.

In the first phase of the needs assessment exercise, the context for the study needs to be established. This involves gaining an increased understanding of the need for an AfT needs assessment, recruiting a team leader, and forming/recruiting the team of authors, selecting an advisory board and identifying a peer review group. During this stage, efforts should be devoted to awareness-building. It may be helpful to hold information workshops with relevant stakeholders, including government, civil society and the private sector. Establishing the project’s legitimacy and building support at this stage will help later on with analysis and the enactment of recommendations.

Table 4.1 Work plan for Aid for Trade needs assessment

Stage	Actions or deliverable	Responsible person or party	Resources required	Deadline
<u>Phase 1: Preparation</u> 1. Establishing the context 2. Drafting terms of reference 3. Selection of team of authors				
<u>Phase 2: Production</u> 1. Desk survey 2. Background studies and data collection 3. Consultation rounds for strengthening national ownership and fostering a participatory approach 4. Report compilation 5. Report validation (internal and external peer review)				
<u>Phase 3: Dissemination and follow up</u> 1. Launch and dissemination 2. Follow-up strategy implementation				

Preliminary consultations should be carried out to lay the groundwork for the needs assessment and to delineate the scope of the exercise. They should involve, among other issues, establishing clear objectives and taking stock of past and ongoing work including implementation of the national development plan or poverty reduction strategy and any previous trade assessment studies. This stock-taking exercise is critical to avoid duplication of previous work and to ensure coherence and coordination with previous and ongoing activities.

Contacts should be made with key stakeholders in government, the private sector and civil society to obtain their per-

spectives and insights. Draft terms of reference (ToR) for the team leader and team members should be prepared in consultation with the government and key stakeholders, and cleared by the government agency responsible for trade policy.

In this preparation phase, the research design and the selection of methods is particularly important. A trade needs assessment may turn out to be a long and complex exercise. Nonetheless, it can be designed in different ways and tailored to objectives, time and resources available. Some of the tools described in this guide require primary data collection, including ad hoc surveys, while others are based on interviews and secondary data collection.

Some others refer to econometric modelling. It is impossible to provide exact estimates of the time required for the whole exercise, but from three to nine months should be a baseline. It is advisable to conduct an introductory workshop/train-

ing to present the human development approach towards trade analysis. Annex 5 presents a draft agenda for a similar event. Below, a structure for the Aft study is presented that can be adapted to context-specific needs.

Box 4.2 Research tips: A practical guide to data and policy analysis

1. Define the problem
 - The problem should be framed in terms of deficit and excess.
 - There should be a description rather than a diagnosis of the causes.
 - The definition should not include an implicit solution (it must be evaluated empirically).
2. Assemble the evidence
 - Information is factual data that has meaning; evidence is the presentation of this information in a manner that influences existing beliefs.
3. Construct the alternatives
 - Address the problem starting with the benchmark, the alternative that assumes all present trends continue undisturbed.
 - Each alternative must address not only the basic intervention strategy, but also must introduce the agencies that will implement the strategy and various methods of financing.
 - Do not assume that alternative policy options are mutually exclusive.
4. Select the criteria
 - Evaluative criteria are used to judge the best outcomes.
 - Criteria should be sorted into values that are to be maximized, those that are constraints and those where more is better.
5. Project the outcomes
 - Determine as far as possible the benefits and costs of the policy options.
 - Identify unanticipated consequences.
 - Indicate the values and the dimensions of the indicator to assess the outcomes.
6. Confront the trade-offs
 - As trade-offs occur at the margin, ask if 'spending an extra X dollars for an extra unit of service Y will lead to an extra Z units of good outcome'.
 - Measure trade-offs across outcomes rather than alternatives.
 - Compare benchmarks with other alternatives.
7. Decide
 - Select the best alternatives given the analysis.
8. Tell your story
 - After many redefinitions of the problem, re-conceptualizations of the alternatives, etc., tell the story to the defined target group.

Source: UNDP (2007).

When a draft version of the needs assessment study is ready some time will be needed for editing and consulting with the main stakeholders. It may be helpful to

establish a website on which useful documents will be available, and where drafts can be uploaded. If possible a regional comparative report should be produced

and presented along with the national needs assessments. Cross-country comparison enables particular features to be isolated, such as links between trade and poverty in the particular region, as well as identify areas of possible collaboration.

The dissemination and follow-up phase is key for achieving the objectives of the AfT study and therefore it should be planned well in advance. Depending on circumstances a media plan could be prepared to guide the promotion of key messages to the general public and the target audience.

The involvement of stakeholders from the conceptualization phase of the AfT

study should facilitate the report's understanding, promote its utilization and possibly open the way for follow-up strategies. Nonetheless, the AfT needs assessment is only the first step for building a country's strategic approach towards trade. The longer-term follow-up strategy should concentrate on advocacy and outreach initiatives (e.g., websites or information databases), as well as on promotion and coordination functions. The follow-up strategy may include the provision of specific trainings, or the organization of public workshops and debates. Finally, the team should be prepared to handle issues which are particularly sensitive for policy makers and the public.

BOX 4.3 Publication tips: How to design a publication

Ensure relevance

National/regional ownership through a process that draws on national/regional actors and capabilities throughout the preparation, yielding a product firmly grounded in the country's past and existing development plans.

Build consensus

Participatory and inclusive preparation that gathers together diverse actors as active partners. These include government, non-governmental, academic and non-academic players, both men and women, different ethnic groups, and so on.

Generate respect

Independence of analysis through objective assessments based on reliable analysis and data. Reports are not consensus documents; they are independent publications in which the authors take ultimate responsibility for the points of view.

Promote human development strategies

Quality of analysis that centres on people and makes global, regional and local connections. It uses quantitative and qualitative data to support policy arguments, and to measure and monitor human advances.

Maximize impact

Flexibility and creativity in presentation through attractive visuals, fluid language and a creative style that will engage the interest of the target audience.

Make the report's voice heard

Sustained follow up that generates awareness and dialogue, and influences national development actions.

Source: <http://hdr.undp.org/en/nhdr/monitoring/impacts>.

4.3 Participation and consultation with stakeholders

The use of participation techniques and public consultations has increasingly helped with all kinds of policymaking. There is a widespread recognition that participation brings political, legal and social benefits and reduces the risks of strong opposition and unrest. Investments in participation, even if costly, have usually been effective and efficient. Trade is no different from any other aspect of policy. Consultations can be grouped by the following typologies:

- consultation between government agencies (i.e. line ministries, specialized agencies like customs etc.);
- informal consultation with the representatives of interest groups (e.g. trade unions, associations of

entrepreneurs), civil society and representatives from the population mostly affected;

- formal and extensive public consultations, including opinion polls and consultative referendums.

Several methods have been developed to ensure proper and inclusive assessments of public policies. Box 4.4 provides a list with the most used tools for involving stakeholders in a policy impact analysis. It is important not to forget that donors count as stakeholders, even if donors may be funding AfT analysis and outcomes. Donors often conduct their own important research into the national development situation and can bring important analytical and policy insights. Their continued involvement is important in ensuring that projects remain viable over the long term.

Box 4.4 Tools for involving stakeholders in trade policy impact analysis

Name of Tool	Main Use	Relevance
1. Stakeholder Analysis	Simple process of identifying the major stakeholder groups, determining their importance, influence and capacities.	Used at an initial stage (such as agenda setting/ topic identification) so that interests, capabilities and those who are excluded can be factored in.
2. Institutional Analysis	Assessing constraints within institutions, rules and power relations that can undermine policy effectiveness.	Can be done at an initial stage and to shape the policy selection. Also applicable as part of process of assessing effectiveness of policy implementation.
3. Household Questionnaires (surveys)	Collecting information on daily experiences and conditions at a micro-level based on pre-determined questions and response categories.	Especially useful during the stage of monitoring and evaluation. Also applicable for measuring distribution of well-being to help frame arguments at the agenda-setting stage.

4. Participatory Research and Development Tools (numerous techniques exist; some are listed below)	Means of consulting the poor directly and in an interactive way, to deepen understanding of characteristics of poverty and convey the priorities of the poor. These tools can help to generate effective participation and ownership.	Flexibility in the sequencing of different participatory tools for different purposes is encouraged. Useful in helping to:
4.1 Venn Diagrams	A way of visualizing institutions, people/groups, places, their interrelations and importance within a dynamic system.	a) generate data for initial stages of setting the agenda and identifying policy alternatives;
4.2 Key Informant Interview	Structured interviews with some amount of flexibility (open-ended) to gather firsthand information.	b) analyse data during the examination of policy options;
4.3 Seasonal Calendar	A means of mapping changes in people's activities during different seasons by highlighting any periods of increased risks and vulnerability.	c) frame indicators of well-being and impact for Monitoring & Evaluation
4.4 SWOT Analysis (Strengths; Weaknesses; Opportunities; Threats)	A process of analysing strengths and weaknesses of a programme, policy or process, and identifying opportunities and threats.	
4.5 Focus Group Discussion	Allows open group discussion of particular topic or issues based on a moderated pre-determined interview structure.	
4.6 Wealth Ranking Exercise	A means of identifying people's perceptions of indicators of wealth (assets, resources) and well-being.	
4.7 Transect Walks	Stakeholders walking through a project area or affected area to observe local realities including things that are not mentioned up front.	

Source: UNDP (2008, forthcoming).

The identification of the 'right' stakeholders and of their roles and responsibilities (see Box 4.5) is essential. When the exercise involves trade and investment policies the main parties are the following (titles and names may vary between countries):

- **Government and governmental organizations**

Line ministries: Ministry of Trade, Ministry of Industry, Ministry of Economy / Finance, Ministry of Agriculture and Ministry of Foreign Affairs

Specialized agencies: Customs Agency, Export Credit Agencies, Investment Promotion Agencies, National Statistical Office, Central Bank, National and Regional Development Banks and Authorities, Antitrust Agencies

Special committees: Trade facilitation committee, Aid for Trade committee

- **Business and trade unions**

Business: national business association, sectoral business associations, small and medium enterprises business associations, associations of artisans and traders, chambers of commerce, export associations, representative entrepreneurs

Trade unions: confederation of trade unions, main trade unions, women workers association, association/cooperatives of workers

- **Donors**

Bilateral and multilateral agencies

- **Civil society**

Non-governmental organizations (NGOs), including environmental NGOs, associations of NGOs, women and sub-population groups' associations, independent think tanks, universities, national and local media.

Box 4.5 Roles and responsibilities for stakeholder engagement

Think tanks and research institutes

- Gathering evidence by conducting research, analysing data or providing direct advice and recommendations to policy makers and other decision makers
- Serving as established sources of evidence-based information
- Authoring position papers on topics related to policy

Professional associations

- Offering expert knowledge on specific topics
- Carrying out advocacy on legal and regulatory framework issues (especially laws and policies affecting their activities)
- Promoting dialogue between corporate sector and policy makers on issues of concern to association members

Advocacy bodies and other promotional groups

- Campaigning for policy alternatives and dissemination
- Strengthening local capacity for collecting and disseminating data, and generating research and policy options
- Promoting pro-democracy and rights issues through awareness-building initiatives, mass campaigns and other 'voice' mechanisms

Foundations and other philanthropic bodies

- Commissioning research on the impacts of policy reforms on the poor
- Providing financial support to other civil society organizations
- Creating policy briefs to promote relevant knowledge among policy makers and others regarding reforms
- Sponsoring forums for policy dialogue

Trade unions and workers cooperatives

- Providing expert knowledge on specific topics
- Forming alliances, mobilizing members to speak out and challenging positions of more influential groups

Media/journalist societies

- Disseminating information about policy options
- Challenging policies in the public domain in order to provide a key monitoring function
- Collecting firsthand data from communities, publicizing opinions and disseminating information in debates around policies

Community-based organizations

- Bringing grass-roots evidence or experiential knowledge into the process
- Monitoring processes and outcomes
- Using participatory methods of assembling citizens' voices and gathering information, such as action research; community profiles; community household level questionnaires and community resource mapping
- Engaging faith-based organizations
- Bringing grass-roots evidence (e.g., seasonal fluctuations of pricing in locally grown commodities, average acreage of small landholders, proportion of earnings used for school fees versus total household income) or experiential knowledge into the process
- Promoting awareness and action through involvement in social service delivery and policy implementation

Cross-national policy dialogue groups

- Bringing advocacy role to the selection of topics and identifying and lobbying for appropriate policy options, access to and dissemination of results and the monitoring outcomes
- Creating the space for dialogue between different policy makers, donors and other civil society stakeholders on poverty and policy considerations
- Policy briefs to promote policy-related knowledge among policy makers and others regarding reforms
- Bringing disparate groups together around common issues (e.g., women's movements)
- Analysing policies and budgets based on support for poverty reduction

Source: UNDP (2008, forthcoming).

5. MACROECONOMIC AND BUSINESS ENVIRONMENT

The experience of a number of countries shows that an important link exists between macroeconomic policy and trade competitiveness. It is important for an assessment guide to establish these basic links, paying particular attention to areas such as the exchange rate, levels of reserves, and monetary and fiscal policy.

One of the most important lessons from developing countries in recent years is how the management of the exchange rate, as in China, Korea and Taiwan, leads to currency stability and, in turn, export promotion.²² This is in opposition to the belief that currency devaluation and exchange-rate liberalization are the routes to export competitiveness. The ill effects of volatility associated with a free-floating currency may outweigh any benefits to exporters. A number of governments have used the exchange rate to support a strategic trade policy, reducing the value of the domestic currency in order to induce export growth, and allowing it to strengthen during times of actual or potential overheating.

Evidence from recent years has also supported the view that holding high levels of reserves is a rational precautionary measure. The Asian countries that built up significant dollar reserves during the 1990s and into the 2000s appear to have done so partly out of a desire to retain self-reliance and a reluctance to submit to the conditions of IMF lending. Finally, monetary and fiscal policy space should be retained, allowing central banks to set lower interest rates, where appropri-

ate, in order to stimulate capital investment, and allowing governments to commit the public investment necessary for a high rate of human development, which in turn will help create the conditions for higher economic growth.

The needs assessment should involve a brief description of macroeconomic environment to set the background for the subsequent analysis. The analysis in this chapter should be supplemented by a description of the business environment, which is essential to establish the framework within which trade and exports take place. Data collection and verification should be the first stage of the AfT assessment.

5.1 Macroeconomic environment

It should be noted that macroeconomic analysis is unlikely to be the main area in which the AfT needs assessment will add value. A large number of macroeconomic reports are usually available, including reports by international agencies and analyses developed by regional development banks, which often have a comparative advantage in macroeconomic analysis. The macroeconomic environment chapter of the AfT guide should therefore take the form of establishing the context for subsequent discussion. The general macroeconomic environment should provide summary information on:

- GDP: growth, per capita, composition;
- balance of payments;
- fiscal and monetary policy;
- domestic and external debt;

²² Malhotra (2008): 35-40.

- inflation trends;
- employment in main sectors, unemployment and underemployment;
- migration flows and remittances;
- the shadow economy;
- poverty and inequality.

The AfT diagnostic should also look at:

- trends in the real and effective exchange rate versus major trading partners (the real exchange rate takes the effects of inflation into account; the effective exchange rate is weighted by the value of trade with major trading partners);
- the possibility of ‘Dutch disease’ and analysis of its potential impact.²³ Rapid liberalization of the exchange rate regime can heighten the risk of Dutch disease. Significant aid inflows can also cause currency appreciation, and donors considering increased spending under AfT will need to take this possibility into account;
- the impact of trade liberalization at the global and regional level on macroeconomic aggregates such as the balance of payments, the real and nominal exchange rates and the government budget.

Where possible, data should be broken down by gender and disaggregated

accordingly (e.g., urban and rural) to reflect poverty distribution. A brief overview of social expenditures (e.g., education, health and social assistance spending as a percentage of GDP) should also be provided to set the baseline for human development interventions.

Particular attention should be paid to indicators reflecting per capita income, trade and integration performance vis-à-vis those of benchmark countries, including a snapshot of export and imports, foreign direct investment (FDI), composition of employment, dependence on agriculture, role of remittances and the share of the shadow economy. Documents which may be of particular help here are the IMF Article IV report, the WTO Trade Policy Review and economic reports from the regional development banks.

The macroeconomic section should be integrated with the description of business environment to avoid redundancy. One way to introduce a systemic analysis is the Political Economic Social and Technological (PEST, see box 5.1) analysis. It examines a country’s political, economic, social and technological landscape, and is a useful tool for organizing the country background information needed for the AfT study.

²³ Dutch disease is named after the case of the Netherlands in the 1970s when increased oil exports caused the currency to appreciate, rendering other Dutch exports less competitive. It can be a common phenomenon in developing countries, where a sudden increase in the export of a commodity can cause a currency-related decline in competitiveness for other domestic exports.

Box 5.1 PEST analysis

PEST analysis, which examines a country's political, economic, social and technological landscape, is a useful guide for analysing a country's business environment. The analysis attempts to identify potential risks and emerging business opportunities.

POLITICAL	ECONOMIC
• Tax policy • Labour laws • Business regulations (competition, standards, safety) • Environmental regulations • Trade restrictions • Tariffs • Political stability	• Economic growth • Exchange rates • Interest rates • Inflation rate • Income distribution • Savings, debt and credit availability
SOCIAL	TECHNOLOGICAL
• Health consciousness • Population growth rate • Age distribution • Career attitudes • Emphasis on safety	• Research and development activity • Innovation • Automation • Technology incentives • Rate of technological change • Safety and health regulations

Source: Kotler and Armstrong (1996); Kotler (1997); Armstrong (2006).

5.2 Business environment and investment climate

The presence of a stable business environment helps sustainable economic growth. It is crucial for governments to create an enabling business environment that allows firms to flourish and expand.

Governance has important implications for doing business. Poor governance can lead to a host of challenges ranging from inadequate policy planning to bad government procurement, budgetary misallocation to misuse of donor funds. Possible governance indicators are presented in Box 5.2.

Box 5.2 World Bank - Worldwide Governance Indicators

The World Bank's annually produces aggregate indicators on six dimensions of governance (Worldwide Governance Indicators Project).

1. Voice and Accountability

Measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of associations, and free media

2. Political Stability and Absence of Violence

Measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism

3. Government Effectiveness

Measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies

4. Regulatory Quality

Measures the ability of the government to formulate and implement sound policies and regulations that permit sector development

5. Rule of Law

The extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence

6. Control of Corruption

Measures the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests

Source: World Bank (www.govindicators.org).

5.2.1 Judicial system and regulatory framework

A quick review of the judicial system and the level of corruption could be provided, when it is perceived as one of the impediments for growth. Slow court proceedings and backlog of court cases represent costs for the whole economic system. Untrained judges and the lack of well-functioning arbitration courts is a threat to economic development. A weak judicial system is always connected with widespread corruption practices. In addition, the weak enforcement of product standards and patent regulations has an important and specific impact on exports and investments since it may preclude the access to developed markets and harm the flow of FDI. In addition, the authors should check if the poor have easy and affordable access to property and legal rights.

In order for poor entrepreneurs to grow, it is necessary that they have the legal tools that allow them, among other things:

- to be responsible for their obligations through the clear establishment of their rights on enterprise assets;
- to be subjected to clear and predictable rules. These include the amounts to be paid, as well as the procedures for discussing and resolving conflicts derived from such obligations;
- to protect their trading names and the trademarks of their products and services;
- to import and to export;
- to advertise without the fear of being detected;
- to obtain credit from the financial system.²⁴

One goal of the AfT diagnostic is to identify problems with the business environment and recommend remedial measures. These measures may include simplifying business registration procedures, reforming land titling procedures and reducing red tape involved in customs

²⁴ Commission on Legal Empowerment of the Poor (2006). More information on the initiative can be found at <http://www.undp.org/legalempowerment>.

procedures and FDI. Needs assessments have shown that administrative barriers and other constraints on businesses have contributed to weak economic growth, unemployment, lost opportunities, low export penetration and low local and foreign investment in strategic sectors. The World Bank's Doing Business survey annually assesses the business environment in 178 countries.²⁵

The AfT study should look first at the legal and organizational framework. A checklist of available laws should be

prepared (see Box 5.3) and eventual legislative gaps (e.g., insufficient antitrust legislation) should be highlighted. The quality (e.g., high, medium, low) of the legislation should be broadly assessed. In most countries this information is readily available. If not, background studies (e.g., administrative and regulatory cost surveys) may be commissioned. It is important to note that Box 5.3 is not prescriptive and that the authors of the AfT study should decide for themselves the outline of the regulatory framework as well as their assessment of it.

Box 5.3 Checklist of policies and laws

Companies law (incorporation procedure, minimum capital requirements)	☐
Property laws (access to land, accurate record keeping, transparency, fees)	☐
Bankruptcy law	☐
Foreign exchange control (restrictions on repatriation of funds, foreign inflows)	☐
Labour regulations (worker safety regulations, industrial accident insurance, industrial relations)	☐
Accounting standards (corporate governance)	☐
Trade laws (import and export taxes, tariffs, permits, commodity classification)	☐
Investment laws	☐
Social welfare and labour laws (health insurance, unemployment insurance, pension, hiring, firing)	☐
Consumer protection and safety laws	☐
Electronic commerce regulations (e-commerce, electronic customs declarations, electronic signature)	☐
Competition law (antitrust)	☐
Intellectual property rights laws (patents, trademarks, TRIPS)	☐
Dispute settlement mechanisms (arbitration and mediation)	☐
Environmental standards (prescribed by law)	☐

5.2.2 Administrative barriers

The AfT study should outline the various types of barriers in the business environment and policies and institutions responsible for creating the enabling conditions for enterprise growth, including small and medium enterprises (SMEs). Administrative barriers are usually dis-

proportionately bigger for small entrepreneurs. Capacity gaps should also be identified.

The analysis should focus on costs and time requirements and should be presented around the following themes:

- *Business licensing and registration*: general approvals, permits

²⁵ <http://www.doingbusiness.org>.

and licenses required for business registration at all level of government. If special requirements are established for some sectors and are relevant, they should be considered;

- *Land and property registration*: land allocation, building permits, utility provision, rent provisions;
- *Business operations*: labour obligations, social taxes, import/export procedures, foreign exchange procedures, labour relations, product certification and government inspections.

The AfT study should look at how procedures are streamlined and identify the most pressing needs for improvements. For example, could several separate steps be reduced to one or two steps, such as sending duplicates of a new business license or a new business name to the tax authorities and business registry instead of having separate forms for each step? A related constraint on businesses is taxes and cumbersome tax filing procedures. The key issue is whether taxes can be reduced and the tax filing process rationalized without compromising the government's development objectives. Company law, bankruptcy law and competition policy should also make it easy for businesses to operate.

5.2.3 Trade-related infrastructure

The presence and quality of infrastructure networks make an important contribution to the business environment. The poorest countries, in particular, face problems in taking advantage of new trading opportunities because of infrastructure-related supply-side constraints. It is estimated that Africa alone requires

\$52.2 billion in public and private investment in order to overcome the worst infrastructural bottlenecks.²⁶ The analysis should include an evaluation of the following infrastructure and an assessment of costs of fruition:

- telecommunications, including telephone services and the Internet;
- electricity, water, sewage;
- Transportation (including vehicles)—road and rail coverage; sea and/or dry ports with container terminals; airports.

The existence of appropriate built structures that assure the smooth movement of goods should be assessed as well, including:

- availability of modern warehousing with refrigerated storage facilities for perishable goods;
- laboratories to perform tests on agricultural, pharmaceutical and manufactured goods;
- well-run customs border posts at border towns to facilitate cross-border trade and transit transport.

5.2.4 Business services

Business services are professional services that are consumed by other businesses. These services include legal, engineering, marketing, accounting, logistics, information technology, and craft training. An assessment should be carried out to evaluate the capacity of existing service providers and identify gaps and bring to the attention of the authorities and development partners.

Other elements that should be examined in terms of boosting their capacity to provide services to businesses are business and trade associations, chambers of

²⁶ 'Achieving the Millennium Development Goals in Africa, Recommendations of the MDG Africa Steering Group', June 2008, cited in Malhotra (2008): 9.

commerce, transporters, shipping agents, freight forwarders, clearing agents, accounting, marketing and law firms, labour organizations, employer associations, export processing zones or special economic zones, and SME development agencies or business incubators that foster entrepreneurship and research.²⁷

5.2.5 Financial services and trade finance

In a study by the World Bank, access to finance was identified as the second leading cause of slow business growth in the world, after taxes and regulations.²⁸ In particular, many SMEs have difficulty

accessing loans due to conditions such as collateral requirements and high interest rates. In the last three decades, microfinance institutions have emerged to fill the gap, offering small loans to individuals and groups that do not have collateral. Microfinance can be a step on the ladder towards full commercial bank loans (see box 5.4).

The AfT assessment should look at access and availability of credit, real interest rates, and functioning of the leasing and insurance markets. Particular attention should be paid to trade finance. Financial sector development indicators should be used when available.

Box 5.4 Kenya's K-REP Bank

Half of Kenya's 32 million population lives on less than a dollar a day. Many interventions have attempted to break the poverty cycle, but microfinance has been among the most effective. K-REP Bank is one of the most successful microfinance institutions in the country, operating on a commercially viable basis by providing banking and financial services to low-income people.

K-REP, which started operations in 1999, offers services including micro-credit facilities, individual loans, wholesale loans to micro-finance providers, deposit facilities, letters of credit and bank guarantees. The micro-credit loans are based on the Bangladeshi Grameen Bank group-lending model, and can be categorized into three levels. Ideally, a group would start at Level 1 (juhudi), progress to Level 2 (chikola) and finally end up at Level 3 (kati kati). Beyond Level 3, an individual is deemed ready for normal commercial bank loans.

The bank has experienced a number of successes:

- In 2005, K-REP disbursed loans to 69,000 poor clients throughout Kenya. The small businesses they sustain employ people, produce goods and services and pay taxes.
- In 2005, K-REP loaned \$34 million to poor people and held savings of \$15 million.
- This was an almost fourfold increase in six years.
- The recipients would otherwise not have had access to either credit or savings facilities.

²⁷ According to Wignaraja and O'Neil (1999), local export-oriented SMEs can be developed by establishing an export development fund to finance overseas marketing initiatives of SMEs; streamline bureaucratic procedures restricting SMEs; make available coordinated business development services; develop a supplier linkage program to cultivate marketing relationships with foreign buyers; increase access to credit; create a strong alliance of SME associations to lobby for SME support; and provide consulting services to SMEs.

²⁸ Batra, Kaufmann and Stone (2003).

- The group-lending model has significant development impacts because it enables poor people to achieve together what they cannot achieve individually. When savings and lending groups are formed, friendships develop, resulting in mutual assistance.
- K-REP's total equity increased almost 70 percent to \$10.9 million in 2005.

As with microfinance institutions in other countries, key constraints primarily concerned market information and information asymmetries:

- K-REP was initially unaware of client needs regarding loan size, term, frequency of repayment, and collateral possibilities.
- The bank did not have full market information on average credit histories, cash flow cycles and asset bases.
- Knowledge and skills were lacking among ordinary people, including financial literacy.

A number of strategies were undertaken:

- After significant research, K-REP started providing a diverse range of products suitably priced at different points for different needs (from group loans to consumer lending).
- The bank customized training for its end-users.
- It also leveraged the strengths of the poor. Through client input and interaction, K-REP has adopted more flexible innovations such as flexible loan size and increased frequency of group meetings.

Other national microfinance institutions have started to replicate the K-REP Bank model, and Kenyan microfinance has grown to such an extent that a bill went before Parliament to regulate the industry. The model is extending to other financial services such as insurance, mortgages and money transfers. The signs are that the model can be replicated in Sub-Saharan Africa and beyond.

Source: Adapted from the Growing Inclusive Markets initiative, <http://www.growinginclusivemarkets.org>.

5.2.6 Competitiveness

The business climate section should conclude with a grounded statement of the competitiveness of the economy. This could be a comparison of several countries in the region or beyond. The *Global*

Competitiveness Report, published by the World Economic Forum, produces an indicative world ranking in competitiveness based on the three pillars: the macroeconomic environment, the quality of public institutions, and technology.²⁹

²⁹ <http://www.gcr.weforum.org>.

6. TRADE AND INVESTMENT POLICIES

The AfT studies should allow governments to develop a national trade policy that actively promotes value-adding in domestic economic sectors. For countries with an orientation toward agricultural production, this may mean increasing the level of processing and moving toward a higher manufacturing component, including manufacturers with linkages to the agricultural sector. For economies with a bigger industrial sector, the emphasis should similarly be toward higher productivity, while the same applies to the services sector in all countries, particularly services exports. All countries should aim to not just prioritize their static or short-term areas of comparative advantage, but move toward areas of dynamic comparative advantage based on the prospects for long-term growth and industrialization. Moreover, recent evidence suggests that in the early stages, successful development relies on diversification rather than specialization.³⁰ This suggests that the AfT studies should aim at the promotion of a number of sectors and industries rather than putting all the eggs in one basket.

Strategic trade and industrial policy relies on preserving the policy space for infant industry export promotion. As pointed out in Malhotra (2008) and elsewhere, almost every successfully industrializing country passed through an infant industry stage.³¹ However, a number of caveats should be observed. Distinct and credible timelines must be imposed for the ending of protection in order to avoid the entrenchment of uncompetitive export industries. Tariff require-

ments will differ depending on the level of labour or technological intensity. The timing of tariff reductions relative to a country's level of industrial development is also important and, depending on their availability, capital goods may receive lower tariffs than the consumer goods which are available in-country. Finally, tariffs alone are unlikely to be successful in promoting infant industries, and government must seek to address coordination failures, information externalities, domestic competition policy and export promotion. The final two features are aimed at avoiding complacency amongst industry, while the first two take advantage of the government's unique position with respect to the availability of information and its ability to put in place policies to link various companies in an appropriate manner, and where the market fails to do so.

In order to provide background and context on the trade environment, the needs assessment should present an overview of existing trends in trade flows and the origin and destination of these flows. The report should develop the following themes:

- analysis of the economic openness and trends in imports, exports, investments, including international comparisons with the trade performance of similar countries and best performers;
- review of trade and investments policies and institutions;
- identification of a country's global and regional comparative advantages;

³⁰ Rodrik (2007); Imbs and Wacziarg (2003).

³¹ Malhotra (2008: 14).

- identification of potential new exports and investment opportunities and barriers and obstacles that may prevent the realization of these opportunities.

A country in which trade rules are clear, predictable and transparent, and business institutions are robust may have a greater chance of increasing trade and investment flows. However, this is subject to the provisos mentioned above. For some countries, particularly those whose industries are predominantly at the lower end of the value-adding ladder, the gains from clarity, predictability, transparency and robustness of institutions may be outweighed by the advantages of a strategic trade policy that promotes promising industries over the long term. In addition, many developing countries suffer from time-consuming customs regulations, complex investment approval procedures, and land and property registration. The assessment may wish to examine the causes of these constraints and propose workable solutions through reforms and technical assistance. The review of trade and investment policy should focus both on the analysis of trade flows and on the description of the policy and institutional framework. The following sections discuss how selected trade policy issues including the membership in regional economic integration arrangements, free trade areas and the WTO might be handled in the AfT analysis.

6.1 Trade flows and economic openness

Whilst increased openness does not necessarily lead to higher economic growth or human development, it can do so when accompanied by the appropriate domestic policies and institutional set-up. It will be important to examine openness in the AfT needs assessments, not least with a view to determining economic vulner-

ability. There is no formal consensus on how to measure economic openness. Some popular measures offer good prospects for benchmarking. The most obvious indicator is trade flows (i.e., exports plus imports per given year as a percentage of GDP). Other more complex techniques use real exchange rates and *ad hoc* indexes. The goal for the AfT study, however, is to understand the overall position of the economy in international trade and its vulnerability to external shocks channelled through international markets. The vulnerability assessment should look at the exposure to risks on one side and to the capacity to cope, on the other. The analysis should specifically take into account the geographic position and the dimension of the country assessed. Possible dependency traps (e.g., export concentration on a few raw materials) should be also discussed.

Data on trade flows can be presented and explained both historically and sectorally. Comparisons with similar countries and best performers will further substantiate the analysis. If the AfT study does not include a dedicated section on investment, figures on FDI flows need to be provided.

Trade flows show how trade has impacted economic growth and competitiveness (e.g., by promoting diversification and moving production into higher value added sectors). The analysis should describe with tables and charts the dynamics of exports and imports (the level of imports over a period of 5-10 years, both in volume and as a percentage of GDP); distribution by sector, geographical patterns and benchmarking with other similar countries.

Export/import dynamics of products that are strongly linked with human development should be highlighted. In par-

ticular, export/import dynamics of key and labour intensive sectors should be discussed. The driving forces that explain trade flows should be identified (e.g., availability of natural resources, a cheap and educated workforce). The consistency of trade patterns should be checked against priority sectors and established comparative advantages. The analysis should also review economic and social dimensions related with trade (using the human development lens). This includes:

- evolution of trade patterns, e.g., movement from labour intensive exports industries to medium - high technology manufacturing industries, diversification of exports;
- employment in the export sector, showing employment and wage dynamics, number of enterprises, employment over 20+ years disaggregated by gender and other social groups when relevant;

- export performance of different type of enterprises (e.g., SMEs against state enterprises and FDIs);
- assess the linkages between FDIs and export performance and the typology of local supply networks;
- participation of the poor and vulnerable groups with case studies (e.g. small exporting farmers).

6.2 Trade policy and institutions

6.2.1 Trade policy

This part of the AFT study should analyse the country's trade policy regime, including trade interventions and incentive arrangements. In-country capacity bottlenecks on this subject should be given special consideration. Box 6.1 provides an introductory checklist for assessing political decision-making and policies, developed by the OECD.

Box 6.1 OECD checklist for regulatory decision-making

1. *Is the problem correctly defined?*

The problem to be solved should be precisely stated, giving evidence of its nature and magnitude, and explaining why it has arisen (identifying the incentives of affected entities).

2. *Is government action justified?*

Government intervention should be based on explicit evidence that government action is justified, given the nature of the problem, the likely benefits and costs of action (based on a realistic assessment of government effectiveness), and alternative mechanisms for addressing the problem.

3. *Is regulation the best form of government action?*

Regulators should carry out, early in the regulatory process, an informed comparison of a variety of regulatory and non-regulatory policy instruments, considering relevant issues such as costs, benefits, distributional effects and administrative requirements.

4. *Is there a legal basis for regulation?*

Regulatory processes should be structured so that all regulatory decisions rigorously respect the 'rule of law'; that is, responsibility should be explicit for ensuring that all regulations are authorized by higher level regulations and consistent with treaty obligations, and comply with relevant legal principles such as certainty, proportionality and applicable procedural requirements.

5. *What is the appropriate level (or levels) of government for this action?*

Regulators should choose the most appropriate level of government to take action, or if multiple levels are involved, should design effective systems of coordination

between levels of government.

6. Do the benefits of regulation justify the costs?

Regulators should estimate the total expected costs and benefits of each regulatory proposal and of feasible alternatives, and should make the estimates available in accessible format to decision makers. The costs of government action should be justified by its benefits before action is taken.

7. Is the distribution of effects across society transparent?

To the extent that distributive and equity values are affected by government intervention, regulators should make transparent the distribution of regulatory costs and benefits across social groups.

8. Is the regulation clear, consistent, comprehensible and accessible to users?

Regulators should assess whether rules will be understood by likely users, and to that end should take steps to ensure that the text and structure of rules are as clear as possible.

9. Have all interested parties had the opportunity to present their views?

Regulations should be developed in an open and transparent fashion, with appropriate procedures for effective and timely input from interested parties such as affected businesses and trade unions, other interest groups or other levels of government.

10. How will compliance be achieved?

Regulators should assess the incentives and institutions through which the regulation will take effect, and should design responsive implementation strategies that make the best use of them.

Source: http://www.oecd.org/LongAbstract/0,3425,en_2649_34141_35220215_1_1_1_1,00.html

The review of a country trade policy framework should describe the tariff/quota system and the range of pro-active trade policies (i.e., all other government interventions and subsidies). The following issues should be presented and assessed:

- the trade regime in terms of tariffs: tariff dispersion, tariff peaks and effective rate of protection;³²
- non-tariff barriers (i.e., quotas, export and import licences, export taxes and export bans, red tape, etc.);
- other active government interventions in the area of trade, including state trading enterprises, countervailing measures, anti-dumping duties, and safeguards;
- pro-active trade policies, including export processing zones, trade promotion institutions and consultative arrangements with the private sector and civil society organizations;

- role of tariffs and other duties in respect to government revenues. The effect of trade liberalization on government revenues could be estimated. The authors should report if social expenditures decrease following the eventual reduction of government revenues.

The authors should also be able to evaluate the policy framework against that of other countries. The World Bank produces a wide set of indicators for benchmarking the level of trade liberalization around the world. The World Trade Indicators (WTI) database is organized around five thematic areas, including trade policies and trade outcomes.³³ If updated data are available for the country under assessment, they could be used to substantiate the analysis (see box 6.2).

³² The effective rate of protection measures the total effect of a country tariff structure on the value added per unit.

³³ <http://go.worldbank.org/3Q2ER38J50>.

Box 6.2 World Trade Indicators

The World Trade Indicators (WTI) database measures trade performance, policies and institutions. The purpose of this World Bank initiative is to benchmark progress in these areas while highlighting data gaps. The database includes about 300 indicators grouped in five thematic areas: trade policy, external environment, institutional environment, trade facilitation, trade outcome. A snapshot of regional and world averages is provided below.

	Trade Policy	External Environment	Institutional Environment	Trade Facilitation	Trade Outcome
	Trade Restrictiveness Indices (TRI) (MFN applied tariff) - All Goods*	Market Access-TRI (applied tariff incl. prefs.) - All Goods**	Ease of Doing Business - rank (out of 178)	Logistic Performance Index (overall)	Real growth in total trade (%)
	2006-07 latest	2006-07 latest	2006-07 latest	2006-07 latest	2006-07 latest
East Asia- Pacific	4.89	3.88	86.15	2.58	8.63
Europe and Central Asia	5.09	3.15	79.44	2.53	9.41
World	7.47	4.06	89.50	2.74	7.74
Latin America and Caribbean	8.15	3.44	91.57	2.57	7.49
Sub-Saharan Africa	11.83	5.38	135.80	2.35	6.37
Middle East and North Africa	12.61	2.40	113.20	2.42	7.01
South Asia	13.02	7.30	106.60	2.30	10.82

Notes:

* Trade Restrictiveness Indices (MFN applied tariff) - All Goods -This index summarizes the impact of each country's non-discriminatory trade policies on its aggregate imports. It is the uniform equivalent tariff that would maintain the country's aggregate import volume at its current level (given heterogeneous tariffs). It captures the trade distortions that each country's MFN tariffs impose on its import bundle using estimated elasticities to calculate the impact of a tariff schedule on a country's imports. These measures are based on actual or current trade patterns and thus do not capture restrictions facing new or potential trade. They also do not take into account domestic subsidies or export taxes. Expressed as a tariff rate.

** Market Access - Trade Restrictiveness Indices (applied tariff incl. prefs.) - All Goods - This index summarizes the impact of other countries' trade policies on each country's exports, including preferential rates. It is a uniform equivalent tariff that would maintain a country's aggregate export volume at its current level (given heterogeneous tariffs). It captures the trade distortions that the rest of the world tariff policies impose on the export bundle of each country using estimated elasticities to calculate the impact of a trading partner's tariff schedule on a country's exports. These measures are based on actual or current trade patterns and thus do not capture restrictions facing new or potential trade. Expressed as a tariff rate.

Source: World Bank (2008) and <http://go.worldbank.org/3Q2ER38J50>.

6.2.2 Institutional Framework

In reviewing the country's trade institutions, the AfT study should outline the relationship between institutions and coordination mechanisms, in relation to trade policy formulation and the management of trade promotion programmes. Institutional coordination is highly important, and importers and exporters often find they have to deal with a prohibitive number of bureaucratic requirements (see box 6.3). This section should identify capacity gaps and eventual needs for technical assistance. A brief description of trade functions and responsibilities of the most important institutions should be provided.

The institutional mapping should provide a detailed assessment of specialized

agencies, which often have a key role in promoting and facilitating trade and investments. These include:

- customs agencies;
- export credit agencies;
- investment promotion agencies;
- special economic zones (SEZs).

Dedicated paragraphs should look at the trade facilitation committee or the AfT committee, if any. Other specialized agencies that have important roles in trade should be considered, if relevant to the country, including the National Statistical Office (collection of trade statistics), the Central Bank (exchange rate regulations) and National and Development Banks and Funds (management of trade promotion programmes, dedicated credit lines).

Box 6.3 Streamlining export procedures in the Dominican Republic

By the late 1990s, export procedures in the Dominican Republic were badly in need of reorganization. Exporting firms had to go through more than 10 different agencies, a process that involved the same number of different forms and procedures. Obtaining the permissions required to export took more than 45 days.

In response, the Single Window Integrated System for International Trade or SIVUCEX (*Sistema Integrado de Ventanilla Unica de Comercio Exterior*) was signed by Presidential Decree in July 1998. SIVUCEX is a digital platform with web access designed to simplify and speed up export processes, improving the efficiency and security of transactions. Export firms register, fill out a single form, pay one fee and receive government authorization online.

SIVUCEX, which cost \$1.25 million, has led to significant time and cost improvements in license and permit transactions, as shown in the following table:

	Before SIVUCEX	After SIVUCEX
Details	Cycle-time	Cycle-Time
Export license	71 days	Eliminated
Special permits	2.35 hours	Eliminated
Temporary importation	43 days	10 minutes
Ordinary permits	1.4 days	Eliminated
Cost	\$150	\$20

A number of challenges remain, including engaging more Dominican export firms as users, yet the success of the system demonstrates the value of collaborative interaction between agents. With strong advocacy by export firms and trade organizations, the project was led by government and the Dominican Republic Center for Exports and Investments (CEI-RD). Through a well-orchestrated team effort, CEI-RD built a horizontal, cooperative relationship among participating institutions, including government agencies and private sector organizations. Getting to this point, however, took time: almost seven years elapsed between the signing of the Presidential Decree in 1998 and the system's launch in 2005. At that point, SIVUCEX was implemented in just a 12-month period.

CEI-RD decided to complement the implementation of the single window for online export-related transactions by setting up a governmental portal, the Dominican Exporter's Web Site, for export firms to access information content, statistics, forms and advice. This portal, supported by online services administered by CEI-RD, has added value to the former initiative, taking advantage of information and communication technologies in a fresh, business-oriented governmental response to export needs. The enabling advantages of these technologies could be extended to offer information content and statistics required for the decision-making needs of exporting firms.

Source: UNECE and UN/CEFACT.

6.2.3 Trade agreements and market access

The AfT assessment should provide a comprehensive overview of existing trade agreements. If negotiations are underway (e.g., WTO accession) a separate section may present negotiation objectives, current negotiation strategies and possible outcomes. Trade agreements can be grouped as follows:

- WTO or WTO accession (see section 6.2.4);
- regional agreements;
- bilateral agreements, especially FTAs.

The analysis should pay special attention to the in-country capacity to deal with these issues. It should focus on the following:

- status of negotiations, implementation and compliance with multilateral, regional and bilateral trade agreements and preferential schemes;
- benefits and costs of involvement

in several (overlapping) regional trade agreements;

- the underutilization of preferences;
- other market access constraints in export markets, such as standards (covered in the next chapter of the guide), technical barriers to trade, tariff peaks and tariff escalation;
- recommendations to strengthen preferential agreements with other countries and to reinforce the use of existing arrangements;
- recommendations to meet the adjustment cost of implementing current (ex post) and anticipated (ex ante) trade agreements.

In recent years, the number of FTAs has increased dramatically. The European Union and the United States are particularly active players in the design of such agreements. Countries that are in the process of signing should evaluate them cautiously. Evidence from a number of regions shows that the overlapping nature of many regional and bilateral agreements, together with trade diversion and complexity, undermine the potential gains from liber-

alization that are intended to accompany such agreements. In addition, the proponents of such agreements have often

pushed for the kind of 'WTO-plus' requirements which many developing countries have argued against in multilateral forums.

Box 6.4 Assessing free trade agreements

Assessing FTAs will require looking at the following potential impacts:

1. How might the proposed FTA affect the quantity of imports and exports? An FTA aims to provide domestic businesses with a wider opportunity for export, and benefit consumers in the form of lower prices and more choice. An FTA is also more attractive to foreign investors from within and outside the region.
2. The direction and composition of trade. Which countries and products will gain or lose as a result of the FTA? Trade diversion may occur if an FTA is implemented in a situation where a country is not a member of the WTO. If certain products lose, transitional arrangements may need to be put in place to cushion the impact of industry changes on the poor.
3. The fiscal situation. Will tariff reduction reduce government revenues, perhaps requiring tax increases elsewhere? Again, if these tax increases are on basic items, they may affect the poor disproportionately.
4. How will the overall trading changes affect consumption and production (GDP)? An increase in net exports will, by definition, result in an increase in GDP.
5. Will the trade agreement influence the amount, composition and source of FDI? It is possible that an FTA will lead to more regional inward FDI. However, an FTA may also make the region more attractive as an investment destination for other international companies. Will the increased trade and investment result in spillover effects and the capacity for local firms to learn new techniques or to gain new technologies?
6. Sectoral changes. Which sectors will lose or gain? As above, these sectors should be analysed for their impact on the poor.
7. Tariff preference erosion. AfT provides the possibility for compensation of losses due to preference erosion, whether this takes the form of aid to restore competitiveness, or balance of payments support in the event of a collapse in exports.
8. Human development and poverty. Will the agreement have redistributive impact? Who will be the losers and the winners? Are mitigation measures in place to cope with negative impacts?
9. Political implications. Will the trade agreement lead to enhanced international cooperation? Will there be any domestic political impact?

Chapter 9 provides descriptions of quantitative and qualitative tools that can be used to address human development in an analysis of trade agreements. The principle of the trade assessment in this guide is indeed the identification of the channels between trade and human development and the assessment of opportunities and risks for vulnerable groups. The analysis (*ex ante*) should be able to

draft alternative scenarios and propose different policy options.

The effectiveness of trade policy can also be assessed by looking at the access guaranteed for national products into major markets. This issue is fundamental for developing countries. Many countries enjoy preferential treatment in a number of markets (*i.e.* Generalised System of

Preferences³⁴) and improved relations with the EU, including potential trade agreements and economic partnership arrangements.

6.2.4 WTO accession (where applicable)

A total of 28 countries are currently in the process of accession to the WTO (see box 6.5). (One, Vanuatu, has finalized its working party report but not submitted it to the General Council.) Of the acceding countries, 12 are LDCs, and as such should be subject to the accelerated accession procedure adopted by the General Council in 2002. This decision was partly a response to Vanuatu's difficulties during negotiations and its inability to take advantage of special and differential treatment. The decision recommends

that 'WTO members shall exercise restraint in seeking concessions and commitments on trade in goods and services from acceding LDCs, taking into account the levels of concessions and commitments undertaken by existing WTO LDCs' members'.³⁵ It allows acceding LDCs to take advantage of special and differential treatment, streamlines the accession process and improves access to technical assistance and capacity-building. In practice, members have not always taken the decision into account; Lao PDR is one of those that have.

For all countries that are in the process of WTO accession, the needs assessment may wish to discuss how the benefits from WTO accession can be maximized, and adjustment measures identified and financed.

Box 6.5 Summary of current WTO accessions

Country	Applied	Latest working Party	Goods Offer (latest)	Services Offer (latest)	Draft Working Party Report *
Afghanistan	Nov 04				
Algeria	Jun 87	Jan 08	Nov 07	Nov 07	Jun 06
Andorra	Jul 97	Oct 99			
Azerbaijan	Jun 97	May 08	Feb 08	Mar 07	
Bahamas	May 01				
Belarus	Sep 93	May 05	May 06	Sep 06	Jun 07 (FS)
Bhutan	Sep 99	Jan 08	Nov 07	Nov 07	Dec 07
Bosnia and Herzegovina	May 99	Nov 07	Feb 07	Feb 07	Oct 07 (FS)
Comoros	Feb-07				
Equatorial Guinea	Feb-07				
Ethiopia	Jan 03	May 08			

³⁴ UNCTAD manages a database on the Generalised System of Preferences schemes at <http://www.unctad.org/Templates/Page.asp?intItemID=1418&lang=1>.

³⁵ Document WT/L/508.

Iran	Jul 96				
Iraq	Sep 04	Apr 08			
Kazakhstan	Jan 96	Nov 06	May 04	Jun 04	Sep 06
Lao People's Democratic Republic	Jul 97	Nov 07			Oct 07 (FS)
Lebanese Republic	Jan 99	May 07	Jun 04	Jun 04	Mar 07
Liberia, Republic of	Jun 07				
Libyan Arab Jamahiriya	Jun 04				
Montenegro	Dec 04	Feb 08	Jun-08	Jun 06	Feb 08
Russian Federation	Jun 93	Mar 06	Feb 01	Jun 02	Oct 04
Samoa	Apr 98	Mar 02		Feb 06	Nov 06
Sao Tome and Principe	Jan 05				
Serbia	Dec 04	May 08	Oct 07	Nov 07	Apr 08
Seychelles	May 95	Feb 97			Jun 97
Sudan	Oct 94	Mar 04	Oct 06	Oct 06	Sep 04 (FS)
Tajikistan	May 01	Oct 06	Jun 06	Jun 06	May 06 (FS)
Uzbekistan	Dec 94	Oct 05			
Vanuatu	Jul 95	Oct 99	Nov 99	Nov 99	Accession Package Oct 01
Yemen	Apr 00	Nov 07	Jun 07	Jun07	Aug 07 (FS)

* Most recent Factual Summary (FS), draft Working Party Report or Elements of draft Working Party Report.

Source: www.wto.org (updated July 2008).

Examples of issues to be addressed around WTO accession include the following:

- the main requirements for accession (e.g., tariff bindings, domestic support for agriculture, implementation of trade-related regulatory agreements), the major constraints to meeting these requirements
- and the likely impact of the Doha Development Agenda;
- an overall strategy for using the WTO accession process to support the country's economic development programme;
- lessons from similar countries that have acceded in recent years, especially with regard to equity, public

sector capability and policy space (such as Cambodia, Cape Verde, China, Estonia, Kyrgyzstan, Nepal, Tonga, Ukraine and Vietnam);

- review of policies and regulations affected by WTO obligations (e.g., those governing subsidies, standards, intellectual property, state trading enterprises, import licensing, trade remedies, customs), suggested priorities for the country's legislative action plan, and technical assistance needed to implement these reforms.

It is important to emphasize again that the issues of poverty and human development need to be taken into account throughout the analysis of trade policy. For example, researchers need to explain what would be the impact of WTO accession on micro-, small- and medium enterprises or small farmers. The analysis can then go beyond the identification of these potential 'losers' to an analysis of possible solutions (e.g., free training for fired workers) and mitigation measures.

6.3 Investment policies and foreign direct investment

Investment, including FDI, can provide both economic and human development benefits. An immediate benefit includes employment, which can have a direct human development impact in the form of improved working conditions and greater life choices. Foreign investors may also bring with them improved working practices, better technologies and a wider range of imported products, all of which can enhance the ability of people to live fulfilling lives. FDI may also bring with it worsened labour practices. The needs assessments, together with a heightened

focus on human development, can help focus on ensuring that countries benefit fully from FDI.

Further economic benefits include export development and integration into global supply chains, the stimulation of local demand for goods and services through supplier linkages, and the transfer of managerial and technical skills to the host country. These benefits can spur development and reduce poverty. However, these outcomes will only be realized and evenly distributed if a country has a sound investment climate and a business-friendly environment. The underlying policies must be clear, predictable and transparent, and offer private investors incentives such as non-discriminatory treatment and protection. To the extent that FDI improves economic growth, it can also improve human development, since greater wealth can raise the capabilities and choices of the poor. Investment policy must also take into account the country's strategic trade policy, as discussed at the start of section 6. Inviting direct competitors into a country to compete with industries that are at an early stage of development can often conflict with the achievement of a long-term dynamic comparative advantage in particular areas. It is suggested that governments take a strategic approach to the liberalization of the investment environment, evaluating which kind of investment to target.

The purpose of conducting an investment policy analysis is to identify the incentives a country offers to investors and evaluate their effectiveness in attracting investors to the priority sectors as defined by the government.³⁶ Such a review covers the following areas: the trends of

³⁶ See the OECD and UNCTAD Investment Policy Review approaches at <http://www.unctad.org/Templates/Page.asp?intItemID=3534&lang=1> and http://www.oecd.org/document/40/0,3343,en_2649_34893_1933032_1_1_1_1,00.html.

inward and outward FDI, the investment policy framework, and the strategic perspective and long-term outlook.

(1) *Investment trends*: Investment trends show how FDI has made a difference (e.g., promoted diversification, moved production into higher value-added sectors, increased international competitiveness, undermined domestic manufacturers, led to deindustrialization).

- FDI inflows – driving forces (e.g., the level of inflows over a period of 5-10 years, distribution by sector, comparison with similar regional countries, how FDI is consistent with priority sectors, sources of FDI);
- FDI outflows – driving forces (e.g., high wage costs, relocation of low-end operations to lower wage countries; core competencies developed to meet international standards e.g., in tourism, financial services, domestic savings);
- evolution of FDI (e.g., movement from labour intensive, low-wage low-tech industries to value-added high-wage, high-tech industries, as in the case of the garment industry moving from assembly of low-cost garments under licence to export of own-brand name goods to high-value niche markets, with new supply capabilities developed in marketing, product design and research and development, resulting in higher wages and improved living standards for workers, farmers and other local suppliers);
- employment in foreign firms (e.g., showing how employment increased, with a table showing the number of enterprises, employment over 20+ years);
- export performance of FDI;
- local supply linkages (e.g., the spin-off effects and multiplier ef-

fects from FDI creating demand for goods and services such as consultancy, water, electricity, transport, technical inputs);

- skills transfer (e.g., FDI providing managerial skills, on-the-job training, making a statement about availability or shortage of domestic training opportunities such as vocational training and tertiary education).

(2) *Policy and operational framework for FDI*: The investment policy framework identifies reforms favourable to a more attractive investment environment, and best practices. Factors taken into consideration include:

- Openness to FDI – is the country open to FDI or selective? What are the selection criteria, are there priority or reserved sectors, is there a clear investment policy with clear definitions of the respective roles of government and business? Are there activities reserved only for the state, e.g., natural monopolies like fixed-line telecommunications and water? Is there a need for regulatory reform (e.g., government formalities and paperwork, anti-corruption laws) to promote private investment?
- Specific standards of treatment and protection – identified on the basis of the current investment law and bilateral investment treaties
 - national treatment – investors treated as if they were nationals or they are given a guarantee of fair and equitable treatment;
 - non-discrimination – Most Favoured Nation treatment extended to investors
 - funds repatriation – existence or absence of exchange controls and free repatriation of returns

- such as profits, fees, royalties;
 - expropriation – guarantees against expropriation, that it will only take place for public purposes with due process, prompt and fair compensation;
 - international arbitration – judicial hearing offered locally, or international arbitration, membership with International Centre for Settlement of Investment Disputes (ICSID);
 - double taxation treaties – the number of treaties (present, under negotiation, awaiting ratification), countries involved, exceptional provisions with a particular country(ies), etc.
- Investment incentives – provide background, i.e., history on the use of incentives and how incentives have influenced investment flows, areas where incentives have failed to achieve desired outcomes; and provide a description of incentives, including the range of incentives on offer, table of investment incentives by sector; a list of priority sectors and discussion of the successes or challenges met in each sector.

(3) *Strategic perspective*: The strategic perspective offers a review of the country's investment strategy. A broader vision of foreign investment can be provided with the reasons why the implementation of current or older strategies on investments has or has not met expectations (e.g., bottlenecks limiting investment or weak institutions). The strategy

should identify the most promising sectors for investors and for the economy in the long run.

It is important to review the potential role of FDI and, in particular, identify its positive contributions in the areas of:

- Skills and human resource development. This includes demand-driven training, academic and technical education to accelerate skills development;
- Enhanced competition. Deregulation and liberalization can increase competition in industries such as telecommunications, improving services and lowering costs;
- Creation of greater regional links. This includes regional co-operation / integration, such as agreements for better access to regional markets;
- Promotion of global supply linkages with local SME suppliers.

If impacts are negative, they should be analysed with the objective of providing recommendations. The most common negative consequences of FDI relates to possible monopolistic behaviour (due to market protection, tax privileges and incentives), technological gaps in respect to local firms, undesired competition with fledgling local industries, as well as the impact on the environment. The experience from East Asia and the Pacific suggests that measures which produced linkages between FDI and the local economy were most successful.

7. TRADE FACILITATION AND STANDARDS

Trade facilitation, the simplification and harmonization of trade procedures, aims to enhance the flow of trade across the border, and includes measures that contribute to this goal behind the border. Standards in international trade refer to safeguards put in place by governments to protect their citizens from dangerous and unsafe products, including manufactured and agricultural goods. Trade facilitation practices and standards can become barriers to trade both unintentionally and intentionally. Traders usually want a non-discriminatory system that is predictable and transparent so that their products can enter markets with as few barriers as possible. Trade facilitation is extremely important for micro enterprises and SMEs for whom barriers are much more difficult to overcome than for bigger firms.

7.1 Trade facilitation

The purpose of the AfT assessment is to identify the underlying causes of inefficiency, poor service delivery and high costs related to the movement of traded goods so that systemic problems, not only symptoms, are addressed in a comprehensive, enduring manner.³⁷ The efficient movement of goods across national frontiers, both in terms of duration and cost, depends on many factors. It is prudent to examine not only the capacity and competency of the service providers directly involved in handling traded goods, but also aspects of the local business environment that impact international trade, including customs, the department of trade, trade and business associations, and financial and other trade-

related services. A prerequisite for effective trade facilitation is a good business environment. There is thus some overlap between this section and chapter 5. The assessment covers a range of suggested issues for review, not all of which may be relevant to a country's peculiar situation. The issues covered include skills, working practices and standards of professionalism, corruption, coordination, equipment and infrastructure and their impact on the performance of various organizations. The findings of the assessment may suggest that a government needs to simplify its customs procedures, introduce professional standards and provide training or upgrade trade-related infrastructure or a combination of these and other measures. Interventions and their associated costs will vary according to the local needs of each country. Hence, it is necessary to be as specific as possible when reviewing a country's trade facilitation arrangements and to identify the areas requiring reform, capacity-building, technical assistance and staff training. It is suggested that the analysis of trade facilitation should focus on key issues and actors, including enterprises (exporters and importers), government, business services, and infrastructure services. These four areas will be discussed below, listing specific features that would be useful to examine in an assessment study.

Country benchmarking can be used to highlight the country's relative performance. For example, the World Bank produces the composite Logistics Performance Index (LPI) that summarizes seven areas of performance.³⁸

³⁷ Adapted from World Bank/John Raven (2005), at <http://www.gfptt.org/uploadedFiles/a1c39bce-4c9c-4706-aa71-d73bd0a4f193.doc>.

³⁸ www.worldbank.org/lpi. The seven areas are (1) efficiency and effectiveness of the clearance process by customs and other border control agencies; (2) quality of transport and information technology infrastructure for logistics; (3) ease and affordability of arranging shipments; (4) competence in the local logistics industry (for example, transport operators and customs brokers); (5) ability to track and trace shipments; (6) domestic logistics costs (for example, costs of local transportation, terminal handling and warehousing); and (7) timeliness of shipments in reaching destination.

7.1.1 Enterprises (exporters and importers)

Exporters

- Determine the volume of business; profile of exporters and types of products handled annually; relations (and level of satisfaction) with customs, forwarders, freight carriers; commercial banks in terms of efficiency and cost of services provided, documentary credits, bureaucratic delays, exchange controls, export taxes and other requirements.

Importers

- Determine the volume of business, profile of importers, and types of products handled annually; the efficiency and cost of services provided by customs, freight forwarders/transporters; the main ports of entry and exit, border checkpoints to promptly clear and deliver goods to customers; access to financing and payment for goods, use of documentary credits; bureaucratic obstacles such as exchange controls, security requirements.

7.1.2 Government

Ministry of trade (trade facilitation department)

- Determine the role and structure of the department and other statutory bodies that have clearly defined competencies and responsibilities in trade facilitation (e.g., trade facilitation agency, trade facilitation department); consider the level of interdepartmental coordination and highlight the constraints (financial, skills, equipment, etc.); if these departments directly manage relationships with enterprises, indicate working hours and availability; number and value of export and import declarations, transit operations; average

release times for goods; use of electronic declarations; contribution of customs duties and taxes to government revenue; recommend how the customs department could perform its work more effectively.

- Examine the trade facilitation department's role, including its ability to simplify and streamline customs clearance and other external trade formalities; address constraints on payment systems and increase access to letters of credit and other documentary credits; promote greater regional integration and participate in regional trade facilitation initiatives (see box 7.1 below); promote the efficiency of postal, courier and other delivery and containerized transport services on behalf of traders; increase awareness among traders of the benefits, opportunities and the options available of electronic commerce; advise exporters on the product standard requirements of export markets, especially when a domestic national standards organization does not exist.

Customs

- Highlight the constraints (financial, skills, equipment, corruption, etc.), working hours and availability of customs agents outside working hours; number and value of export and import declarations, transit operations; average release times for goods; use of electronic declarations; contribution of customs duties and taxes to government revenue; recommend how the department could perform its work more effectively.
- Identify the number and type of disputes and challenges that customs deals with annually, involving valuation, classification, compliance, and temporary importation; determine whether there is a trade committee that meets regularly to resolve dif-

ferences, seek relief and facilitate dialogue between customs and government on the one hand and the users, including traders, brokers, ships' agents, transporters and other interested parties on the other.

Pre-shipment inspection agency (if applicable)

- Find out the time it takes to issue a report; identify the goods excluded from PSI and the minimum value; proportion of consignments physically inspected and criteria for inspections; how inspections are paid for.

Exchange control/central bank (if applicable)

- Determine the purpose of exchange controls and how they are applied; the role of customs in applying exchange controls; availability of documented exchange control regulations to the public; resolution of exchange control infringements; impact of disputes on the movement of goods.

7.1.3 Business service providers

Chamber of commerce

- Ascertain the size of its membership and whether it is a statutory or a voluntary organization; its role in promoting the interests of its members, such as offering advice to traders on national and foreign customs requirements, foreign standards, payment systems and transport facilities.
- Determine whether the chamber has specialist committees that handle issues such as customs, payment systems, transport, communications, e-commerce and trade facilitation; whether the chamber conducts courses

in any of these areas; whether it issues certificates of origin by ensuring that it verifies the products being certified.

- Establish whether the chamber collaborates with United Nations bodies such as UNCTAD, WTO, ITC, the International Chamber of Commerce, foreign chambers, regional organizations, national business organizations; the areas of cooperation, such as best practices, technical assistance, information sharing.

Forwarder/agent/broker/multimodal transport operator

- Find out the volume of business handled annually in terms of exports and imports; document their operational efficiency at ports, airports, road frontiers, rail frontiers and inland container depots, e.g., cost and efficiency, release times for shipments, movement of cargo across borders; difficulties with exchange controls, access to documentary credits and to commercial information to facilitate transactions; use of electronic communication to exchange information (manifests, waybills) and standard transport documents;³⁹ dispute settlement processes and the nature of the disputes.

Commercial Banks

- Determine the importance of documentary credits in facilitating trade on the basis of their number and value annually; whether SMEs face difficulties accessing these credits; how documents are transmitted between banks, by postal or express delivery services or electronic means, and the reliability of transport and communication services and any related bottlenecks.

³⁹ These are internationally recognized documents that facilitate the transactions of freight forwarders, including forwarder's certificate of receipt, forwarder's certificate of transport, warehouse receipts, negotiable and non-negotiable multimodal bills of lading, shipper's declaration for the transport of dangerous goods, shipper's intermodal weight certificate, and forwarding instructions issued by International Federation of Freight Forwarder Associations

Trainers and other service providers

- Assess the capacity of existing technical and vocational institutions to train and provide the skilled personnel needed in the trade facilitation industry, such as customs officers, clearing agents, brokers, laboratory technicians at national standards organizations and related skill sets; determine training capacity constraints and whether there are any gaps or shortfalls that need to be addressed and in what areas and the numbers required. Examples of training areas could include logistics (cargo routing and door-to-door services for cost, promptness and reliability), risk management (loss and damage), finance and payment methods, and national laws, rules and procedures of customs and other statutory bodies and those of the main trading partner countries.

7.1.4 Infrastructure services*Shipping line and ships' agents*

- Ascertain the volume of cargo handled in terms of the number of containers; the main countries of origin and destination; services offered (door-to-door); physical or electronic transmission of manifest information; delays or problems encountered, such as cargo loss or damage, heightened security, phytosanitary controls, customs, port, deficiencies in infrastructure; electronic filing of customs declarations; and participation in a trade committee involving customs and other parties.

Ports

- In addition to the issues concerning shipping line and ships' agents, determine the capacity constraints of the ports, such as the adequacy of equipment, staffing and infrastructure to handle the movement of goods; port congestion and delays caused by cus-

toms, late arrival of manifests, banking requirements, exchange controls, availability of connecting and multimodal transport, pre-shipment inspection and late collection of consignments.

- Evaluate ports operations, for example, whether clear procedures and guidelines are conveyed to port users to facilitate movement of goods and vehicles; use of computers and electronic data sharing; cooperation with customs and security; responsibility for sanitary and phytosanitary checks; procedures for goods clearance, review of declarations and physical inspection of consignments and any resulting disputes (classification, value, illegal imports).

Air cargo carriers

- Determine the volume of business handled annually; provision of door-to-door services; methods used and experiences in exchanging manifests, waybills and other documentation; difficulties with customs, exchange control, inspection, security, ground handling; whether advantages of the speed and security of airfreight to traders over other forms of transportation for high value, low weight cargoes are offset by bureaucratic delays and capacity constraints.

Airports

- Determine the annual volume of business handled; the length of time for the movement of cargo between unloading and handing over to an agent or carrier; staffing levels at the customs office and warehouse; pay conditions and overtime rates; working relations between customs, immigration and other agencies; responsibility for phytosanitary and security controls; well-publicized information available on customs formalities; software used for customs declara-

tions and clearance; electronic communication between customs and traders/agents/carriers; proportion of consignments physically inspected; procedural difficulties and resolution mechanisms; theft and loss of goods in airport custody.

Road carriers

- Ascertain the provision of door-to-door services, temporary importation, efficiency, cost and security standards of the main ports of entry and exit,

release times of vehicles by customs, efficiency and cost of container terminals; experience with the authorities of transit countries such immigration, phytosanitary standards, vehicle requirements; automation and communication systems used in transport functions; timely receipt of new customs regulations and other official information, access to information on foreign countries; availability, quality, cost and constraints of available communication methods.

Box 7.1 Agreements and conventions on international transport

Physical and non-physical obstacles to international traffic flows continue to hinder economic development. Inadequate transport infrastructure and regulations are especially damaging to landlocked developing countries that face comparatively high costs of trading across borders. A number of obstacles to international transport have been addressed by various UN agreements and conventions. A critical mass of such legal instruments needs to be adopted and implemented by developing countries, especially in landlocked and remote locations, in order to reap potential benefits of trade.

For instance, the Project Working Group on Transport and Border Crossing has continued to recommend since 1999 that all countries participating in the United Nations Special Programme for the Economies of Central Asia (SPECA)⁴⁰ should adopt 16 key legal instruments administered by UNECE. These instruments aim to harmonize the framework for international transport in the following areas: *infrastructure* (parameters and routes of rail, road and combined transport networks), *road transport regulations* (two basic conventions and two supplementary agreements on road traffic, one agreement on work conditions of international truck drivers), *border-crossing facilitation* (conventions on the harmonization of border controls, contract for the international carriage by road (CMR), international transport of goods by road (TIR) and three customs conventions on temporary import rules) and *transport of dangerous and perishable cargoes* (ADR and ATP agreements). The accession to a number of the recommended agreements and conventions by SPECA countries since late 1990s could improve considerably their trade performance, providing that these legal instruments be properly implemented.*

* For more information on the legal instruments pertaining to international transport and the state of accession, see ECE-ESCAP (2008) and http://www.unece.org/trans/main/speca/docs/13th_document04.pdf

⁴⁰ The following countries participate in the SPECA programme: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Details concerning activities of the SPECA project working groups on international transport and trade can be accessed at <http://www.unece.org/trans/main/speca/speca.html> and <http://www.unece.org/speca/trade.html>.

Rail transporters

- Identify the volume and type of freight handled annually and distances travelled; services offered, e.g., refrigerated facilities, wagon or container loads; cost of rail transport relative to road, air and marine transport; farmers and traders served by rail services; physical or electronic transmission of manifest information and filing of customs declarations; the capacity, quality of rolling stock, including wagons for cargo and passengers, railroads, signalling and control equipment, infrastructure to handle road haulage and intermodal transport (terminals, warehousing, ramps, moving and lifting equipment); diesel or diesel-electric locomotives, payloads and compatibility of rail gauges with transit states; cross border issues and other administrative, technical and logistical challenges faced by operators such as procedures regarding security, phytosanitary controls and customs; and participation in a trade committee involving customs and other parties.

Border crossing points (rail and road)

- Ascertain the annual volume of busi-

ness carried by road vehicles, container trucks and trailers and roll-on roll-off vehicles; the proportion of temporary imports per year; time interval from arrival to departure; pay conditions and overtime rates of customs officers; the number of customs clearance procedures and whether they are handled at one central point or are broken up into several separate steps; other procedures such as verification of roadworthiness of vehicles, weight limits, driving licence, passport and visas; use of computers and their applications; reliability of power supply; procedural difficulties; theft and loss.

Express delivery operators

- Find out the annual volume of business handled with respect to exports and imports, the average length of time to process documents and clear goods through customs, identify causes of delays and inefficiencies, lack of competition, administrative requirements such as licensing, variable levies and fees; causes of disputes (classification, value, loss, damage, security).

Box 7.2 Southern African Development Community Transit Management System

The Southern African Development Community (SADC), formed as a full-fledged development community in 1992, comprises 14 member states: Angola, Botswana, DR Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe. Headquarters are in Gaborone, Botswana.

As the SADC strives to improve economic development and play a bigger role in global markets, it is attempting to improve the movement of goods through member states, seven of which are landlocked. Delays at border crossings and the fulfilment of different regulations can be particularly costly.

The aim of the SADC Transit Management System is to achieve fast, cost effective and safe transportation in the region, mostly by road. The System mirrors the international TIR and ATA carnet systems, operating on the basis of extraterritorial recognition of

declarations and Customs guarantee bonds in the country of commencement. Now in operation, its full implementation can reduce transit clearance time from two days to just under an hour.

The project took three years to be put in place. Following stakeholder workshops, a 10-month pilot project was undertaken on the north-south corridor linking Durban in South Africa to Blantyre in Malawi and Lumbubashi in the Democratic Republic of Congo. The aims were to learn lessons, identify obstacles and ensure commitment by member states. The pilot project focused on testing five areas: legal framework, obligation of key stakeholders, procedures, communications and infrastructure. Budget contributions by SADC member states were supported by funding from the UK Department for International Development and Regional Trade Facilitation Programme as well as EU technical and financial support through Customs support programs.

The pilot demonstrated a number of benefits, including the provision of adequate security to Customs authorities; reduction of cost of raising transit guarantee; elimination of delays and inconvenience at entry, transit and destination Customs offices; release of large sums of money previously tied up as collateral; increase in efficiency in inter-state transport between member states; reduced freight charges; reduced financing charges; improved collection of duties and taxes; and increased trade between member states.

In addition, the pilot revealed the following strengths and weaknesses:

- **Legal Framework:** agreement between Customs administrations is important, as is a financial system for managing claims limited to legal provisions requiring national recognition of extra-territorial bonds and transfer of claims payments.
- **Customs Transit Procedures:** Customs systems can be improved, as evidenced by the introduction of SAD 500 and work undertaken by the hub for corridors.
- **Bond Management:** primary responsibility for managing bonds given to principal surety, making this individual responsible for all dealings with Customs.
- **Mandatory or optional?:** it is a cardinal requirement for SADC that the system remain a matter of choice, as member states want to see the benefits before it becomes mandatory.
- **Dispute Settlement:** specific provisions for cooperation between Customs administrations and sureties; provides for arbitration in the event of protracted disputes.

Under the pilot scheme it was learnt that an inclusive approach helped ensure buy-in and ownership by all stakeholders; consultation with key stakeholders makes implementation easier; and that capacity building is a critical factor in success. The challenge now is to align national legislation and train stakeholders.

Source: UNECE and UN/CEFACT

7.2 Standards

Trade liberalization has created opportunities for developing countries to export

their goods to world markets. However, the presence of strict international product standards for agricultural and manufactured goods has made it difficult for

⁴¹ www.sadc.int/index/browse/page/52.

these countries to take full advantage of export markets. Meeting international standards can be challenging due to a shortage of human and financial resources, lack of active participation in international standard setting bodies as well as weaknesses in their infrastructure. Exporters of agricultural and industrial products face barriers to trade in the form of technical regulations, and sanitary and phytosanitary (SPS) standards. Sanitary measures are standards that apply to food safety and the prevention of food-borne pests and diseases from entering a country, while phytosanitary measures refer to the prevention of plant-borne pests and diseases. Technical regulations cover product specifications such as quality, safety and production processes and methods involving agricultural and industrial products.

Standards in target markets, for example the European Union or the United States, can become what are known as technical barriers to trade (TBT), restricting the entry of imports from developing countries. SPS and TBTs are sometimes imposed for legitimate reasons, because the goods from the country of origin do not comply with the product and safety standards of the destination country market. For example, Mattel, a US-based toy company, had to recall its goods from retail stores in 2007 because its Chinese supplier(s) had not complied with US product standards prohibiting the use of certain toxic materials, such as lead paint.⁴² Other well-publicized examples are temporary bans that were imposed by Japan and the EU countries on imported beef from the United Kingdom due to health concerns about meat affected by outbreaks of foot-and-mouth disease.⁴³

In other cases, SPS and TBTs could be arbitrarily invoked by a country as a protectionist measure to limit competition. For a brief period in the early 1980s, Japanese video cassette recorders (VCRs) imported into France, instead of entering through France's major port cities, had to pass through Poitiers, a small, remote town with a poorly equipped and under-staffed customs office. Ostensibly, the VCRs were inspected to ensure that the instruction manuals were in French. The effect of this customs arrangement was an increase in price and a limit in the number of Japanese VCRs sold in France to 3,000 units per month, a quantity far below the size of the French VCR market.⁴⁴ The use of international standards endorsed by international agencies such as those of the United Nations help create transparency and predictability, thereby facilitating trade and avoiding the arbitrary use of SPS and TBTs such as the Poitiers case. In this regard, the WTO has introduced two agreements to facilitate trade through international product standards, the Agreement on Technical Barriers to Trade (TBT) and the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS).

Therefore, conformity with the norms and standards of international trade forms an important part of a country's export strategy. A successful export strategy requires goods that meet internationally recognized standards for agricultural and industrial products. This is achieved by establishing a standard quality control process which includes certification and quality assurance procedures for product safety and hygiene.

⁴² Fairclough (2007).

⁴³ Other examples of the use of standards to restrict developing country imports: fish and fish products (water control, vermin control, maintenance practices, cholera), horticultural products (toxins), meat and poultry (abattoir and factory standards), and processed food products (processing facilities not being approved).

⁴⁴ Jovanovic (1997).

There are over 50 organizations that develop and promote international standards for use in international trade, of which only seven are recognized by the WTO's TBT and SPS Agreements (see table 7.1). The activities performed to ensure product specifications meet international standards include sampling, testing and inspection; evaluation, verification and assurance of conformity; and registration, accreditation and approval.

These standard-setting organizations offer certain benefits to their member

states, including participation in determining standards and technical assistance. Despite the availability of these services, a number of developing countries have not been able to benefit fully from membership. The challenges for these countries are inadequate participation in setting international standards due to financial and technical constraints; lack of involvement of the domestic industry in formulating technical standards due to lack of awareness; and the lack of capacity to implement standardization activities.

Table 7.1 International standard-setting organizations

Name of organization	Areas of standardization	
Codex Alimentarius Commission (CAC)	Food quality and safety (food, codes of hygienic or technological practice, food additives, veterinary drugs, pesticide residues in foodstuffs). [www.codexalimentarius.net]	SPS
Office International des Epizooties or World Organisation for Animal Health (OIE)	Control of animal diseases; trade in animals and animal products. [www.iec.ch]	SPS
International Plant Protection Convention (IPPC)	Phytosanitary measures and prevention of plant diseases. [www.itu.int]	SPS
International Organisation for Standardisation (ISO)	All products and systems not falling within the competence of IEC and ITU. [www.iso.org]	TBT
International Electrotechnical Commission (IEC)	Electrotechnical standards (electronics, magnetism, electromagnetics, electro-acoustics, telecommunications, energy production and distribution).	TBT
International Telecommunication Union (ITU)	Telecommunications (telecommunication networks and services, development of communication technology).	TBT
International Organisation of Legal Metrology (OIML)	Legal metrology and measuring instruments (accuracy classes, error limits, units of measurement, environmental conditions for operation, requirements for scales and other indicating devices). [www.oiml.org]	TBT

<i>Other ISSO whose standards and regulations are not mandatory for compliance with WTO Agreements but still widely observed</i>		
World Health Organisation (WHO)	International standards for food, biological, pharmaceutical and similar products, diagnostic procedures. [www.who.int]	
International Plant Protection Convention (IPPC)	Control measures against introduction of pests of plants and plant products. [www.ippc.int]	
International Accreditation Forum (IAF)	Conformity assessment standards for management systems, products, services and personnel, e.g., ISO 9000 quality management systems, ISO 4000 environmental management systems. [www.iaf.nu]	
International Laboratory Accreditation Cooperation (ILAC)	Laboratory accreditation practices and procedures. www.ilac.org	

Source: ITC (2004)

Standard setting and certifying organizations widely used in the private sector include the International Organisation for Standardisation with its ISO 9001 and ISO 14001 management and environmental certification; United Laboratories' UL logo to certify building materials and industrial equipment for the US market; and the CE mark to certify conformity with product directives of the European Union market. Certified exporters with products bearing these

markings can gain them access to international markets.

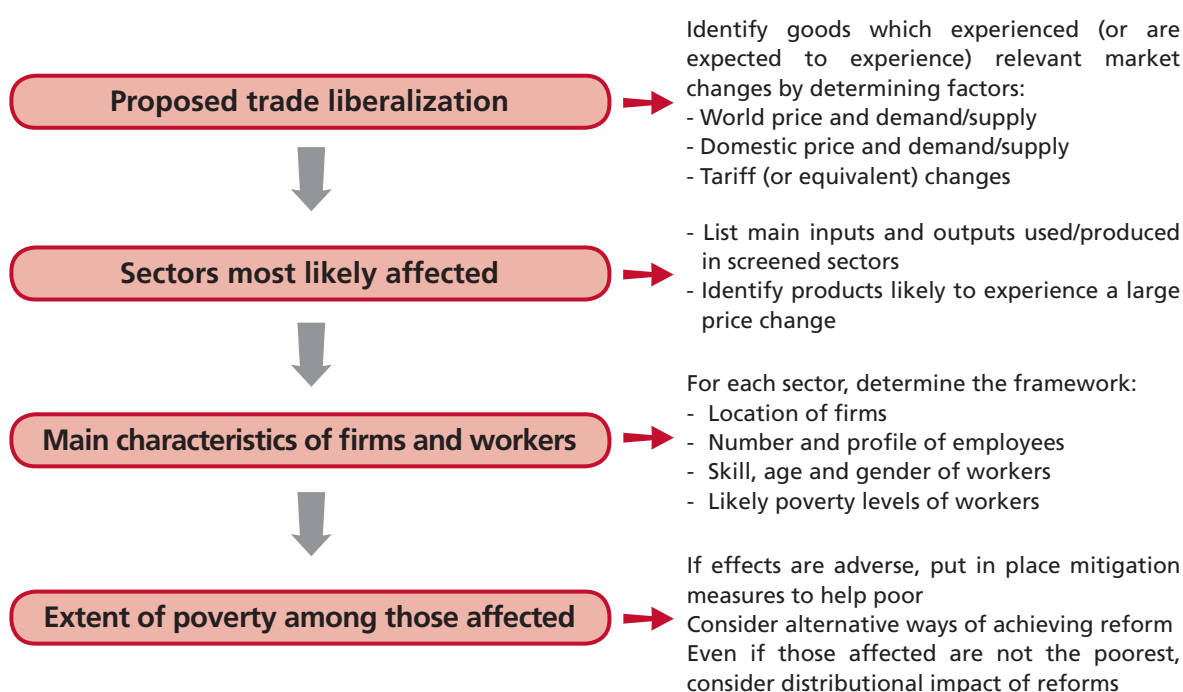
The number and percentage of industries that have obtained an ISO certification is often used as a measure of the preparedness of a market for exporting to advanced economies. The analysis should also mention the availability and the costs of certification services in the economy. The distribution of valid ISO 9001 per sector is also relevant.

8. SECTORAL ANALYSIS

One of the main objectives of the AfT needs assessment is to identify business opportunities and initiatives with trade potential as a means to address the needs of the poor. These emerging economic activities should present governments with opportunities for export development, SME linkages to global supply chains, job creation and improve-

ments in the standard of living. For the AfT studies, a sectoral analysis is considered the most useful form of assessment. Figure 8.1 provides a template for the selection of sectors and presents the chain of impacts behind the application of a sectoral approach. Later on, this section looks at sectoral analysis and its implications for human development.

Figure 8.1 Trade liberalization and sectoral analysis



Source: McCulloch et al. (2001).

Once economic opportunities have been identified, the task of product and market development can begin. This involves identifying the business opportunities with potential for trade and human development within three broad sectors: agriculture and natural resources, manufacturing, and services (see table 8.1 for some examples). The ITC has developed a set of tools, a 'trade map', to better describe the structure and evolution of international

markets with a country perspective. The map helps to identify sectoral winners and losers by confronting national sectoral performances with their global counterparts. It was developed with the objectives of revealing comparative and competitive advantage, identifying the potential for market or product diversification and designing trade development plans. It may be a useful tool for identifying sectors to be analyzed in the AfT report.⁴⁵

⁴⁵ ITC at <http://www.trademap.org>.

Table 8.1 Examples of sectors and products with export potential

Agriculture and Natural Resources	Manufactures	Services
Aluminium Coal and lignite Copper Cotton Crude oil Fish Grains ⁴⁶ Gold Lead Natural gas Nickel Tin Wool Zinc	Automobiles and automotive parts Cement Construction materials Machinery Processed food Textiles	Construction Financial services

A fairly detailed sectoral analysis should be conducted for each sector identified as suggested in the following sectoral study guidelines. The choice of a specific sector should be justified in light of the objectives of the AfT study.

8.1 Sectoral analysis guidelines

For each sector identified, the priorities with relevant stakeholders should be discussed, and the most recent data on the sector be obtained without duplicating previous work. A three-step approach is proposed:

1. Preparation, data collection and consultations

- collect available materials and previous sector research (desk review);
- identify data requirements;
- identify key players and information owners;
- engage stakeholders and collect primary information; if possible set up a sector specific advisory group.

2. Sector assessment

- assess the sector's size, and its supply and demand structure and dynamics;
- diagnose the sector performance against success factors (e.g., export share in world market);
- assess the adequacy of available factor endowments (i.e., capital, qualified labour force and access to land or other natural resources) and actions required to improve competitiveness;
- analyse the early response from enterprises to trade liberalization (e.g., mergers, technology acquisition, facilitation of joint ventures);
- assess the capacity of sector-specific government departments and other supporting institutions to provide technical support and business services.

3. Identification of alternatives and recommendations

- examine ways in which productivity and profitability can be im-

⁴⁶ Grains include barley, maize, millet, oats, rye, sorghum, wheat and mixed grains.

proved, including an assessment of ways to improve linkages with other sectors of the economy;

- identify market opportunities and products with high export potential;
- outline concrete interventions that public authorities should undertake to facilitate the sector's growth (e.g., specific trainings, investment in infrastructures, establishment of certification centres, etc.);
- evaluate feasibility and effectiveness of identified market opportunities and public interventions;
- discuss the assessment's findings and the identified options with relevant stakeholders;
- prioritize between identified options and outline possible areas of donor assistance (e.g., market information, development of business linkages, fair trade pilot projects).

In addition to the above, the AfT study should assess the economy's supply capabilities with a view to (1) identifying and addressing supply constraints and (2) developing a market/product development strategy, taking the following into account:

- value-added production, i.e., the opportunity of moving up the value chain (e.g., processed fruits, jams, juices);
- infrastructures (utilities, roads, drainage and irrigation, storage facilities, multimodal transport services);
- international trends relevant for the sector (e.g., input/output price fluctuations, product specifications, quality standards and most used technology, etc.);

- business strategies (diversification, horizontal integration, vertical integration, market share [uniform product], price skimming [product adaptation], alliances, industry leader and standards, etc.

The economy's supply capabilities analysis can be enriched by undertaking a SWOT analysis, value chain and cluster analyses (sector-specific clusters), applying project appraisal tools and conducting an environmental impact assessment. Annex 2 provides a more comprehensive list of analytical techniques used to assess competitiveness, while the SWOT, value chain and cluster analyses techniques are briefly described in this chapter.⁴⁷

8.1.1 SWOT analysis

The SWOT method⁴⁸ is a simple and very popular strategic planning tool used to measure the strengths, weaknesses, opportunities and threats of a given strategy, business venture or economic activity. Flexibility and immediacy being the main advantages of this method, a SWOT analysis can be used to frame the AfT sector analysis. SWOT requires the specification of the item under assessment and the objective(s) of the analysis. The process entails then the identification of the internal and external factors that are favourable and unfavourable to achieving the objective(s). Box 8.1 provides an example of a SWOT analysis for the tourism sector in Vanuatu, which was part of the Diagnostic Trade Integration Study under the Integrated Framework for Trade Related Technical Assistance to Least Developed Countries.

⁴⁷ A possible alternative sector assessment method — SHAPE — has been developed by ITC. SHAPE offers a complete support package for the development of sector trade strategy and implementation plans. (ITC 2006).

⁴⁸ More information and links on http://en.wikipedia.org/wiki/SWOT_analysis.

Box 8.1: SWOT analysis of tourism sector in Vanuatu

STRENGTHS	WEAKNESSES
• A good range of locally owned options for accommodation • A relatively good mix of accommodation types • Taxi transport is readily available • Public transport available in main island • Integration of domestic and international air services • Excellent cultural and environmental resources	• Expensive relative to the quality received • Some of the plant is in need of renovation and refitting • Quality is often poor • Limited Internet access • Levels of staff training need improvement • Poor inter-island air services • Quality of transport equipment is limited • Improved training needed for some tour guides
OPPORTUNITIES	THREATS
• New potential niche markets • Development potential for web-portal marketing • New training resources coming on stream • Outer islands open up new opportunities • The water-borne sector offers opportunities • Opportunities to develop innovative experiences • Growing desire for new experiences	• Regional competitors offer better value for money • Costs of doing business are relatively high • Competitors offer a wider range • Fuel costs remain a long-term concern • General lack of interest from potential investors • Weather and ocean conditions limit water transport • Problems of sustainable resource use • Land ownership is problematic

Source: Integrated Framework (2008).

While the SWOT analysis should necessarily be connected with the sector's potentialities for economic growth and trade, it should help to identify available options to enhance human development and eventual needs for mitigation measures. SWOT should be used as an input to generate a set of possible strategies for human development, by asking and answering the following questions:

- how can strengths be used?
- how can weakness be addressed?
- how can opportunities be exploited?
- how can threats be mitigated?

8.1.2 Value chain analysis

A value chain describes a chain of activities that are required to bring a product or service from its conception to the consumer, from design, production and marketing to disposal and recycling (see figure 8.2). At each point of activity in the chain, the product gains some value. The value chain approach analyzes the firms — suppliers, producers, processors and buyers — and the relationships among them. It analyzes the factors influencing their performance, including access to and the requirements of end markets; the legal, regulatory and policy environment; verti-

cal and horizontal coordination between firms and the level and quality of business support services. Value chain analysis is increasingly used to identify competitive advantages and develop business strategies to increase, for example, export sales.⁴⁹ This tool helps address competitiveness issues that determine export performance; identify market opportunities; develop business support programmes; and devise strategies on employment, skills development and diversification.⁵⁰

The global value chain is made up of individual value chains of upstream and downstream suppliers distributed among several countries, with each country performing certain activities and contributing value to the final product. Countries with industries that add value to the global value chain through production, distribution and marketing generally earn higher returns and create more employment compared with countries that only supply raw materials.⁵¹

Figure 8.2 The value chain

Primary Activities	Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Customer Service
	<i>Warehousing of raw materials and distribution to manufacturing</i>	<i>Transforming inputs into finished products</i>	<i>Warehousing and distribution of finished goods</i>	<i>Identification of customer needs and sales</i>	<i>After-sales customer support, disposal and recycling</i>
Support Activities	Organizational Infrastructure <i>Management, finance, planning, control systems and organizational culture</i>				
	Human Resource Management <i>Recruiting, hiring, development and compensation</i>				
	Technology Development <i>Information processing, research and development</i>				
	Procurement <i>Sourcing, negotiating with suppliers, purchasing inputs, e.g., supplies and equipment</i>				

Source: Adapted from Porter (1985).

Typically, the analysis of a value chain involves graphically mapping the links in the value creation process, benchmarking with competing countries, identifying constraints and export opportunities for creating added value and raising efficiency in each link. The process is best done by involving all the key stakehold-

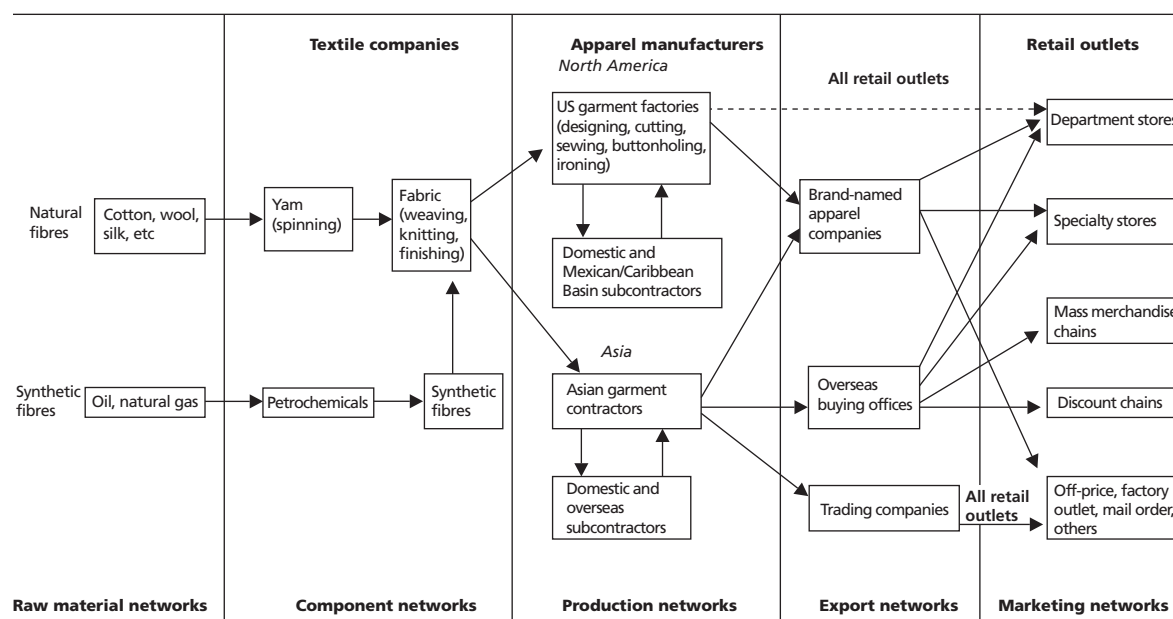
ers (i.e., producers, buyers, processors exporters, distributors and other intermediaries) who are knowledgeable about the elements of their own industry's value chain (see example in Figure 8.3 illustrating the upstream and downstream segments of the apparel value chain).⁵²

⁴⁹ Value is a benefit to the consumer that is determined by several factors, among them international buyer requirements (quality, volume, delivery, traceability, etc.), market conditions (market access, standards and regulations) and consumer preferences. Value added is the difference between the FOB price and the cost of intermediate inputs (World Bank 2007).

⁵⁰ Other advantages of value chain analysis include identification of performance gaps (e.g., improve inventory turnover, quality); identification of cost-cutting opportunities (e.g., outsource to a low-cost supplier); product enhancement (e.g., add new product features); development of new products; and the creation of value, higher profits, employment and satisfied customers.

⁵¹ See ITC (2003). For example, the newly industrializing countries in East Asia used an export-led growth strategy, backed by significant investment in economic and social infrastructure, starting out with low-wage export-oriented assembly operations under license and then making a transition to exporting higher value goods (see Mosk).

⁵² For more information on value chain analysis, see Schmitz (2005), World Bank (2007) and Kaplinsky and Morris (2000).

Figure 8.3 The apparel value chain

Source: Gereffi and Memedovic (2003).

The objective of the value chain analysis is to develop a successful export strategy that meets the requirements of potential customers such as international distributors, supermarket chains, multinational grain or mineral buyers and so forth. Exporters of a particular industry supply parts or components of products in a global value chain which are assembled either in-country or abroad. There are many possibilities available for countries to engage in global value chains as long as they possess advantages such as an attractive business environment, political stability, labour productivity, low operating costs, a strategic location, good infrastructure, raw materials and new markets.

An alternative framework for analysing the value chain has been developed by USAID's Microenterprise Development Office, which provides a detailed look at the value chain framework through a

dedicated free online training module.⁵³

8.1.3 Cluster analysis

A cluster is a collection of related businesses built around a product, service or raw material or centred in a particular geographic location. Business clusters are considered a more efficient way of organizing interconnected industries because of their contribution to increased productivity, innovation and competitiveness.

Cluster analysis is a framework that uses a multisectoral approach to analyse local industries with the objective of identifying business linkages and other cluster characteristics,⁵⁴ mapping the interrelated industries and executing a plan to market and attract investors to enter and develop the cluster. Emphasis is on identifying forward and backward linkages and opportunities for vertical

⁵³ http://www.microlinks.org/ev_en.php?ID=13712_201&ID2=DO_TOPIC.

⁵⁴ Cluster characteristics include competing firms, business-to-business relationships and availability of input suppliers.

and horizontal integration of related industries either in a given geographic location or around a specific product with all of the primary and support activities, infrastructure and ancillary services required to make the cluster work efficiently and effectively.⁵⁵

Many countries have developed business clusters, particularly in university towns, port cities or along transport corridors, to take advantage of a pool of skilled workers, engineering and R&D capabilities, infrastructure, resources and the like. Examples of clusters are Silicon Valley, the home of the ICT industry in the United States, the US automobile industry in Detroit, information outsourcing in Bangalore (India), the fashion industry of Paris (France) and the automotive supply industry of Slovenia.⁵⁶

8.2 Sector assessments and human development

In line with the general objective of the AfT assessment, the sectoral analysis should identify linkages with human development by looking for new opportunities that will spring from increased trade flows and the sector's economic expansion. Traditionally, most direct linkages are related with employment opportunities and changing working conditions. This guide proposes a human development approach that should look at these linkages innovatively with the

objective of identifying specific pro-poor measures.

One example is the Growing Inclusive Markets initiative, which defines inclusive business models as those that 'include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit. The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment'.⁵⁷ An example is A to Z Textile Mills of Tanzania, a private company which in 2003 became the sole African producer of long-lasting insecticide bed nets in Africa. The nets, using a new technology invented by Sumitomo Chemical Company of Japan, are a significant improvement over traditional nets, because they kill mosquitoes on contact for five years without re-treatment, while resisting rips and tears. Subsidies from aid organizations have helped spread provision of the nets. Practical tools generated by the Growing Inclusive Markets initiative are presented in Box 8.2. The strategy matrix, particularly, could be adapted by sector to identify pro-poor export strategies.

⁵⁵ For more information on business clusters, see Porter (1990) Krugman (1991) and Dermastia (2006).

⁵⁶ See the cluster initiatives of the Competitive Institute <http://www.competitiveness.org/cid/cilist>.

⁵⁷ UNDP (2008).

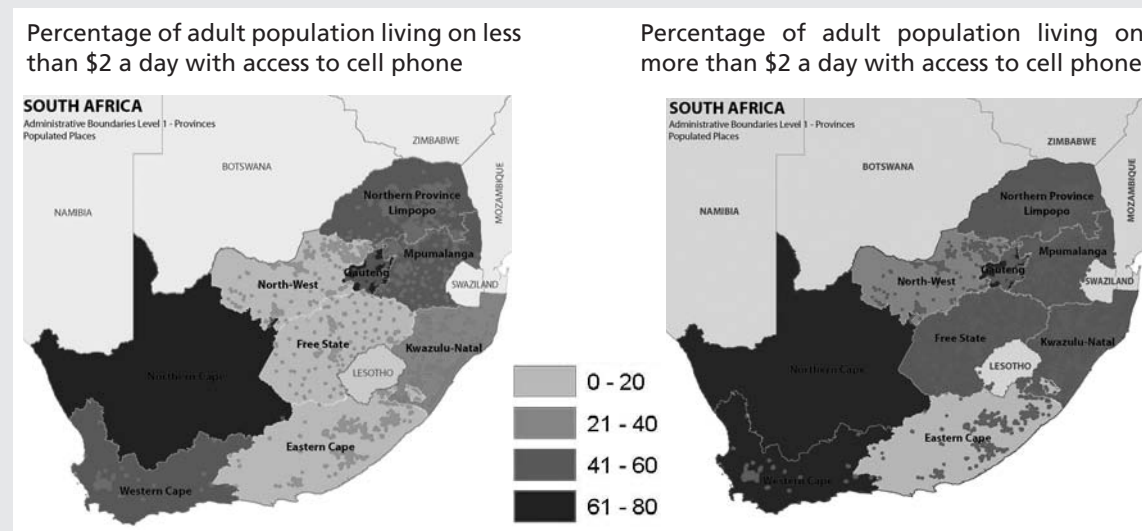
Box 8.2 Growing Inclusive Markets initiative: selected tools

Heat Map Methodology

Market heat maps help to illustrate how much the poor participate in markets. They show access to goods and services in selected sectors and countries, and they show how the goods and services are provided. The maps provide information on the nature and composition of markets pertinent to human development by:

- revealing unmet demand for the poor as consumers and unrealized opportunities as producers;
- assessing market inclusiveness to shed light on market inclusiveness along spatial dimensions (e.g., geographic regions, urban versus rural, etc.);
- clarifying the supply structure and the relative market shares of different suppliers (e.g., multinational corporations, micro- small- and medium-sized enterprises) or any other relevant criterion.

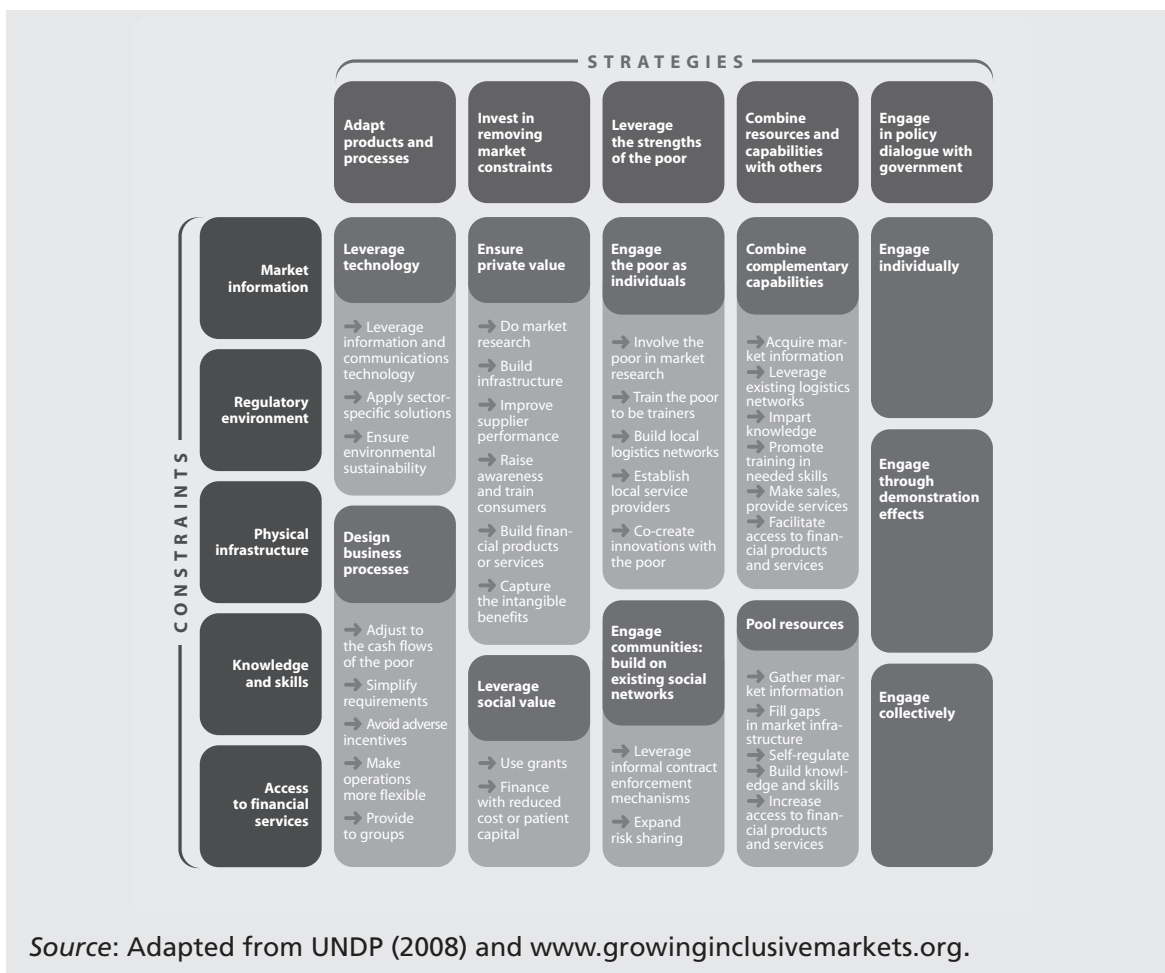
An example is provided in the figure below, which shows the share of adults living on more and less than \$2 a day with access to a mobile phone, 2006 (in percentages) in South Africa



Strategy Matrix

The strategy matrix is constructed to help formulate solutions for specific cases. It can help analysts and policy makers to identify solutions by matching strategies with constraints. To get from broad strategies to focused solutions one must not only identify each local constraint, but also understand its dynamics in the market. To this end, five core strategies were identified: adapting products and processes (e.g., using wireless technology to avoid the constraint posed by the absence of land lines), investing to remove market constraints (e.g., conducting market research, training and incorporating financing into product or service offers), leveraging the strengths of the poor (e.g., hiring poor people as distributors or retailers in their communities, co-developing products and services with them), combining resources and capabilities with other organizations (e.g., building a coalition of banks or microfinance institutions to establish a rating agency or a credit bureau) and engaging in policy dialogue with government (e.g., promoting advocacy networks on development and social inclusion with key decision makers as members).

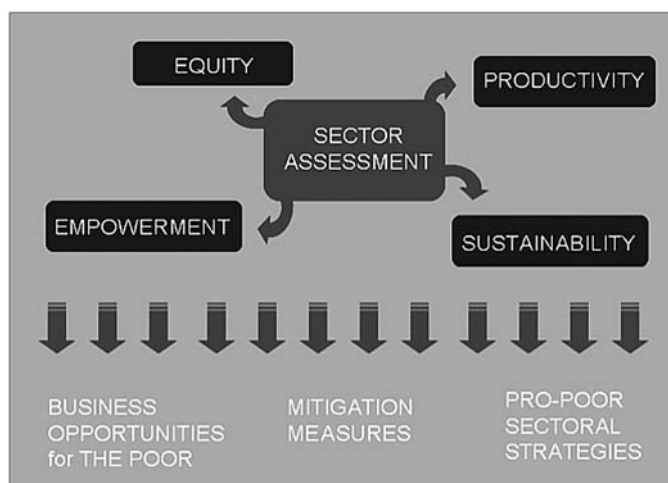
The matrix below relates the five broad constraints to the five core strategies (figure below).



The AfT study could follow the framework presented in Chapter 3 of this guide by looking at productivity, equity, sustainability and empowerment (see figure 8.4) to complement the standard eco-

nomomic analysis. Two main factors determine the outcomes in those four areas: prices and production, the latter being the most important because it promotes employment.

Figure 8.4 Sector assessment and human development



Productivity

The access to new goods and services (e.g. Internet, reliable electricity sources, new agro-processing technologies), or to already commercial available products at lower prices, improves the productivity of both individuals and enterprises. There is obviously a virtue cycle between productivity, profits, exports, employment, wages and human development. Access to new services can indeed be guaranteed by higher wages that are linked with increased productivity.

The AfT study should look first at productivity statistics (e.g., output per worker). The research should provide historical trends and estimate (or evaluate) the dynamics linked with trade openness. An example is the sector re-organization or privatization measures that were adopted to compete in world markets. The study should also show if productivity growth is transmitted to wages and prices or if it is kept by monopolists or rent-seekers. The study should also compare and explain productivity statistics disaggregated by type of ownership (i.e., private sector, state-owned enterprises and FDI), and company size.

A deprived worker will not be ready to adapt to new technologies or to increase his or her productivity. Workers, to be productive, need to feel secure and able to have permanent access to basic services such as health. To assess workers' prevailing conditions, the authors could look at health (e.g., malnutrition, life expectancy, rates of disease) and education workforce statistics (e.g., literacy rates, enrolment rates, years of schooling completed). This set of data provides useful insights about the scope and alternatives for increasing productivity through, for example, vocational training.

⁵⁸ UNDP (1996).

Equity

Increased opportunities for exports and the access to new markets should boost entrepreneurship and employment. The study should assess the sectors' characteristics in terms of equity, wage inequality being the first variable. However, the working environment should also be discussed with regards to equity, keeping in mind the different needs that gender or age groups may bring. The application of relevant legislation and code of conducts (national and international) should be reviewed. The disaggregation of data by location (e.g., disadvantaged regions, gender and ethnicity (when relevant) will be also required.

Equity should be analysed in terms of market access. If this is relevant for the selected sector, barriers (e.g., access to finance or export licenses) for identified groups (e.g., small farmers) should be identified. The potential application of inclusive business models should be discussed in this section as well.

Sustainability

Sustainable development or sustainability are dynamic concepts that are strictly connected with human development. The Human Development Report's definition of human development includes the 'protection of the life opportunities of future generations...'.⁵⁸ This recognition should be embedded in the sector analysis. Particularly, sustainability must be assessed against emerging threats towards the environment and cultural resources. The AfT study should identify the most important stress mechanisms, for example, the excessive use of water in cotton plantations or the location of new industry clusters in natural protected areas.

If there are pressing environmental concerns related with the development

of a certain sector, they must be properly highlighted in the AfT study. If available, Strategic Environmental Assessments or other type of environmental sustainability assessments should be reviewed. If a country strategy document envisages the creation of a new cluster or special economic zone, the AfT study should examine the extent to which these new developments will follow an environmentally friendly approach.

Empowerment

Empowerment refers to the ability of people to influence the processes and events that affect their lives and their participation in society. Work is one of the main mechanisms through which a person achieves personal empowerment and self-esteem. The sector assessment should look at the contribution of the selected sector towards employment creation and new business opportunities for entrepreneurs. It should then evaluate the degree to which the expected gains from trade would benefit the poor. Income is indeed the easiest variable to measure; however, a qualitative assessment should complement this analysis looking at the dimensions that are often hidden by a purely economic review, considering those dimensions as the quality and security of jobs.

For newly created jobs, data collection will be required in order to estimate prospects and trends, changes in wages and benefits (sector average and minimum wage, percentage of sectoral wage against national wage, sector comparison), new business opportunities (newly registered enterprises, size and location of new registered enterprises), etc. Qualitative surveys can be conducted in selected samples to assess the quality and security of the new jobs. Similarly, the vulnerabilities of new enterprises should be assessed. Moreover, it is also important to identify the profile of workers and micro and small entrepre-

neurs and their (current and expected) share and contribution to the economy.

To summarize, the objective of this section should be the identification of the most promising linkages between trade and human development. The approach should be proactive, identifying opportunities to strengthen human development and to guarantee that the poor and most vulnerable groups take a fair share of the benefits generated from trade. The AfT study, before drawing final recommendations, should assess past performances and its potential through:

- contribution to employment creation (productivity, empowerment);
- contribution to productivity growth (productivity);
- contribution to workers' incomes and poverty reduction (productivity, empowerment);
- contribution to reducing (or increasing) regional disparities (equity)
- working conditions (equity and empowerment);
- gender equality in the workplace (equity);
- discrimination against vulnerable groups such as minorities, people with HIV and others (equity);
- application of inclusive business models (equity and empowerment);
- application of environmental standards (sustainability).

The recommendations should identify:

- ways and means to maximize business opportunities for the poor;
- mitigation measures needed to cope with trade related adjustments;
- pro-poor and inclusive export growth strategies for the sector identified.

9. TRADE POLICIES: AN IMPACT ASSESSMENT

Many models and methods have been developed to study the impact of public policies on the economy and welfare. This chapter explains how these methods can be linked within the AfT framework. It does not pretend to provide a comprehensive overview of the relevant literature. It focuses on the following tools:

- Human Development Impact Assessment (HDIA)
- Poverty and Social Impact Assessment (PSIA)
- Quantitative methods for trade analysis
- Strategic Environmental Assessments (SEA) and Trade Sustainability Impact assessments (Trade-SIA)

While SEA and Trade-SIA have been discussed in chapter 3, the other assessment tools are discussed below.

9.1 Human Development Impact Assessment (HDIA)

The UNDP Regional Centre in Colombo developed a simple method to address the linkages between trade and human development. The theoretical framework that underpins this tool is explained in Chapter 3. This method, Human Development Impact Assessment (HDIA), can be described by discussing 10 key questions grouped in 4 sections (1) trade policy change and expected effects, (2) transmission channels and expected trade related outcomes, (3) HDIA implementation considerations and constraints and (4) post-assessment considerations.

9.1.1 Trade policy change and expected effects

(1) Which trade policies are being analysed?

The first step is to determine the scope of the trade policy change that requires analysis. The likely main policies include those resulting from WTO accession, implementation of a WTO agreement or a regional trade agreement. The assessment can take place before (ex ante assessment), during (policy monitoring through midterm evaluation and adjustment) or after the trade policy change (ex post evaluation).

(2) What are the expected effects or changes?

Usually, the expected effects of trade policies include an increase in trade flows as a result of a reduction in trade barriers. There may be an increase in incoming investment. Access to imported technology may decline due to the enforcement of intellectual property legislation. Other changes may include a decline in tariff revenue, an increase in other taxes in compensation for this decline in revenue. Protectionist trade policies also aim at protecting internal markets and infant industries from the world's competition, decreasing internal prices (e.g., export bans after the food crisis) or increasing a country's policy space.

(3) Which groups are most likely to be affected and how?

Increased trade is usually held to increase net incomes. Yet, economic restructuring due to new trading arrangements, even if it creates an aggregate improvement, may make some groups worse off, particularly in the short run. The AfT needs assessment exercises should pay special attention to the impact on vulnerable

groups. The analysis here should start with the identification of those who lose out due to the change to trade policy. To determine effects on specific groups, researchers may use secondary literature and existing surveys or conduct specific assessments.

9.1.2 Transmission channels and expected trade-related outcomes

(4) How are the impacts likely to be channelled?

Trade policy changes can affect human development through prices, employment and production. Changes in trade policy can also lead to different government revenues from tariffs and therefore could affect redistributive policies of the government.

(5) What will be the impact on the institutional, legal and regulatory environment?

Changes to the institutional, legal and regulatory environment can have significant impacts on human development in the areas of health and safety, food security and environmental regulation. They can also generate significant compliance costs. Case studies and review of similar changes in other countries should be reviewed. One of the central issues here concerns the costs incurred by the government to implement these changes.

(6) Which institutions will affect the outcomes?

It is important to identify the institutions that will affect the implementation of the policy change. These may include governmental, non-profit and private organizations. Early involvement of these stakeholders will help ensure that they implement the

changes quickly and effectively. Ownership is important, since it will help these institutions to see the changes through to their conclusion and reduce the amount of time spent on internal disputes.

(7) What are the measures of human development being assessed?

The choice of components can be determined through a participatory process with stakeholders, as well as consultation with experts in the field. Measures include poverty alleviation, employment generation, income growth, access to goods and services providing basic needs (such as health care and education), gender impacts, impacts on children (including the impact on caring labour), food and health security, environmental sustainability and community provision (e.g., social capital).

9.1.3 HDIA implementation considerations and constraints

(8) What are the data and knowledge constraints?

Before an assessment may be undertaken it will be helpful to have an inventory of the data available, including public data at the national and international levels, data from governmental, non-governmental and private institutions, and information from interviews, surveys and participatory meetings. The next step is to identify crucial missing data and determine whether these data can be collected before or as part of the assessment phase.

Knowledge constraints refer to information concerning the causal relationships in economy and society; it can also refer to broad structural information in the economy, such as mar-

ket structures, norms of household behaviour and cultural norms that could affect evaluations of human development or responses to policy. As with data constraints, it will be useful to identify the most crucial gaps and to assess how these can be overcome.

Some of the major post-assessment considerations are the following:

(9) What will be the impact on policy space?

It is first worth assessing what constraints will be exerted on policy space, and whether these constraints are worth the resulting benefits. It will be important to assess how any limitations on policy space will impact on the ability of governments to achieve development goals.

(10) What monitoring and mitigation measures will be needed?

Monitoring mechanisms are essential to review trade policies. Monitoring is used to gather data and knowledge more generally about the implementation and impacts of the policy changes. Frameworks for monitoring should be implemented as soon as possible before and during the implementation of the policy. This information can be used to alter the policy implementation, to mitigate its impacts and to reform the policy if it needs to be changed. The identification of a proper and participatory monitoring framework is key for policies whose impact is only forecasted.

The HDIA is intended to assess and determine the human development outcomes of a trade policy change or reform. The exercise is based on the participation of relevant stakeholders affected by the

chosen policy that is considered as given. Moreover, HDIA aims to identify the measures or alternative policy options that may positively affect human development and to address the expected negative impacts with mitigation measures. The results of the assessment can be used in ongoing trade negotiations (if relevant) as an additional instrument to defend policy space and obtain better conditions or grace periods.

An example of trade policies that could be assessed is the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) or the phasing-out of the Multi Fibre Agreement (MFA). The choice of the trade policy to be assessed should match the country priorities and be linked with the AfT. The scope of the analysis can be limited to selected sectors and in this case it can complement the sectoral analysis described in chapter 8.

9.2 Poverty and Social Impact Assessment (PSIA)

The Poverty and Social Impact Assessment (PSIA) framework aims at measuring the distributional impacts of policy reforms, with the focus on the poor and vulnerable groups. While focusing on distributional impacts, the method covers the issues of sustainability, risks and social impacts. PSIAs are expected to improve policy making by explicating assumptions about the linkages between a policy change and how those are distributed per population groups. The key elements of the PSIA process can be summarized as follows:⁵⁹

- **Asking the right questions**

Increasing understanding of underlying problems that a planned reform intends to address. Carrying out problem diagnosis or another scoping exercise to

⁵⁹ UNDP (2008, forthcoming), World Bank (2003), World Bank (2004).

map chain of cause and effect from policy objectives to constraints, choices and impacts. Making assumptions about outcomes and impacts.

- **Identifying stakeholders**

Identifying people, groups and organizations that have an important part in the reform (whether as initiators of change, those who are in a position to influence outcomes, or those who may be positively or negatively affected by the reforms).

- **Understanding transmission channels**

Identifying the channels through which impacts from a policy reform may occur, namely on employment, prices, access to goods and services, assets, and transfers and taxes. Acknowledging where there are different channels, some transmitting positive impacts and others negative on different groups.

- **Assessing institutions**

Identifying institutional opportunities and constraints likely to affect the formulation and implementation of policy reforms, considering institutional rules and practices, organizational structures, authorization procedures, and so on.

- **Gathering data and information**

Drawing on existing knowledge and analysis (survey data, poverty assessment data, etc.) and similar experiences in other places. Conducting research using a mixture of methods depending on nature of topic, levels of capacity and availability of data.

- **Analysing impacts**

Analyzing and making assumptions about distributional impacts by taking into consideration long- and short-term impacts, direct or indirect impacts, geographic impacts, effects on institutions on which persons rely (e.g., social programmes and welfare systems) and impacts on different socio-economic, gender and age groups.

- **Contemplating enhancement and compensation measures**

Considering alternative designs to adverse effects revealed by analysis; considering mechanisms to respond to those adverse effects that cannot be avoided; and considering delay or suspension of reforms, especially if benefits are far fewer than the costs to compensate or mitigate their effects.

- **Assessing risks**

Analysing those risks that could prevent a policy reform from delivering the intended outcomes for poverty reduction (e.g., political risks, institutional risks, acts of nature).

- **Monitoring and evaluating impacts**

Tracking poverty and social impacts during the introduction of the reform and conducting evaluation to inform policy adjustments.

- **Fostering policy debate and feeding back into policy choices**

Sharing experience and information on policy to wider stakeholder groups, ensuring that results are discussed as part of policy dialogue processes.

PSIAs utilize a mix of economic and social analytical tools, including:

- *Social Impact Assessment (SIA)*: costs and benefits analysis and distributional effects among different stakeholders over time;
- *Participatory Poverty Assessments (PPA)*: direct consultation and field observation, using primarily qualitative techniques (e.g., focus groups, semi-structured interviews);
- *The Social Capital Assessment tool (SOCAT)*: measure of social capital (institutions and networks, and their underlying norms and values) at different levels.

9.3 Quantitative methods for trade analysis

In recent decades, the quantitative analysis of public policy and trade policy has grown in volume and quality. AfT studies may, where possible, use quantitative methods to predict economic changes and to estimate policy outcomes. Two key challenges are the reliability of data and the interpretation of the results. Complex econometric techniques are appropriate only if data quality can be assured, if sample sizes are big enough, and if assumptions are not so unrealistic that they limit the applicability of the model. In some developing countries, data can be so patchy and unreliable that, at best, quantitative work using official data serves as an additional piece of evidence rather than providing conclusive answers. One of the key tasks of an AfT study may be to assess the quality of data, including which series or databases are reliable and unreliable, and perhaps to recommend improvements. It will remain important to complement data with carefully argued qualitative analysis.

The concept of human development lends itself to non-mathematical methods and can be less data-driven. An attempt is being made to assess the subjective, sometimes unquantifiable aspects of human existence: 'freedom' and 'human flourishing in its fullest sense'. These features cannot always be represented solely by quantitative data. Anecdotes, surveys and examples can play a central role in the AfT studies.

The main issue is therefore how to integrate economic modelling usefully in any evaluation of the impact of trade on human development or of human development on trade. Many quantita-

tive techniques provide estimates of economic indicators such as income, factor prices and wages, but rarely move on to the other dimensions of human development. The results of economic modelling often need to be augmented with a human development perspective. This section does not aim to explain how to use economic and econometric analytical tools, but highlights some existing instruments and sources for further reading.

Models can be used both to simulate the effect of changes in trade policies (ex ante analysis) and to use time series to explain the effects of past trade policies (ex post analysis). However while economic models provide important information for policy makers, their capacity for interpreting the future is limited. The three main classes of quantitative tools are partial equilibrium models, computable general equilibrium models (CGE) and gravity models.⁶⁰

9.3.1 Partial equilibrium models

Partial equilibrium models are used to deepen the analysis on singular sectors or markets, assuming that the reviewed impacts on the overall economy are modest or null. Therefore, the partial equilibrium model fits better with policies that have a clear and limited sector impact (e.g., reduction of a single tariff or quota) and where it is estimated that the policy change will affect only the identified sector or market. The advantages are the possibility of computing and incorporating more variables and resources and offering a more precise measure of a policy impact.

Several partial equilibrium models are used in the assessment of trade policies, including the Agricultural Trade Policy Simulation Model (ATPSM) devel-

⁶⁰ WTO (2005)

oped by UNCTAD; the Static World Policy Simulation Model (SWOPSIM) of the US Department of Agriculture; and the SMART model which is linked with the

World Integrated Trade Solutions (WITS) software.⁶¹ Further examples and references can be found in box 9.2.

Box 9.2 Partial equilibrium models (selected examples and references)

The GSIM model:

GSIMv2: A non-linear, 35-region spreadsheet version of the GSIM model augmented to include sector-level employment effects and price undertakings, in addition to trade taxes and subsidies and domestic production subsidies. There is also a short background paper.

GSIMv1: The original GSIMv1 (Global SIMulation model) that was developed for the World Bank's WITS package for tariff and trade analysis, along with a short background technical paper from Francois and Hall (2002). This is a global, multi-region, partial-equilibrium model. For teaching, start with the GSIM4x4 version of GSIMv1, and not GSIMv2

Perfect substitutes trade model: A simple illustration of a partial equilibrium perfect-substitutes model from Francois and Hall, Chapter 5 in *Applied Methods for Trade Policy Analysis: A Handbook*, J.F. Francois and K.A. Reinert, Cambridge University Press, 1997-1998.

Imperfect substitutes trade model: A simple illustration of a partial equilibrium single importer Armington model, from Francois and Hall, Chapter 5 in *Applied Methods for Trade Policy Analysis: A Handbook*, J.F. Francois and K.A. Reinert, Cambridge University Press, 1997-1998.

Anti-Dumping, etc.: The USITC's set of COMPAS models (including some documentation on the spreadsheet). These are used (or have been and sometimes are, depending on the political relevance of economics for any given fair trade investigation) for antidumping and countervailing duty investigations, for assessment of injury.

SWOPSIM: From chapter 8 in *Applied Methods for Trade Policy Analysis: A Handbook*, J.F. Francois and K.A. Reinert, Cambridge University Press, 1997-1998. This is a multi-sector partial equilibrium model. A more current commercial version, known as VOR-SIM, is also available.

Source: www.i4ide.org/handbook/Models/Index.htm

9.3.2 Computable General Equilibrium models

Computable General Equilibrium (CGE) models attempt to recreate the functioning of the economy in a format that is able to account for all the inter-linkages

between sectors, economic actors (e.g., households, firms) and the international markets. Therefore, the precondition for running a CGE model is a complete and representative picture of an economy. The model itself is made of simultaneous equations that use the data in the Social

⁶¹ WTO (2005)

Accounting Matrix (SAM) to estimate scenarios. CGE models are mainly used to assess the impact of a multilateral or regional trade agreement on aggregate output and on various economic sub-sectors.

A CGE model should be able to explain the linkages between economic factors and markets, recognizing that changes in one market have implications for others. Linkages occur through consumers and producer behaviour. For example, a more than proportional reduction in a tariff on motorcycles than on cars will increase the demand for cars, due to lower prices, relative to the cost of its main substitutes (in this case, motorcycles) with a net benefit for the consumer. The lower price of cars may reduce the returns for car assembly firms and cause some producers to leave the market. Factors of production (labour and capital) employed in car production may be re-employed in sectors with higher economic returns, such as the beverage sector. The internal demand for cars will then be covered by imports. Gains from trade arise as factors of production move to more productive sectors. Note, however, that the assumption of factor mobility is unrealistic, and workers may not easily be able to find new jobs in different areas due to the difficulty in retraining or geographical or linguistic barriers. The analysis should also assess the impact on the workers that become unemployed due to the closure of the car assembly plant and find a new job in the beverage sector (the sector with the higher returns).

The CGE model can provide aggregated figures for the overall economy and can test different policy options (e.g., different timing of tariff reductions). It can be an important instrument for planning trade policy options. Yet, as with several econometric approaches, it must be used

with care. Some commentators have even specifically argued against using it:

*The data needed are generally beyond what is available and reliable in developing countries. More problematic are the unrealistic assumptions that must be made to conform to the theoretical demands of the model, in particular the assumptions of full employment of resources, perfect competition, perfect information available to all actors, the absence of risk, and efficiently functioning markets. Most crippling of all is the expectation that the supply-side will take care of itself without the need for targeted interventions.*⁶²

Whether the CGE approach is used will depend on the resources available to the researcher, the quality of data, the appropriateness of the technique to the situation at hand and the possibilities for complementing it with other forms of analysis.

9.3.3 Gravity models

Gravity models describe bilateral trade flows. The assumption, which is common to other similar applications, is that trade flows between two countries are positively related to their economic size and inversely related to trade costs, distance being commonly used to measure such trade costs. Other variables such as price levels, language, tariffs, contiguity, and colonial history are often included in the model to capture trade costs. The reference to gravity recalls the rules behind the force of attraction or repulsion between two bodies described by Newton.

Gravity models have been widely used to assess preferential trade agreements, bilateral trade agreements and monetary

⁶² Brewster (2003).

Box 9.3 An example from Georgia (results of CGE and gravity modelling)

The quantitative analysis of tariff dismantling impacts estimated with a CGE model shows both negative and positive effects for Georgia. The negative effects are the limited reduction in government revenues and the inconsequential losses in tariff revenues resulting from a total abolition of custom duties on goods originating from the EU representing roughly around 0.03 percent of the GDP. On the positive side, FTA should result in an increase of foreign investments and lower internal prices which in turn should boost the domestic demand, consequently improving living standards and business competitiveness due to reduced intermediary goods prices.

The CGE model also showed clearly that the effect of substitution of locally produced goods with imported goods should be very weak (not to say inexistent) at a macro-economic level and even at a sectoral level. This underlines that a trade liberalization policy resulting from the FTA should not directly hamper local production. Another positive factor for the local production is that the goods produced locally are generally different from imported goods.

Gravity model

The following table shows the positive impact of trade liberalization on the remuneration of factors of production in the agricultural and services sectors, and a slight decrease of the same remuneration in the industrial sector. The decrease of factors' income in the manufacturing industry is the result of substitution from local to imported goods. In the agricultural sector, income should remain unchanged in the short run and increase in the long run.

The table below shows the impact of trade liberalization on sectoral factors' income (difference in percentage compared with the baseline scenario).

	Scenario	2007	2008	2009	2010	2011	2012
Sector	VAR 1	0.00%	0.09%	0.08%	0.07%	0.06%	0.05%
Agriculture	VAR 1	0.00%	-0.20%	-0.18%	-0.17%	-0.16%	-0.14%
Other industries	VAR 1	0.00%	-0.03%	-0.05%	-0.06%	-0.07%	-0.08%
Manufacturing industries	VAR 1	0.00%	0.15%	0.16%	0.18%	0.19%	0.20%

Source: UNDP Georgia (2007).

unions. The model has a high explanatory power in analysing bilateral trade and in highlighting key explanatory variables behind trade flows. However, even if the model has been successfully implement-

ed, its theoretical justification is still an object of dispute. Gravity models are still criticized for the lack of theoretical foundations and the degree of subjectivity in data interpretation.

10. FINAL REMARKS, ACTION MATRIX AND LAUNCHING THE STUDY

Aid for Trade is one of the most important development initiatives launched in recent years. Carried out effectively on a national basis, it can help increase trade flows and make trade more supportive of development. As the Guide has shown, trade has the potential to raise economic growth and to improve people's lives. But trade can help achieve human development-related goals only if managed correctly. Increased trade and trade liberalization will not automatically improve human development, and require targeted institutional and policy changes aimed specifically at empowering people and improving capabilities and choices. Strategic trade policy, including export promotion via infant industry protection, has an important role to play, subject to lessons learned from recent experience and research. This is not to suggest that countries can opt out of globalization, but that globalization should be successfully managed using selective and strategic integration policies which maximize the opportunities whilst minimizing the risks.

This guide has aimed to present a systematic way of assessing needs under the AfT programme. With regard to LDCs, the guide can be seen as relating strongly to the Integrated Framework for Trade Related Technical Assistance to LDCs, and as such can be used to update Diagnostic Trade Integration Studies. Without offering a blueprint, the intention has been to outline a process which looked at the relevant areas of the economy and human development, while maintaining and improving the contribution of trade to human development. This process can be adapted to the country or situation concerned.

Concepts such as **trade mainstreaming** and **ownership** should be central to any approach to the trading environment. Enhanced trade facilitation, for example, is impossible without the institutional mechanisms to achieve it, such as an NTFC. Trade reforms and outside interventions, such as the AfT itself, will be less successful if they are not owned by national policy makers and other stakeholders. Enhanced ownership and mainstreaming will also make it easier for trade to be perceived holistically and integrated into social policy. Likewise, the idea of **policy space** has become increasingly popular in recent years, and it is more than just a buzzword. If policy makers are to achieve useful human development-related goals, they will need the flexibility to enact policies that relate specifically to the national situation. Some of these policies will not yet be known, so it is important to retain an element of openness in trade agreements and trade-related policy changes.

The core chapters of the needs assessment include those on the macroeconomic and business environment, trade and investment policy, and trade facilitation and standards. In addition, it is suggested that a number of important economic sectors are analysed for their actual and potential contribution to trade and human development. As suggested in the guide, the main contribution of the needs assessments will not be primary macroeconomic research, although details of the macroeconomic context will need to be discussed to the extent that they support the subsequent analysis. The chapters on business environment, trade and investment policy and trade facilitation are likely to be areas in which the needs assessment exercises can

add particular value, and thus are likely to involve more original research. Finally, the sections on assessing the impact of human development are intended to systematically look at the links between human development and trade, and can be adapted to the country or context concerned. Human development should be mainstreamed into the whole needs assessment exercise.

A further theme that should be embedded in the AfT studies is **the identification of capacity gaps** and of **possible solutions**, including donor interventions. The Integrated

Framework can be taken as an example for designing donor coordination mechanisms, even for countries that are not eligible for Integrated Framework funding.⁶³ The AfT study should be considered complete only with the compilation of an action matrix summarizing and prioritizing actions and recommendations derived in the course of the AfT assessment. This matrix should be clearly matched with trade-related technical assistance/trade capacity-building projects and programmes that are currently being undertaken in the country. The possible structure of an action matrix is presented in table 10.1.

Table 10.1 Structure of an action matrix

Action no.	Action recommended	Target indicator and desired outcome	Timeline for completion of action	Agencies involved	Required resources	Required donor support
1. Thematic area						
1.1						
1.2						

Conclusions should highlight capacity gaps and propose measures that are required to overcome these weaknesses. Before presenting the action matrix, or in a separate chapter, the AfT study should map recent and ongoing donor projects as well as commitments, and indicate the eventual need for increased cooperation

among donors. As table 10.2 shows, it is advisable briefly to summarize the existing projects in which each donor is involved and to identify project status and duration, classification, partner agencies involved and resources involved, including a budget. Further budget details should be outlined separately.

Table 10.2 Donor intervention (Aid for Trade)

Donor	Project title	Project status and timeline	Classification per OECD/WTO AfT Guide	Agencies involved & partners	Resources
Donor 1	Project 1				
	Project 2				

It is important that the AfT study is well presented to the public and discussed by policy makers and decision-makers. Ideally, the AfT needs assessment should provide a useful background for political decisions on trade policies. The

debate on the report's recommendations and their subsequent adoption are critical to the success of the needs assessment process, so the launch of the follow-up strategy is a key factor in determining the success of the exercise.

⁶³ More information, a manual and examples can be found at the official website of the Integrated Framework (www.integratedframework.org). For more information on trade-related support provided by UN agencies, please see the UN Inter-Agency *Resource Guide on Trade Capacity Building* published by UNIDO (details from www.unido.org/resourceguide). The *Resource Guide* provides a clear and comprehensive description of the wide range of trade-related support services offered by organizations in the UN System.

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ANNEX 1 Millennium Development Goals

Official list of MDG indicators

Effective 15 January 2008⁶⁴

Millennium Development Goals (MDGs)	
Goals and Targets <i>(from the Millennium Declaration)</i>	Indicators for monitoring progress
Goal 1: Eradicate extreme poverty and hunger	
Target 1.A: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	1.1 Proportion of population below \$1 (PPP) per day 1.2 Poverty gap ratio 1.3 Share of poorest quintile in national consumption
Target 1.B: Achieve full and productive employment and decent work for all, including women and young people	1.4 Growth rate of GDP per person employed 1.5 Employment-to-population ratio 1.6 Proportion of employed people living below \$1 (PPP) per day 1.7 Proportion of own-account and contributing family workers in total employment
Target 1.C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	1.8 Prevalence of underweight children under five years of age 1.9 Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education	
Target 2.A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	2.1 Net enrolment ratio in primary education 2.2 Proportion of pupils starting grade 1 who reach last grade of primary 2.3 Literacy rate of 15-24 year-olds, women and men
Goal 3: Promote gender equality and empower women	
Target 3.A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	3.1 Ratios of girls to boys in primary, secondary and tertiary education 3.2 Share of women in wage employment in the non-agricultural sector 3.3 Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality	
Target 4.A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	4.1 Under-five mortality rate 4.2 Infant mortality rate 4.3 Proportion of 1 year-old children immunised against measles

⁶⁴ The revised list reflects the addition of four new targets approved by the UN General Assembly after the World Summit in 2005. These are productive employment (Target 1.B), universal access to reproductive health services (Target 5.B), universal access to HIV/AIDS treatment (Target 6.B), and reducing biodiversity loss (Target 7.B). Some other indicators have been revised to better reflect pertinence and data availability. In order to avoid reusing the previous numbers assigned to the targets and indicators, all targets and indicators have been renumbered.

Goal 5: Improve maternal health	
Target 5.A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	5.1 Maternal mortality ratio 5.2 Proportion of births attended by skilled health personnel
Target 5.B: Achieve, by 2015, universal access to reproductive health	5.3 Contraceptive prevalence rate 5.4 Adolescent birth rate 5.5 Antenatal care coverage (at least one visit and at least four visits) 5.6 Unmet need for family planning
Goal 6: Combat HIV/AIDS, malaria and other diseases	
Target 6.A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	6.1 HIV prevalence among population aged 15-24 years 6.2 Condom use at last high-risk sex 6.3 Proportion of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS 6.4 Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years
Target 6.B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it	6.5 Proportion of population with advanced HIV infection with access to antiretroviral drugs
Target 6.C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	6.6 Incidence and death rates associated with malaria 6.7 Proportion of children under 5 sleeping under insecticide-treated bednets 6.8 Proportion of children under 5 with fever who are treated with appropriate anti-malarial drugs 6.9 Incidence, prevalence and death rates associated with tuberculosis 6.10 Proportion of tuberculosis cases detected and cured under directly observed treatment short course
Goal 7: Ensure environmental sustainability	
Target 7.A: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	7.1 Proportion of land area covered by forest 7.2 CO ₂ emissions, total, per capita and per \$1 GDP (PPP) 7.3 Consumption of ozone-depleting substances 7.4 Proportion of fish stocks within safe biological limits
Target 7.B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss	7.5 Proportion of total water resources used 7.6 Proportion of terrestrial and marine areas protected 7.7 Proportion of species threatened with extinction

Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation	7.8 Proportion of population using an improved drinking water source 7.9 Proportion of population using an improved sanitation facility
Target 7.D: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	7.10 Proportion of urban population living in slums
Goal 8: Develop a global partnership for development	
Target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system Includes a commitment to good governance, development and poverty reduction – both nationally and internationally Target 8.B: Address the special needs of the least developed countries Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction Target 8.C: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly) Target 8.D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	<i>Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked developing countries and small island developing States.</i> <i>Official development assistance (ODA)</i> 8.1 Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national income 8.2 Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) 8.3 Proportion of bilateral official development assistance of OECD/DAC donors that is untied 8.4 ODA received in landlocked developing countries as a proportion of their gross national incomes 8.5 ODA received in small island developing States as a proportion of their gross national incomes <i>Market access</i> 8.6 Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty 8.7 Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries 8.8 Agricultural support estimate for OECD countries as a percentage of their gross domestic product 8.9 Proportion of ODA provided to help build trade capacity

	<i>Debt sustainability</i> 8.10 Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative) 8.11 Debt relief committed under HIPC and MDRI Initiatives 8.12 Debt service as a percentage of exports of goods and services
Target 8.E: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries	8.13 Proportion of population with access to affordable essential drugs on a sustainable basis
Target 8.F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	8.14 Telephone lines per 100 population 8.15 Cellular subscribers per 100 population 8.16 Internet users per 100 population

The Millennium Development Goals and targets come from the Millennium Declaration, signed by 189 countries in September 2000 (<http://www.un.org/millennium/declaration/ares552e.htm>) and from further agreement by member states at the 2005 World Summit (Resolution adopted by the General Assembly - A/RES/60/1, <http://www.un.org/Docs/journal/asp/ws.asp?m=A/RES/60/1>). The goals and targets are interrelated and should be seen as a whole. They represent a partnership between the developed countries and the developing countries “to create an environment – at the national and global levels alike – which is conducive to development and the elimination of poverty”.

Source: United Nations at <http://mdgs.un.org/unsd/mdg/Host.aspx?Content=Indicators/OfficialList.htm>.

ANNEX 2 Competitiveness assessment methods

Strategic tool	Brief description	References
SWOT analysis	The SWOT analysis is a very popular tool since it requires limited quantitative/statistical data input, is relatively easy to understand and deploy, and lends itself well to participatory approaches. SWOT analysis involves analysing both internal and external factors. The SWOT approach involves organizing key data and information about four main categories: strengths, weaknesses, opportunities and threats	http://en.wikipedia.org/wiki/SWOT_analysis ; http://www.businessballs.com/swot-analysisfreetemplate.Htm .
Problem analysis	Problem analysis is a framework used to identify core issues to be addressed in the strategic planning process. 'Problem' in this context does not necessarily indicate weaknesses or concerns but can equally refer to opportunities and challenges. Problem analysis is most commonly used to analyse qualitative information about the local economy that has been collected through participatory processes.	http://www.cominit.com/planning-models/pmodels/planningmodels-126.html ; http://www.odi.org.uk/Rapid/Tools/Toolkits/Policy_Impact/Index.html .
Competitive advantage analysis	The competitive advantage analysis looks at how competitive is an economy and at how it is performing relative to competing economies. 'Competitive advantage' is an umbrella term based on the assessment of the potential to create sources of advantage (low cost, high innovation or differentiation). The most popular frameworks were developed by Michael Porter, including his diamond framework of national competitiveness and the related five forces of firm rivalry, bargaining power of suppliers and customers, threat of new entrants, and substitute products. The diamond framework examines factors that determine the competitiveness and can be influenced by government: 1. factor conditions: the availability of inputs such as skilled labour, infrastructure, and capital. 2. demand conditions: the level and sophistication of local demand. 3. business/sector structure, strategy, and rivalry: the degree of competition. 4. related and supporting industries: the availability and degree of linkages between core and supporting activities.	<i>Competitive Advantage of Nations</i> , by Michael Porter (New York: The Free Press, 1990). http://www.rbda.gov.au/literature_review/literature_review.pdf .

Scenario planning	Scenario planning highlights major forces that may shape the future and provides insight on how these forces may interact; it does not attempt to predict one specific outlook. The sources of changes considered can be relatively predictable (trends in local demographics) or unpredictable (global economic conditions). In scenario planning, a scenario describes a plausible future that can incorporate a range of qualitative and quantitative information. Scenario planning frameworks are used, sometimes in combination, the main being: 1. Qualitative scenario planning. In this setting, a facilitated group-based process typically involves policy makers, planners and internal and external experts. The main steps include determining which macroeconomic forces exist and how they might interact to change the external environment. Scenarios are then created and analysed for their implications on the economy. 2. Quantitative scenario planning (scenario forecasting). A technique traditionally used mainly for spatial planning, quantitative scenario plans use economic forecasting techniques to analyse how different macroeconomic scenarios might shape the structure and performance of the economy.	"Plotting Your Scenarios", by Jay Ogilvy and Peter Schwartz (December 2004, Global Business Network Web site) at: http://www.gbn.com/ArticleDisplayServlet.srv?aid=34550; http://scenariothinking.org/wiki/index.php/Main_Page. Developing and Applying a Participative Strategic Planning Tool, by Frans Berkhout and Julia Hertin (March 2002, Greener Management International); <i>Regional Economic Modeling: A Systematic Approach to Economic Forecasting and Policy Analysis</i>, by George I. Treyz (1993, Kluwer Academic Publishers).
Importance strength analysis (locational comparative advantage)	A derivation of the locational comparative advantage framework that involves a matrix assessment of the relative importance of individual location factors for each sector against the relative competitiveness of the local economy in those factors (Blair, 1995, p. 157). Most useful for analysing the competitiveness of individual sectors, especially to identify and prioritize.	<i>Local Economic Development: Analysis and Practice</i>, by J. P. Blair (1995, Sage Publications).
Systemic competitiveness	Examines a range of factors that determine the evolution of economic systems at various territorial levels. It uses four levels of analysis to measure the current state of the local economy and develop a strategic plan (GTZ): - meta-level: Local actors' capacity to co-operate and trust / degree to which they can agree upon shared objectives - macro-level: Financial (budgetary) capacity and management - meso-level: Existence of local economic support (incubators, business assistance, etc.) - micro-level: Linkages between firms/stakeholders in the local economy (clusters)	"Systemic Competitiveness Revisited: Conclusions from Technical Assistance in Private Sector Development", (http://www.mesopartner.com/english/epubl.html) "Systemic Competitiveness. New Governance Patterns for Industrial Development", by K. Esser, W. Hildebrand, & J. Meyer-Stamer (German Development Institute)

Multisector quantitative analysis (MSQA)	Framework which combines qualitative (expert opinion surveys) and quantitative techniques to identify opportunities for growth in the local/regional economy. Most relevant for identifying sectoral or cluster opportunities in a local/regional economy; involves expert surveys and then categorical scoring of regional sectors according to a set of performance criteria. Each sector is ranked as strong, average, or weak in each criterion, based in part on input-output tables, expert interviews, and other data sources. Criteria are then weighted to derive overall results.	<i>Regional Economic Development—Analysis and Planning Strategy</i> , by R. J. Stimson, R. R. Stough, & B. H. Roberts (2002, Springer)
Regional competitiveness performance cube	Measures regional competitiveness in a dynamic way by looking at three dimensions: (1) leadership (strong vs. weak), (2) institutions (effective vs. ineffective), and (3) resource endowments and market fit (good versus poor). New technique that has not been used yet as part of a city strategy process; provides a broad framework for assessing territorial (rather than sectoral) competitiveness.	"Leadership and Institutional Factors in Endogenous Regional Development," <i>Investigaciones Regionales</i> , R. J. Stimson, R. R. Stough, & M. Salazar (2005). 7: 23–52. Brief overview http://www.ersa.org/ersaconfs/ersa04/PDF/697.pdf .
Balanced business scorecard (Norton and Kaplan)	Business planning and monitoring framework that focuses on ensuring that strategies are balanced around four perspectives: (1) financial performance, (2) customers (service), (3) business processes (efficiency), and (4) learning and growth. Monitors performance across a balanced set of indicators (the specific categories can be redefined to meet the specific needs of LED); Currently used in San Fernando for assessing governance and institutional quality as part of the International Solidarity for Asia's (ISA) Public Governance Scorecard (PGS) programme.	http://www.balancedscorecard.biz/Introduction_BSC.html ; http://www.centre-for-egovernment.com/balscore.htm ; http://www.auditscotland.gov.uk/index/99ms_01.asp .
Core competencies/white spaces (Hamel and Prahalad model)	A framework that involves identifying the core competitive strengths of the region, and identifying 'white spaces' (or unexploited areas of potential) for the region. Designed originally for firm-level strategy, but can be adapted for sector or regional strategies; most appropriate for identifying and prioritizing sectoral opportunities.	http://www.ciphersys.com/hofhelp/Hamel%20Prahaladhelpfile.htm ; <i>Competing for the Future</i> by G. Hamal and D. K. Prahalad (1994, Harvard Business School Press)

Sources: Assessing Competitiveness. Guide to Strategic Frameworks. LED Resource Guide www.citiesalliance.org.

ANNEX 3 International trade resources

UN COMTRADE

The United Nations Statistical Division (UNSD) Commodity Trade (COMTRADE) Data Base that contains Exports and Imports by Commodity and Partner Country. Values are recorded in US dollars along with a variety of quantity measures. The Data Base includes information for over 130 countries, some of which have been reporting these types of statistics to the United Nations since 1962. The data are recorded according to six internationally recognized trade and tariff classifications. (comtrade.un.org)

UNCTAD-TRAINS

TRAINS (Trade Analysis and Information System) provides online access to indicators of Trade Control Measures (tariff, para-tariff and non-tariff measures), as well as imports by suppliers at each Harmonized System 6-digit level for over 150 countries. It also provides country notes of trade regimes for some 40 developing countries, describing market access conditions according to the UNCTAD Coding System of Trade Control Measures. (<http://www.unctad.org/Templates/Page.asp?intItemID=1907&lang=1>)

Commodity Price Statistics on-line

Commodity Price Statistics provide monthly free-market prices and price indexes starting in January 1960 for selected commodities that concern commodity-dependant countries. Price indexes are provided for commodity groups (including food, tropical beverages, vegetable oilseeds and oils, agricultural raw materials, minerals, ores and metals), and for all groups in current dollars and SDRs. (<http://www.unctad.org/Templates/Page.asp?intItemID=1889&lang=1>)

FAOSTAT - TradeSTAT

FAOSTAT consists of an integrated core database and satellite databases feeding and supporting it. The 'FAOSTAT family' is organized in modules around a core database that brings together and integrates the data contained in thematic databases. These cover areas such as agricultural production, consumption, trade, prices and resources. The TradeSTAT database contains import and export dataset for agriculture products. The database is complemented by a World Agricultural Trade Flow (WATF) map and the World Agricultural Trade Matrix (WATM). (<http://faostat.fao.org/site/342/default.aspx>)

The IMF Direction of Trade Statistics (the DOT)

Direction of Trade Statistics provides critical data on the value of merchandise exports and imports between each country and all its trading partners. It reports total bilateral and multilateral exports and imports aggregated at national or regional group level. (<http://www.imfststatistics.org/DOT/>)

The International Trade Centre (ITC) Trade Map

Trade Map, www.trademap.org, is an online database on trade flows in goods and services and tariff measures. This portal operates in a web-based interactive environment. The pages list values, quantities, trends, market share, and unit values, both in graphic and tabular format. It covers trade flows over the last five years for over 220 countries and territories, 41 country groups and 5,300 products defined at the 2, 4 or 6-digit level of the Harmonized System (HS revision 1) and at the tariff line level, represent-

ing about 95 percent of world trade.
(<http://www.trademap.org>).

Market Access Map

Market Access Map, www.macmap.org, is a web portal containing information on market access measures applied by over 170 importing countries to the products exported by more than 200 countries and territories. It provides information on ad valorem and specific tariffs, ad valorem equivalents (AVEs) of specific tariffs, tariff quotas, anti-dumping duties and other trade remedies, and certificates and rules of origin.
(www.macmap.org).

Product Map

Product Map, www.p-maps.org, is a web portal presenting business information and intelligence for the 72 largest sectors. It includes market studies, trade data, price indicators (such as the Market News Service), links to other sources of information and over 20,000 companies and organizations.
(www.p-maps.org).

Investment Map

Investment Map, www.investmentmap.org, is an interactive tool that combines statistics on foreign direct investment (FDI), international trade and market access into a single portal. Investment Map allows analyses by country, partner and industry. It also includes information on the location, sales, employment and parent company for more than 70,000 foreign affiliates located in developing countries and economies in transition.
(www.investmentmap.org).

The World Bank

The World Integrated Trade Solution

The World Integrated Trade Solution (WITS) is a software developed by the World Bank, in close collaboration with the United Nations Conference on Trade and Development (UNCTAD). WITS gives access

to the major trade and tariffs data compilations: the COMTRADE database maintained by the UNSD; the TRAINS maintained by the UNCTAD; and the IDB and CTS databases maintained by the WTO. WITS is a data consultation and extraction software with simulation capabilities. WITS is a free software. However, access to databases themselves can have a fee or be limited depending on your status.
(<http://wits.worldbank.org/witsweb/>).

The World Trade Indicators

The World Trade Indicators (WTI) database measures trade performance, policies and institutions. The purpose of this initiative is to benchmark progress in these areas while highlighting data gaps. The WTI itself is a comprehensive database made of about 300 indicators grouped in five thematic areas: Trade Policy, External Environment, Institutional Environment Trade Facilitation Trade Outcome.
(<http://go.worldbank.org/3Q2ER38J50>).

The WTO IDB-CTS Internet Analysis Facility (IAF)

The IAF allows you to access the IDB and CTS online, select markets and products and compile reports for browsing on-line. The World Trade Organization (WTO) Integrated Data Base (IDB) that contain Imports by Commodity and Partner Country and MFN Applied Tariffs for over 80 countries at the most detailed commodity level of the national tariffs; and, the Consolidated Tariff Schedule Data Base (CTS) that contains WTO Bound Tariffs, Initial Negotiating Rights (INR) and other indicators. The CTS is the official source for bound tariffs which are the concessions made by countries during a negotiation (e.g., the Uruguay Round of Multilateral Trade Negotiations). The data are recorded according to two internationally recognized trade and tariff classifications.
(<http://iaf.wto.org/English/Welcome.asp>).

ANNEX 4 Preparing an Aid for Trade needs assessment concept note

The following outline presents the layout for an Aid for Trade needs assessment concept note. The last section includes an example of a needs assessment's index of contents.

I. Background

Explain the purpose of the study and define the Aid for Trade analysis. Provide a brief description of the country background, including a justification for the exercise.

II. Intended outcome

Describe the AfT needs assessment's expected outcome. The analysis should produce an action matrix with detailed rec-

ommendations for policy actions aimed at improving human development.

III. Approach

Briefly describe the AfT approach and stages. Indicate that the study should involve key stakeholders in government, the private sector and civil society, with particular emphasis on areas experiencing particular poverty or low level of human development.

IV. Commitments and timetable

Identify responsibilities, deliverables, resources and deadlines for each action. Develop a strategy for each phase.

Stage	Actions or deliverable	Responsible person or party	Resources required	Deadline
Preparation phase 1. Establishing the context 2. Drafting terms of reference 3. Selection of team of authors				
Production phase 1. Desk survey 2. Background studies and data collection 3. Consultation rounds for strengthening national ownership and fostering a participative approach 4. Report compilation 5. Report validation (internal and external peer review)				
Dissemination and follow up 1. Launch and dissemination 2. Follow up strategy implementation				

V. Proposed outline of study (indicative example)

Prepare a short narrative for each chapter, describing the expected content (example provided).

1. Country background (macroeconomic and business environment):
 - a) macroeconomic snapshot;
 - b) monetary, fiscal policies and exchange rates;
 - c) poverty and inequality;
 - d) competitiveness and business environment.
2. Trade and investment policy:
 - a) trade flows and country comparative advantages;
 - b) trade policies and institutional map;
 - c) trade agreements review;
 - d) investment policy: the contribution of foreign investments.
3. Trade facilitation:
 - a) behind-the-border barriers to trade; an assessment: the cost of exporting to b) the European Union.
4. Human development analysis of sensitive sectors:
 - a) agriculture;
 - b) garment and textile.
5. Conclusions and recommendations:
 - a) Aid for Trade donor database;
 - b) action matrix.

ANNEX 5 Running a trade and human development introductory workshop

Purpose

To train researchers (team of authors) in conducting trade impact studies and needs assessments that integrate macroeconomics with human development and to launch the Aid for Trade Agenda in the country.

Goals

- To launch the Aid for Trade agenda in the country
- To train researchers on the link between trade and human development
- To train researchers on relevant research and analysis methods
- To finalize the study concept note and work plan
- To promote a participative approach

Target audience

Selected researchers, team of authors, sponsoring organization staff, interested government officials and other stakeholders. Depending on the number of participants and the team's own capacity, the presence of professional facilitators and external experts should be considered.

Proposed duration

Two days

Note: While the training is structured for two days, the different components of the training could be reduced or expanded based on the interests and skills of participants.

Proposed Agenda

The sample agenda is divided into two days and is based on the pilot workshops conducted for Central Asia in 2007. The **first day** will provide an introductory

overview of trade and human development and Aid for Trade, its goals and how it is linked to the policy cycle and other development concepts (e.g., MDGs). It will also provide space for discussion on objectives and priorities. While the first day should be open to stakeholders, representatives of the civil society and policy makers, the **second day** should focus on the AfT core team. It will focus on the actual AfT needs assessment substance and work plan by reviewing available tools and lessons learned. The discussion should include the presentation of the methods and experiences already collected from similar attempts in other countries.

First day (core team and stakeholders)

Session 1 – Workshop introduction

- 09:30-10:00 Opening remarks, review of workshop goals, agenda
10:00-10:30 Introduction of participants (ice-breaker)

Session 2 – Trade and human development overview

- 10:30-11:30 Overview of the global

Aid for Trade agenda

What does AfT mean?

What is the AfT global agenda and trends?

What is trade mainstreaming?

How trade objectives can be included in national development strategies?

11:30-12:00 Coffee break

12:00-13:15 Trade and human development: the concept and the practice

What is human development?
 What are the MDGs?
 What are the linkages between trade and human development?
 What are the main concepts and elements used in the human development approach towards trade?
 Is trade growth and liberalization pro-poor?

Note: This sub-section focuses on the human development approach towards trade. Pertinent issues include transmission channels, vulnerability, gender, equity, knowledge and technological advancement, health and education, poverty reduction and environment concerns. The framework described in this guide can be presented. Short presentations should be followed by question time, discussions or group work.

13:15-14:30 Lunch break
 14:30-15:30 Participatory approach

What is the role of stakeholders and civil society organizations in policy making?
 How can stakeholders and civil society organizations contribute to policy making?
 How can participation can be facilitated?
 What are the tools for guaranteeing productive participation?

Note: This sub-section focuses on participatory tools and techniques. The approach will be inclusive of stakeholders who might be marginalized, such as women, labor groups and farmers.

Session 3 – AfT objectives and priorities

15:30-16:00 Presentation of the draft outline of the AfT needs assessment
 Focus: background and justification, objectives and priorities

16:30-16:45 Coffee break
 16:45-18:00 Facilitated discussion on AfT objectives and priorities
 Focus: fine-tuning and identification of objectives and priorities

Second Day (core team)

Session 4 – Tools, resources and methods

09:00-10:00 Macroeconomic and business environment
 10:00-11:30 Trade agreements, market access and institutional mapping
 11:30-12:00 Coffee break
 12:00-13:00 Sectoral assessments
 13:00-14:00 Lunch break
 14:00-15:00 Trade and human development policy impact assessments

Note: The facilitator/international experts will discuss with the AfT core team the options available for each chapter of the study to review priorities, data constraints and applicable tools. It should include the presentation of country case studies to show when and how certain tools were used, and the benefits and challenges of their application. References will be made to the respective tools covered in the AfT Guide to highlight their main features and lessons learned. There should be particular focus on human development and how the concept should be analysed and operationalized in the AfT needs assessment.

Session 4 - Planning and conducting the studies

15:00-16:00 Team organization and work plan
 16:00-16:30 Next steps and closing

ANNEX 6 Checklist:

Aid for Trade needs assessment

MACROECONOMIC AND BUSINESS ENVIRONMENT

Data collection (general)

- ☐ Are the objectives for collecting data clearly defined?
- ☐ Have adequate budgetary, human resources and time been allocated to the process?
- ☐ Does the AfT team have relevant statistical expertise?
- ☐ Has the team considered drawing on the experience of other countries?
- ☐ Has the team accounted for potential biases in data collection/enumeration?
- ☐ If doing comparisons over time or benchmarking over countries, has the data comparability been assured?
- ☐ Does the country have a recent census or household surveys?
- ☐ Has the county (if WTO member) had a recent WTO Trade Policy Review?
- ☐ Does the country have recent IMF missions reports?

Data Analysis and interpretation (general)

- ☐ Has the team used a mix of qualitative and quantitative methods?
- ☐ Does the team include people with experience in gender and environmental issues and data?
- ☐ Do data and analysis highlight issues affecting economically, politically and socially excluded groups?
- ☐ Where the availability of reliable data makes it possible, are data disaggregated by gender and other parameters of exclusion?
- ☐ Is it possible to spatially compare these disaggregated statistics? Has this been done?
- ☐ Is it possible to temporally compare the disaggregated statistics? Has this been done?

- ☐ Has the need for more disaggregated data and research been recognized?

Macroeconomic environment

- ☐ Has the team presented the general macroeconomic environment using summarized data on GDP, balance of payments, debt, inflation, capital flows, poverty and inequality?
- ☐ Has the team presented a summary of the country's fiscal and monetary policy?
- ☐ Has the team presented a summary of the country's social policy expenditures?
- ☐ Have the trends in the real and effective exchange rate versus major trading partners been addressed in the analysis?
- ☐ Has data on the shadow economy been analysed?
- ☐ Has the impact of trade liberalization at the global and regional level on macroeconomic aggregates been considered in the analysis?
- ☐ Have the links between macroeconomic policies and variables and human development been considered?
- ☐ Has the use of distinctive methods like PEST been considered for the presentation of the analysis?

Business environment

- ☐ Has the team described the overall country governance by using international indicators and benchmarking?
- ☐ Has a checklist for relevant (business environment) policies and laws been drafted?
- ☐ Has the team outlined the various types of administrative barriers for the business environment?
- ☐ Has the team outlined policies and institutions responsible for creating the

enabling conditions for enterprise growth, including small and medium enterprises (SMEs)?

- ☐ Has the team analysed the availability and costs of trade-related infrastructure, business services, financial services and trade finance?
- ☐ Has the overall competitiveness of the country been assessed using indicators and benchmarked against other countries in the region and best performers?
- ☐ Has the team used participatory techniques to interview stakeholders, entrepreneurs and government agencies' officials?

TRADE AND INVESTMENT POLICY

Trade flows

- ☐ Have trade flows and terms of trade been analysed with a historical prospective?
- ☐ Have the main driving forces behind trade flows been identified and explained?
- ☐ Are data used for trends and projection involving different scenarios?
- ☐ Has the country overall performance in trade been compared with similar countries and best performers?
- ☐ Has the team identified the country comparative advantages?
- ☐ Has the team identified the country key export sectors? Has the decision been justified?
- ☐ Has the export performance of different type of enterprises been justified?
- ☐ Has the employment dynamic in the export sector been analysed?
- ☐ Where the availability of reliable data makes it possible, are data disaggregated by gender and other parameters of exclusion?
- ☐ Have key issues of concern for human development been preliminary identified (e.g., food imports,

vulnerability to external prices)?

- ☐ Has the participation of the poor and vulnerable groups in the export sector been assessed with case studies (e.g., small exporting farmers)?
- ☐ Has the team drafted key recommendations?

Trade policies and institutions

- ☐ Have the system of tariffs and quotas been described?
- ☐ Has the team identified the country trade strategy? Is the strategy adequate?
- ☐ Has the overall consistency of the trade policy been assessed?
- ☐ Have the country institutions that deal with trade being mapped?
- ☐ Has the quality of coordination between trade institutions been addressed?
- ☐ Have capacity gaps in key trade institutions been mapped? Have technical assistance needs been identified along with capacity gaps?
- ☐ Have key trade agreements (FTAs, WTO accession, EU agreements) and memberships in trade international organizations been mapped?
- ☐ Are key trade negotiations being undergoing? What is the country negotiation strategy? Is it adequate to the country needs?
- ☐ Has the country access to market issue been considered while analysing trade agreements?
- ☐ Have the in-country capacity in dealing with specific trade agreements been assessed?
- ☐ Have selected trade agreements (ex ante, ex post) been selected for a deeper impact assessments?
- ☐ Has the team drafted key recommendations?

Investment policies and foreign direct investments

- ☐ Have investment flows been analysed with a historical prospective?

- ☐ Have driving forces behind investment flows been identified and explained?
- ☐ Has the team identified the main FDI recipient sectors?
- ☐ Has the country overall performance in attracting investments been assessed and benchmarked? Has the country openness towards FDI been assessed and benchmarked?
- ☐ Has the employment dynamic in the foreign enterprises been analysed?
- ☐ Has the export performance of foreign enterprises been analysed and justified?
- ☐ Where the availability of reliable data makes it possible, are data disaggregated by gender and other parameters of exclusion?
- ☐ Has the operational and incentive framework for FDI been addressed? Is it adequate and effective?
- ☐ Has the team reviewed the country long term investment strategy? Is it adequate and realistic?
- ☐ Have the local supply linkages and skill transfers been considered in the analysis? If obstacles were reported in these areas, has the team identified constraints and opportunities?
- ☐ Has the team considered the existence of FDI's negative impacts?
- ☐ Have the linkages between FDIs and export been highlighted?
- ☐ Has the team drafted key recommendations?

TRADE FACILITATION AND STANDARDS

Trade facilitation

- ☐ Has the country trade facilitation strategy been identified? Is it adequate and realistic?
- ☐ Has a profile for each trade facilitation actor (exporters/importers, government, business service providers, infrastructure services) been drafted?
- ☐ Does a trade facilitation committee operate in the country? Is it effective?

If not present, has the possibility of establishing a committee been tested?

- ☐ Has relevant data about trade procedures, costs of business services and costs of infrastructures services been collected?
- ☐ Have the quantity and quality of data been assessed? Has the option of conducting ad hoc surveys been considered?
- ☐ Has the cost of doing export being tested for selected products?
- ☐ Has the quality of business and infrastructure services offered to exporters and importers been evaluated?
- ☐ Have the underlying causes of inefficiency, poor service delivery and high costs related to the movement of traded goods been identified?
- ☐ Have behind-the-border trade barriers been identified?
- ☐ Has the team identified how different actors are influenced by trade barriers (e.g., small farmers, state enterprises, FDIs)?
- ☐ Has the team interviewed the stakeholders, entrepreneurs and government agency officials? Have participatory techniques been used? Have the interviewed been able to comment on the report?
- ☐ Have capacity gaps been mapped? Have technical assistance needs been identified along with capacity gaps?
- ☐ Have links between human development and different economic growth scenarios been explored?
- ☐ Has data been used to analyse human development implications for trade facilitation?
- ☐ Have donor trade facilitation projects been inventoried?
- ☐ Has the team drafted key recommendations?

Standards

- ☐ Has the team identified if information about certification and interna-

tional standards is widely available and understood in the country by the business community and government officials?

- ☐ Has the national system of certification been compared with international standards? Is it adequately developed?
- ☐ Do the country's major export producers respect relevant international standards?
- ☐ Has the country faced market access restrictions due to the lack of application of international standards?
- ☐ Do enterprises have easy and affordable access to internationally recognized certification services?
- ☐ Has the team identified the number and percentage of industries that have obtained an ISO certification? Have these numbers benchmarks, and discrepancies from regional averages, been explained?
- ☐ Has donor support to certification been identified?
- ☐ Has the team drafted key recommendations?

SECTORAL ANALYSIS

Sector analysis

- ☐ Has the team identified promising economic sectors for producing detailed assessment? Is the decision supported by data and analysis?
- ☐ Is the sector identification linked with human development opportunities or concerns? Have the linkages been made explicit?
- ☐ Has the team collected sector specific data and verified its quality?
- ☐ Where the availability of reliable data is possible, are data disaggregated by gender and other parameters of exclusion?
- ☐ Has the team identified the tools to be used for the sector competitiveness analysis (e.g., SWOT, Value

Chain Analysis)?

- ☐ Have the sector's size, potential growth, actual and potential demand (local and international markets) been identified?
- ☐ Have the sector's prospected export opportunities been analysed and forecasted?
- ☐ Has the team identified — within the chosen sectors — goods which experienced (or are expected to) relevant market changes by trade liberalization?
- ☐ Has the analysis described the main characteristics/profiles of firms and workers?
- ☐ Have concrete interventions that public authorities should undertake to facilitate the sector's growth been outlined?
- ☐ Has the team prioritized areas where donor intervention may be called upon (e.g., market information, development of business linkages)?
- ☐ Has the team drafted key recommendations?

Human development analysis

- ☐ Has the sector assessment identified the linkages with human development by looking at new opportunities that could arise from increased trade flows and the sector's economic expansion?
- ☐ Has the sector assessment identified the linkages with human development by looking at the main transmission channels (prices and production)?
- ☐ Has the profile of the poor and vulnerable households in the selected sector been presented?
- ☐ Has a human development approach been adopted while looking at the economic dimension?
- ☐ Have specific pro-poor measures been identified?
- ☐ Has the presence of inclusive business models been identified? If not pre-

sent, have inclusive business models been proposed to involve the poor?

- Productivity -

- ☐ Has the AfT study explained sector productivity statistics? In presence of increased productivity have wages benefited?
- ☐ Has the team looked at job conditions and workers profiles? Do workers feel secure in their employment? Does the wage or profit grant decent living standards (such permanent access to health services)?

- Equity -

- ☐ Has the study assessed the sector's characteristics in terms of equity? Has been data collected on wage inequality?
- ☐ Has the application of national and international labour standards been assessed?
- ☐ Do different sector players, especially micro entrepreneurs, have comparable access to services and licenses, including finance?
- ☐ Has the gender dimension been analysed in terms of opportunities and equity?

- Sustainability -

- ☐ Have emerging threats towards the environment and cultural resources been assessed?
- ☐ Has the team assessed whether national and international environmental standards are applied in the sector?
- ☐ Has the team considered the implementation of a strategic environment assessment over the possible sector's expansion?

- Empowerment -

- ☐ Has the study analysed the dimensions of employment creation and new business opportunities?
- ☐ Have prospects, trends, and changes in wages been identified?

- ☐ Has the team evaluated the quality and sustainability of newly created jobs?

TRADE POLICIES: AN IMPACT ASSESSMENT

- ☐ Has the team identified a key trade policy for a complete impact assessment?
- ☐ Have been time and human and financial resources dedicated to the conduction of the assessment?
- ☐ Has the team identified the method or set of methods that best adapt to the specific context?
- ☐ Are the methods selected applicable with available data?
- ☐ Do selected methods provide a balanced approach between quantitative and qualitative analysis?
- ☐ Are the methods selected in line with the human development approach? Do they provide insights for a human development centered analysis?
- ☐ Do the methods selected describe the mechanisms behind the transmission channels between trade and human development?
- ☐ Has the team deployed a participatory approach in collecting and validating information?
- ☐ Among others factors, are the following aspects considered in the analysis?
 - impact on access to services
 - impact on health and education
 - impact on lifestyle and culture
 - impact on income and inequality
 - impact on household budget and expenditure patterns
 - impact on food security
 - impact on environment
- ☐ Has the team drafted key recommendations on the basis of the needs assessment?
- ☐ Has the team identified capacity gaps and areas for donors' intervention?

UN Inter-Agency Cluster on Trade and Productive Capacity

Food and Agriculture Organization

International Trade Centre

United Nations Conference on Trade and Development

United Nations Development Programme

United Nations Economic Commission for Africa

United Nations Economic Commission for Europe

United Nations Economic Commission for Latin America and the Caribbean

United Nations Economic and Social Commission for Asia and the Pacific

United Nations Economic and Social Commission for Western Asia

United Nations Environment Programme

United Nations Industrial Development Organization

United Nations Office for Project Services

World Trade Organization



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