

# Trade and Human Development

How to Conduct Trade Needs Assessments in Transition Economies



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## Acronyms and abbreviations

AfT	Aid for Trade
ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated Systems for Customs Data
BSEC	Black Sea Economic Cooperation Organization
CACO	Central Asia Cooperation Organization
CEFTA	Central European Free Trade Agreement
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
CTS	Consolidated Tariff Schedule Data Base
DFID	Department for International Development (United Kingdom)
EATL	Euro-Asian Transport Linkages
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEC	Eurasian Economic Community (or EurAsEC)
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood Policy Instrument
EU	European Union
EurAsEC	Eurasian Economic Community
FDI	Foreign Direct Investment
FOB	Free on Board
FTA	Free Trade Agreement
GIM	Growing Inclusive Markets
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
IDB	Integrated Data Base
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	Organisation 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
SDA	Special Drawing Rights
SEA	Strategic Environmental Assessment
SIA	Social Impact Assessment
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
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
UNSD	United Nations Statistical Division
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization

## Executive summary

This guide is designed to help policymakers, 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 from Hong Kong states 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. Many developing and middle income countries still 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 OECD estimates, Official Development Assistance (ODA) commitments in the aid categories associated with the definition of AfT accounted for US \$21 billion on average between 2002 and 2005. Assuming that donors meet commitments to scaling up aid up to US \$130 billion in 2010, ODA in the categories most closely associated with AfT could increase by US \$8.5 billion.

The trade needs assessment reports that could be developed according to this guide

are intended to make trade and development policies more coherent and conducive to human development. The needs assessments will result in concrete and actionable recommendations aimed at mainstreaming trade in national development strategies. 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 or 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 methodologies for looking at trade policies from a human development point of view.

### Eastern Europe and CIS

The Eastern Europe and Commonwealth of Independent States (CIS) region is large and heterogeneous, and therefore no regional statements can easily be made about the linkages between trade, transition, and development. Nevertheless, countries share similar features, related to the process of transition from centrally planned to market economies and to their proximity to the European Union (EU). Many of the countries in the region did not exist 20 years ago, and most were not market economies. Central planning meant that – irrespective of the formal nature of tariffs and subsidies – firms had close to 100 percent effective protection from imports and virtually no direct incentives to export. Transition towards the market brought with it trade liberalization. In terms of productive capacity and export

potential, almost all countries in the region share a similar experience of conversion towards market economies. Yet substantial differences in economic size, available soft and human infrastructures, and human capital achievements remain.

The importance of trade and investment for development is increasingly recognized in the CIS and transition economies, where trade policy is becoming influenced by the impressive achievements in Central and Eastern Europe. The EU remains a driving force of change in the region, especially in the countries closest to its geographical borders. The dissolution of the Soviet bloc and Yugoslavia has resulted in new borders, customs regimes, tariffs, and trade regulations. In 2003 the total trade volume of CIS countries made up only two thirds of the 1991 level. Some countries, particularly in Central Asia, have experienced higher levels of poverty, declining health standards, and poorly financed educational systems, all of which restrain human development. In addition, trade in services and labour migration are as much key development drivers as the trade in goods is.

Today many of these economies can be considered open, even if so-called behind-the-border barriers have prevented trade growth. In some cases remoteness and poor infrastructure represent the main obstacles. Most countries in Europe and CIS are now trying to improve inter-regional trade through various regional and bilateral trade agreements. Much improvement can be observed in the new EU member states, as well as in the rest of the Balkans, while Western CIS, Caucuses, and Central Asia have been less successful in implementing trade agreements. Policymakers on one side face the challenges of integrating with

the EU and the WTO, while on the other they must contend with a spaghetti bowl of bilateral, regional and multilateral trade agreements.

Until now data on AfT in the CIS and Eastern Europe has proven unreliable. The project of which this guide is a part of is one of the first AfT initiatives in the region. The eligibility criteria for AfT initiatives and funding are usually those of developing country or least developed country (LDC). Countries in transition do not automatically belong to these categories even if their incomes may be comparable with LDCs. Indeed, Tajikistan, Kyrgyzstan, Uzbekistan, and Moldova are not considered LDCs, even though some African LDCs have a significantly higher per-capita gross domestic product (GDP).

It is anticipated that AfT activities in the region will increasingly focus on harmonization of free trade agreements, WTO accession, capacity building and trade facilitation. Many countries are also working on free-trade agreements or economic partnership agreements with the EU. It is expected that in CIS and Eastern European countries trade-related assistance will continue to concentrate on diversification of exports, trade-related infrastructure, trade policy and regulations and building productive capacity. To better understand the path of transition and the trade policy options available to the countries in the Eastern Europe and CIS region, the guide establishes a human-centred framework behind the trade needs assessments. In the region, AfT initiatives need to go hand-in-hand with measures to develop the indigenous private sector, particularly in rural areas and among vulnerable or marginalized communities.

## 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’. Millennium Development Goals (MDGs) are necessarily linked with the concept of human development and trade. Even if MDGs do not necessarily reflect all the 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 East European and CIS countries suffer from widespread rural poverty; not all are members of the WTO; many are involved in regional trade agreements; and several are

rich in natural resources. 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 not be sufficient to boost trade, exports and growth. It is inappropriate to address trade policy separately from other aspects of industrial policy and the macroeconomic setting. Country specific factor endowments, the business climate, and comparative advantages are even more important in assigning positions in the current trade system.

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 if it is not accompanied by environmental degradation, worse healthcare, and less 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. It entails the identification of existing patterns in the economy, market opportunities

to increase people's wellbeing, and the risks arising from globalization that people should be prepared to face. Four pillars of human development can be seen to be related to trade:

- **Productivity**

Increased productivity (achieved partly through better education and healthcare) 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**

Enhanced equality can help ensure that all groups benefit sufficiently from changes in trade policy. A more equitable income distribution may render trade policy changes more sustainable. Trade policy should aim to help eradicate extreme poverty and hunger, MDG1, as well as improve education and gender balance.

- **Sustainability**

Sustainability means preserving developmental achievements. Trade-related changes must ensure that resources are not used in a way that prevents future generations from improving their welfare. It is not just MDG7 that relates to sustainability. MDGs 1-6 each contributes to the long-term success of trade-related changes.

- **Empowerment**

This refers to the ability of people to influence the processes and events that affect their lives. If trade policy changes cause a worsening of work-

ing 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 institutionalise empowerment as a development issue.

Successfully using trade to maximize the rate of human development depends on the coherence of national and international policies. Government policies, including trade policy, have a crucial role to play.

## Trade needs assessments

The guide aims to show how a needs assessment can be carried out using a human development approach. The second chapter describes how trade can be mainstreamed into government policies. The third chapter describes the link between trade and human development from a theoretical perspective. Beginning with chapter four, practical guidance is provided for undertaking AfT needs assessments. Concepts such as trade mainstreaming and ownership should be central in any approach to this exercise.

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 analyze 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. In this regard the main objectives 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;
- Analyze 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;
- Analyze key economic sectors for expansion of output, productivity, exports, employment and sustainability; and
- 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 specific circumstances. It is also proposed that a matrix of specific policy recommendations and institutional reforms be established, outlining ways in which trade might contribute more to economic growth, human development and poverty reduction.

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 methodologies to address these issues are presented in Chapter 8 (sector assessments – including Strengths, Weaknesses, Opportunities and Threats (SWOT), value chain analysis, etc) and Chapter 9 (trade policy impact assessment – Human Development Impact Assessment (HDIA), Poverty and Social Impact Analysis (PSIA), Computable General Equilibrium (CGE), Gravity model, etc.).

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 systematically to analyze their capacity constraints, to identify their needs in the current international trading context and to express them in a document embodying a credible and actionable programme that enables them to benefit fully from Aft.

# 1. INTRODUCTION AND OVERVIEW

## 1.1 Background and objectives

This guide is designed to help policymakers, trade officials and researchers conduct needs assessment studies on trade and human development under the AfT initiative conceived at the sixth WTO Ministerial Conference in Hong Kong in 2005. The concept of human development is central. The needs assessment reports resulting from the guide are supposed to make trade and development policies more coherent and help improve government planning. The needs assessments will result in a policy action matrix presenting concrete and actionable recommendations based on the analysis, and aimed at mainstreaming trade in national development strategies. The recommendations in the policy action matrix should help coordinate policy domestically and internationally, as well as contributing to poverty reduction and human development.

The Eastern Europe and CIS region is exceptionally large and heterogeneous, and therefore no regional statements about the linkages between trade, transition, and development can be taken for granted. Nevertheless, they share similar features related to the process of transition from a centrally planned to a market economy and to their proximity to and relations with the EU. Many of the countries in the region did not exist 20 years ago, and most were not market economies. They were instead components integrated into planned socialist economies. Their firms were state owned and were not prepared to respond to market signals. Central planning meant that - irrespective of the formal nature of tariffs

and subsidies - firms had close to 100 percent effective protection from imports and virtually no trade direct incentives to export. Transition towards the market brought with it trade liberalization. But it also brought hyperinflation, the appearance of new national economies without currencies, central banks, and ministries of finance. It followed the collapse of economic spaces (e.g. the USSR, Yugoslavia, Czechoslovakia). Trade liberalization was, and still is for certain countries, a process of systemic reconstruction.

To better understand the path of transition and the available policy options for the countries in the Eastern Europe and CIS region (later in the report region) the guide establishes the rationale behind the trade needs assessments and introduces the AfT initiative in the region. A dedicated chapter explains the logic that connects trade with human development. The study then suggests ways to organize the process of producing an AfT needs assessment and gives an outline of the subsequent chapters. Typically, an AfT needs assessment (later AfT study or report) 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 guide does not give trade policy advice or provide regional and country analysis, but presents tools and methodologies for looking at trade policies from a human development point of view.

## 1.2 Aid for Trade

The Aid for Trade initiative is one of the most important development-related outcomes of the sixth WTO 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 broadly to enhance the contribution of trade to development.<sup>1</sup>

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 productive capacity, including improving the capacity of a country 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 other 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<sup>2</sup>. In addition to emphasizing a need for strengthening 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 prioritised. The recommendations do not set out any mandatory obligations or responsibilities on the part of donor countries. However, according to Organisation for Economic Co-operation and Development (OECD) estimates, ODA commitments in the aid categories more closely associated with the Task Force's definition of AfT accounted for nearly US \$21 billion on average between 2002-2005 (US \$11.2 billion to build economic infrastructure, US \$9 billion to promote productive capacities and US \$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 US \$130 billion in 2010 are met, ODA in the categories most closely associated with AfT could increase by US \$8.5 billion.

<sup>1</sup> [http://www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/final\\_text\\_e.htm#aid\\_for\\_trade](http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm#aid_for_trade)

<sup>2</sup> [http://www.oecd.org/document/18/0,2340,en\\_2649\\_3236398\\_35401554\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html)

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

It has been recognized that some countries will require technical and financial assistance to support the 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.

Until now data on AfT in the CIS and South-Eastern Europe has proven unreliable. The project of which this guide is a part is one of the first AfT initiatives in the region. The eligibility criteria for AfT initiatives and funding are usually those of developing country or LDC. Countries in transition do not automatically belong to these categories even if their incomes may be comparable with LDCs. Indeed, Tajikistan, Kyrgyzstan, Uzbekistan, and Moldova are not considered as LDCs, even though some African LDCs have a significantly higher per-capita GDP. Furthermore small, land-locked low-income countries in transition need international support both to implement trade liberalization policies and to

gain from WTO and free trade agreements. Even if not formally classified as ‘developing countries’, international aid agencies should help those countries to cope with globalization and international trade. As proposed in international forums (including the WTO), low income countries in transition should benefit from the application of the framework designed for developing countries in international trade negotiations.

It is anticipated that AfT activities in the region will increasingly focus on harmonization of free trade agreements, WTO accession, capacity building and trade facilitation. Many countries are also working on free-trade agreements or economic partnership agreements with the EU. These should remain a key focus of AfT. Given that AfT is a demand-driven programme that responds to the needs of recipient countries, it is expected that in CIS and Eastern European countries trade-related assistance will 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

The importance of trade for development is increasingly recognised, particularly in the CIS and transition economies. The dissolution of the Soviet Union and Yugoslavia has resulted in the birth of over 20 countries. This created new borders, customs regimes, tariffs, and trade regulations. In 2003, the total trade volume of CIS countries made up only two thirds of the 1991 level. Some countries, particularly in Central Asia, have experienced higher levels of poverty, declining health standards, and poorly financed educational systems,

which still impact the current relatively minor human development achievements in the region. The situation changed only in the new millennium, when economic growth and trade started to increase. Exports, however, remain concentrated in a few commodities, such as gas, crude oil, metals and cotton. Intra-regional trade remains low, although the biggest potential for trade exists with countries beyond the region that have different specializations. For many countries, trade in services (e.g. oil-gas pipelines for Ukraine, Belarus, Georgia, Azerbaijan, Russia; electrical energy transmission through Uzbekistan for the other Central Asian countries; etc.) and trade-led migration are even more important than trade in goods.

Impressive improvements have been observed in Central and Eastern Europe, where almost all the countries have joined the EU. The EU has been a driving force of change in the region and it is still playing this role in the Western Balkans, where the situation is more mixed and incentives for trade integration are higher because of the existence of special free trade agreements with EU.

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 improve the quality of goods available to consumers, and help lower the likelihood of political conflicts between countries. To these ends, improvements to trade-related arrangements can help. Such improvements include multilateral trade liberalization, better transport infrastructure, enhanced trade facilitation

and better domestic business environment. Regional organisations can complement these reforms by coordinating policy across the region, developing regional infrastructure, supporting regional business forums and developing analytical works.

This guide is 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. More trade, given appropriate government policies, can also lead to poverty reduction, a more equitable distribution of income and improved social services. 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. Successfully using trade to maximise 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.

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';<sup>3</sup> and according to Nobel prize-winner Amartya Sen as 'a process of enlarging people's choices and freedom'.<sup>4</sup> The concept of human development is closely related to Sen's capabilities approach, which argues that development should enhance human capabilities, or the ability of people to enjoy fulfilling lives. Not

<sup>3</sup> Alkire (2002)

<sup>4</sup> Sen (2000)

only is human development an end in itself, but improvements to education and health can lead to wealth-creation.<sup>5</sup> There is thus a two-way relationship between economic growth and human development.

The aims of human development are reflected in the set of 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 most societies women work more than men, earn less, go to school less and find it more difficult to gain credit, knowledge, information and wealth.<sup>6</sup> Improving women's capabilities and choices is thus an inextricable from development. This guide aims to contribute principally to 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.

The AfT initiative recognizes that existing international trade negotiations need to be complemented by stronger domestic policy and international cooperation. Many developing countries and middle income countries still 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. AfT also provides funding for any adjustment costs in complying with changes to international trading arrangements.

Most of the countries in Europe and CIS are now trying to improve inter-regional trade through various regional and bilateral trade agreements. Much improvement can be observed in the new EU member states, as well as in the rest of the Balkans, while integration in Western CIS, Caucuses, and Central Asia has been less successful. In Eastern Europe and CIS policy makers on one side face the challenges of integrating with the EU and WTO, while on the other they must contend with a spaghetti bowl of bilateral, regional and multilateral trade agreements. Most countries are also members of two or more regional organizations that deal with trade and investment issues, including the Commonwealth of Independent States (CIS), Economic Cooperation Organization (ECO), Black Sea Economic Cooperation Organization (BSEC), Eurasian Economic Community (EurAsEc), The Central Asia Regional Economic Cooperation (CAREC), and the Central European Free Trade Agreement (CEFTA). In addition the EU and the US are increasingly using bilateral trade agreements as a principal instrument to manage trade relations.

In terms of productive capacity and export potential, almost all countries in the region – with the exception of Turkey and Cyprus – share a similar experience, namely the reconversion to market economies from centrally planned economies. If this legacy connects these countries, there are substantial differences

<sup>5</sup> Rani, Stewart, and Ramirez (2000)

<sup>6</sup> UNDP (2003)



in economic size, available soft and human infrastructures, and human capital achievements. The private sectors in most CIS and some West Balkan economies are not yet strong enough to take advantage of the growth possibilities presented by trade liberalization and to penetrate OECD markets. Too many small micro-enterprises do not possess the legal legitimacy or access to trade credit, factoring, storage facilities. In the region, Aft initiatives need to go hand-in-hand with measures to develop the indigenous private sector, particularly in rural areas, and among vulnerable or marginalized communities. Today many of these economies can be considered as open trade regimes, even if so-called behind-the-border barriers have prevented trade growth. In some cases remoteness and poor infrastructures represent the main obstacle. This guide should provide guidance and tools for the identification of country and sector priorities in terms of trade negotiations and agreements and in the analysis of the export sector with the underlying objective of promoting human development and sustainable development.

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 systematically to analyse their capacity constraints, to identify their needs in the current international trading context and to express them in a document embodying a credible and actionable programme that enables them to benefit fully from Aft. The link between trade and human development is not always clear and requires much analysis. The guide aims to help meet these analytical challenges. 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 starting from chapter four practical guidance is provided for the undertaking of Aft needs assessments.

## 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.

In order to derive these recommendations, the needs assessment studies should analyse the existing and potential impact of trade on human development (and of human development on trade), 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.

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 eco-

conomic 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; and
- 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's needs assessment will differ depending on specific circumstances. It is also proposed that a matrix of specific policy recommendations and institutional reforms be established, outlining ways in which trade might contribute more to economic growth, human development and poverty reduction.

## 2. TRADE MAINSTREAMING

In many countries trade is not fully incorporated into government policy. Mainstreaming trade into government policy 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 country national development strategies.

International trade, with appropriate domestic policies, can raise household incomes and reduce prices of daily consumables. Countries can use export revenue to access a wider range of goods and services, as well as to gain technologies and knowledge capable of increasing 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 provides new opportunities for employment, production and exports. On the other hand, the transition towards a more liberal trade regime can have negative effects. Loss of jobs in selected sectors, temporary reduction in government spending due to reduced tax rev-

enues, and increasing food prices for some product groups are some of the example of possible short term trade related negative shocks.

Given that the relationship between trade and improved incomes is not automatic, and that it needs to be managed, making trade central to national development strategies underscores the important role that trade can make to national development. In order for trade and investment to raise household incomes and reduce poverty they both need to be integrated into a national poverty-reduction strategy. This requires raising the profile of trade 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 devoting a separate chapter or section of the AfT needs assessments to it. 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 11<sup>th</sup> and 12<sup>th</sup> United Nations Conference on Trade and Development (UNCTAD) 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, privatisation and deregulation. The idea of policy space has particular rel-

evance to 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.

Critics of the Washington Consensus charge that there is no 'one-size-fits-all' blueprint for economic development.\* A number of development options are available in several areas, including 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 liberalise trade, they must be able to develop products to sell in foreign markets. Policy space permits countries to move up the value chain. Proponents of the infant-industry argument suggest that unless countries have room within which to promote certain industries over a number of years, they may remain stuck with low value-adding activities. Governments also require policy space to pursue human development goals.

Policy space is not a licence for governments to do anything they want. Governments should evaluate the trade-off between the benefits of international commitments and the constraints posed by loss of policy space. A classic example concerns the gains from trade liberalization. If all countries in a region commit to reducing trade barriers (which usually involves a restriction on the ability to alter tariff levels and other trade-related policies), they may all be better off in the long run. But one country may benefit in the short term by breaking a commitment to trade liberalization, perhaps raising tariffs in order to protect a domestic industry. It is for this country to decide whether the long-run gains from protection, which involves maintaining policy space, outweigh the gains from liberalization – a restriction on policy space. Most economists would favour the latter course of action, although some would say that it may be worth exercising the near-term policy space to protect an industry with a view to establishing a future comparative advantage.\*\*\*

For example Uzbekistan has historically placed a high value on maintaining policy space. It maintains high tariffs on automobiles with the aim of protecting the national car making industry, the majority of which is Korean-owned. Policymakers clearly believe that the country can establish an internationally-competitive car industry by maintaining the space to apply tariff policy as appropriate. Whether this strategy will prove 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. This is partly also due to the country's proximity to Europe and membership of the EU.

\* Gay (2007); Gore (2000); Fine, Lapavitsas 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 policymakers and stakeholders, who have the opportunity to identify important specific features of the economic and human development environment.

National ownership also makes it more likely that recommendations will be carried out. If policymakers 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 object 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 an AfT study may in part be considered a learning process.

Lessons from practical experience show that national ownership can be fostered through:<sup>7</sup>

- Strong political support;
- Early involvement of stakeholders;
- Broad-based participation;
- Positive incentives;
- A common understanding of objectives;
- A demonstrated willingness for compromise, both within countries and

- with neighbouring countries; and
- 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 can help foster 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.

In most low income countries a key national development strategy statement where trade objectives should be mainstreamed is the Poverty Reduction Strategy Paper (PRSP), national development strategies, or action plans for EU accession/integration. Trade can also be integrated in other policy and organizational areas, including government ministries and departments, inter-agency coordination, foreign policy, investment policy, public-pri-

<sup>7</sup> UN (2005)

vate initiatives, environmental policies, dialogue with donors, and international al-

liances with like-minded countries at forums such as the WTO.

### Box 2.2 Trade mainstreaming in practice

As indicated by Sok (2006) until recently there was a separation between “trade and development cultures”. Trade has been narrowly focused on trade policy, legal reforms and WTO accession, missing out on opportunities for increasing trade by capitalising 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 such as loans, credits and guarantees for macroeconomic adjustment could be better integrated and refocused 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 development programmes and projects with a trade component. 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 programs 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 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;
- Establishing 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, and transport facilitation, diagnostic work;
- **East Asia:** initiatives to enhance competitiveness;
- **Latin America, the Caribbean, Middle East and North Africa:** needs assess-



ments 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, trade needs assessments.

Examples of trade mainstreaming activities implemented by selected countries in South Eastern Europe and CIS include:

- **Albania:** a PRSP objective includes trade liberalization (WTO member since 2000);
- **Azerbaijan:** PRSP objectives include export promotion (database to increase marketing opportunities, trade fairs, bonded warehouses, opening trade offices in trading partner countries, an export promotion fund); WTO accession; and port rehabilitation;
- **Kyrgyzstan:** PRSP objectives include removal of trade barriers with neighbouring and transit countries; railroad rehabilitation (WTO member since 1998);
- **Tajikistan:** a PRSP objective includes creation of the Commodity Credit Corporation for the purchase and sale of agricultural output as well as trade and delivery for processing enterprises.

Sources: <http://www.tradeforum.org/news/fullstory.php/aid/1089>;  
[http://www.worldbank.org/ieg/trade/docs/trade\\_evaluation.pdf](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 organisations 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:<sup>8</sup>

**Policy.** Mainstreaming trade at the policy level means integrating trade with national development strategies and poverty reduction strategy papers, 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 a sectoral level or at a sub-sectoral level, for example covering specific commodities and manufacturing.

**Institutions.** Lessons from earlier experience show that trade-related aid works

<sup>8</sup> UN (2005)

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 inter-departmental committees (e.g. Trade Facilitation Committee) should also be used in order to avoid duplication and ensure simplicity. Apart from government stakeholders, the kind of 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 of how to implement trade mainstreaming can be taken from the experiences collected in trade facilitation.<sup>9</sup> 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 policymakers, 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.

### 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, 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 inter-sectoral cooperation. The Scope and Objectives of the NTFC are:

<sup>9</sup> 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

- 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 suggest 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 fora;
- Providing a national forum for information collection and dissemination, and knowledge sharing on trade facilitation issues (national, regional, and international);
- Facilitating awareness raising of trade facilitation issues;
- Increasing the priority of trade facilitation within the Government.

An example from Kyrgyzstan is available at  
[http://www.unece.org/trans/main/eatl/docs/3rd\\_NW\\_Item4\\_e.pdf](http://www.unece.org/trans/main/eatl/docs/3rd_NW_Item4_e.pdf).

## 3. TRADE AND HUMAN DEVELOPMENT

### 3.1 Human development

Poverty is traditionally defined as a lack of income or ability to consume. The human development approach goes beyond income and consumption. The 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 capabilities through improved health, knowledge and skills. And it involves the ability to achieve what is valued, using these capabilities. 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 let people 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.<sup>10</sup> 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). Simi-

larly, education and health often, but do not always, lead to wealth-creation. Each indicator links with other indicators 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 to further investment in health and education. But there is nothing inevitable about the relationship between economic growth and human development. In a Commonwealth Secretariat/ Overseas Development Institute handbook on trade negotiating strategies, Stevens and Philips suggest that '...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'.<sup>11</sup>

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 economic growth and trade to human development. This is particularly relevant in the countries of Central Asia and Eastern Europe, where human development can sometimes be seen as a 'soft' concern, which should receive a lower priority than the 'hard' concern of wealth-creation. In reality, the two are linked.

<sup>10</sup> See UNDP Human Development Report (any year) for the methodology of HDI calculation

<sup>11</sup> 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 healthcare and education, reasoning that a healthy and contented workforce would be more productive. South Korea placed a high priority on tertiary education and linked university research with industry, much of which was export-orientated.

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."<sup>12</sup> Gender issues cut across all areas. If more women participate in the workforce, the pool of available labour is bigger. But in more specific ways gender policy can contribute to economic growth. Improved female literacy can increase knowledge and productivity among women; lower population growth, lower infant mortality, lower school dropout rates, and improved nutrition can raise GDP per capita, as long as economic growth remains constant or higher.
- 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, she 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 her 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 wellbeing has intrinsic benefits. Many poor developing countries have suffered disproportionately from extreme weather because they 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 de-

<sup>12</sup> Landes (1999)

veloping 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<sup>13</sup> are necessarily linked with the concept of human development and provide an already well-established monitoring mechanism. Even if MDGs do not necessarily reflect all the aspects of human development, they make the most comprehensive set of human development goals and targets ever 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 millennium goals with targets and indicators.

### 3.2 Trade and human development: theory and framework

The links between human development and trade are complex and not always easy to discern. They depend partly on circumstances that are specific to each country. To what extent does poverty exist, and what type of poverty is it? What kind of trade reform is involved, and how far has the country reformed its trade policies? What kind of natural endowments does the country have? Many East European and CIS countries suffer from widespread rural poverty; not all are members of the WTO; many are involved in regional trade agreements; and several are rich in natural resources. Yet even within and between these countries, trade and human development relate to each other in different ways. The variations

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

Despite the challenges of linking trade policy and human development in a standard way, most countries hold certain features in common. It is possible to present a basic procedure for analyzing the human development impact of trade. As suggested above, by definition the increase in economic growth that may come with trade liberalization is likely to enhance the rate of human development. However, if economic growth is accompanied by environmental degradation, worse healthcare, less security, less leisure time or other concerns, then it may have a negative impact on human development.

The reason why countries sell goods and services to each other – and they do so because there is a mutual benefit (i.e. gains from trade) – has been only explained recently by modern economic science, after thousands of years of practice. In the early nineteenth century David Ricardo developed a powerful theory, which explains trade in terms of comparative advantages. Under this model, a trade-led increase in world output depends on countries' willingness to specialize in producing the goods in which the opportunity cost of production in terms of other goods is lower in that country than in other trade partners. The model relies solely on cross-country differences in labour productivity and suggests that countries are better off in aggregate terms.

The specific factors model (sometimes referred as the Stolper-Samuelson model)

<sup>13</sup> 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 the entire world's leading development institutions (see Annex 1)



### Box 3.1 Millennium Development Goals



**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 expressively 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, 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.

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 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.

provides an analysis of the distributional effects of trade. Changes in the relative price of manufactures do affect the real incomes

of the owners of different factors of production. The model shows how trade affects both relative prices and predicts that

the factors that are specific to the export sector of each country would benefit from trade, but the factors specific to the import competing sectors would lose. The Heckscher-Ohlin model shows that comparative advantage is also influenced by the interaction between nations' resources (the relative abundance of factors of production) and the technology of production. The model predicts that trade would equalize the prices of factors (i.e. labour and capital) between countries (this outcome has never been realized, due to differences in resource endowments, trade barriers, and technology). Both models indeed predict that trade has an aggregated direct effect on factor prices such as labour.

By reviewing mainstream theory and literature, it is possible to list the factors behind trade-led growth:

- more efficient use of resources due to product and service specialization;
- increasing variety of product and services for the consumer;
- increasing returns to scale due to larger markets for products and services;
- diffusion of technology;
- diffusion of organizational and management know how;
- increasing foreign investments due to integration in the global value chain;
- increasing competition and consequent reduction of monopolistic markets.

In the trade liberalization pattern dynamic gains are potentially more important than static gains. Static - once for all - gains are expected to arise as the reallocation of resources move from inefficient protected sectors to more efficient sectors. Longer

run gains in the growth rate are explained by increases factor productivity that emerge through a variety of channels. As a consequence, output grows, per-capita income rises, and the world welfare is augmented in a virtuous cycle. It is important in this guide to highlight the role of dynamic gains, since the latter are believed to better capture the effects of trade liberalization. An understanding of dynamic comparative advantages is also crucial. Dynamic comparative advantages refer to shifts in a country's competitiveness that materializes after changes in the key parameters, like world prices, costs of factors of production, and technologies. Policies, in measuring their influence over these parameters, also matter.

While economic theory explains why countries trade, it does not provide enough evidence on the human development dynamics (and outcomes) attached to the process. Gains from trade are transmitted at varying degrees and speed among countries (and among groups within countries). This transmission can be uneven and thus generates human development concerns. Non-income effects or costs, such as environmental degradation, are often not properly taken into account. Nevertheless, criticisms of the comparative advantage paradigm have not resulted in any substantial weakening of the overall framework.<sup>14</sup>

In turn, four pillars of human development can be seen to be related to trade: productivity, equality, sustainability and empowerment<sup>15</sup>. Table 3.2 summarises links between trade and key pillars of human development and relates them to the MDGs.

<sup>14</sup> Theoretical exceptions have been identified – e.g., the Bhagwati case of “immiserizing growth” (Bhagwati 1958) – flaws and weaknesses highlighted and theoretical reformulation proposed. This guide does not pretend to summarize the debate and refers to the current economic literature for further readings.

<sup>15</sup> UNDP Colombo Regional Centre (2008 - draft)

**Table 3.1 Links between trade, MDGs and the pillars of human development**

Pillar of human development	Link to trade
Productivity	Increased productivity (achieved partly through better education and healthcare) 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	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, MDG1, as well as improve education and gender balance.
Sustainability	Sustainability means preserving developmental achievements. Trade-related changes must ensure that resources are not used in a way that prevents future generations from improving their welfare. It is not just MDG7 that relates to sustainability. MDGs 1-6 each contributes to the long-term success of trade-related changes.
Empowerment	This refers to the ability of people to influence the processes and events that affect their lives. If trade policy changes 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 UNDP Colombo (2008 - draft)

The AfT study should look at human development from multiple perspectives. The first entails the identification of existing patterns in the economy and the relative opportunities to increase people's wellbeing, as well as the increased risks from globalization that people should be prepared to face. 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 in the whole AfT study, practical and operational recommendations should be grounded sector by sector. Secondly the possibility 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 chapter 8 (sector assessments) and 9 (trade policy impact assessment).

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. 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, electronic apparel) may gain from an increased access to foreign markets. Changes in a country's trade volumes and the impact of trade on domestic economic growth and inequality show how these 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 losses 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 the moving into the shadow economy and labour migration. The OECD Employment Outlook states that "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 levels of insecurity or inequality".<sup>16</sup> An effective and adequate welfare system must be in place to reduce insecurity and provide opportunities for the new unemployed to get back into the labour market.

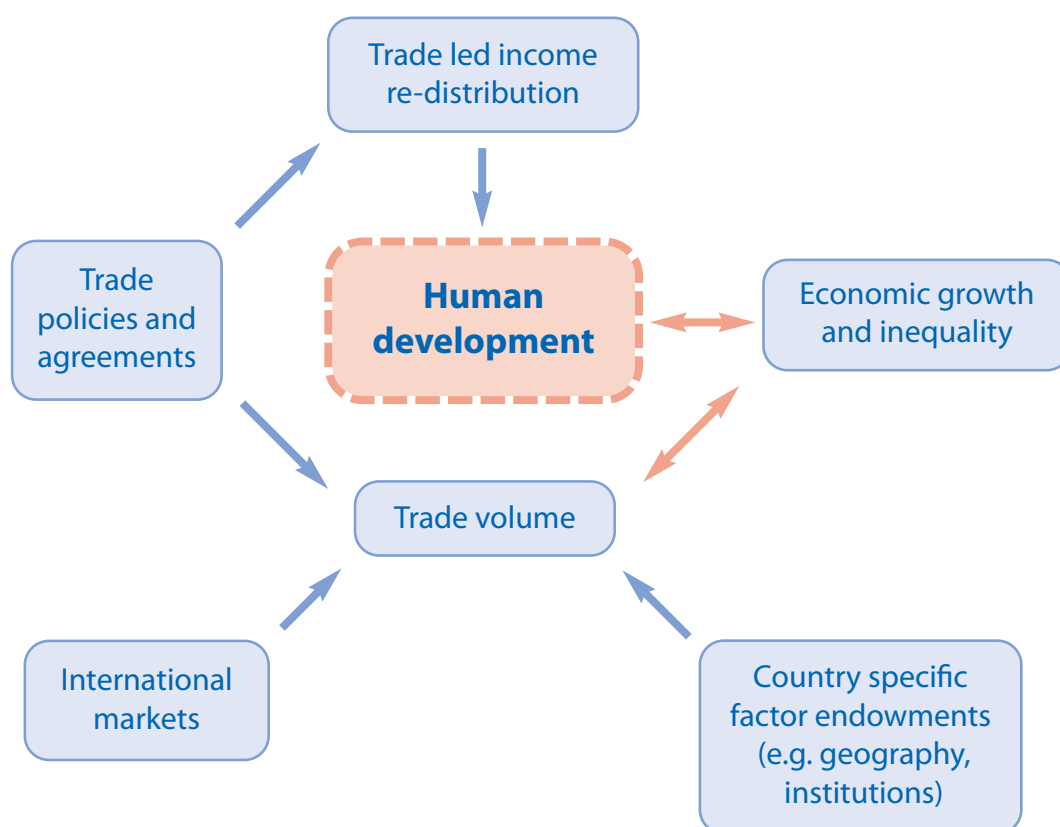
Policy changes and trade agreements are nonetheless only one of the factors behind a country's trade performance and their implementation might be not sufficient to boost trade, exports and growth. It is inappropriate to address trade policy separately from other aspects of industrial policy and the macroeconomic setting. Country specific factor endowments, the business climate, and comparative advantages (e.g. relatively cheap and highly educated workforce, availability of land, quality of institutions etc.) are even more important in assigning positions in the current trade system. As well, enterprises will find themselves in already established international markets, which have specific rules, characteristics and dominant players. Moreover, the current trade architecture and protectionists policies from most developed nations have been considered as a major obstacle for enhancing export productive ca-

<sup>16</sup> OECD (2007)

capacity in emerging economies. Starting from these basic notions, the inter-linkages between human development and trade are mapped using a step-by-step process

farmers. Many households due to price changes have been forced to sell assets and cut down on essential expenditures (e.g. food and children's

**Figure 3.1 Trade and human development**



as outlined in Figure 3.1. Trade and economic growth are reciprocally influenced, as well as human development and growth.

Changes in trade patterns are transmitted to households through the following three main channels:

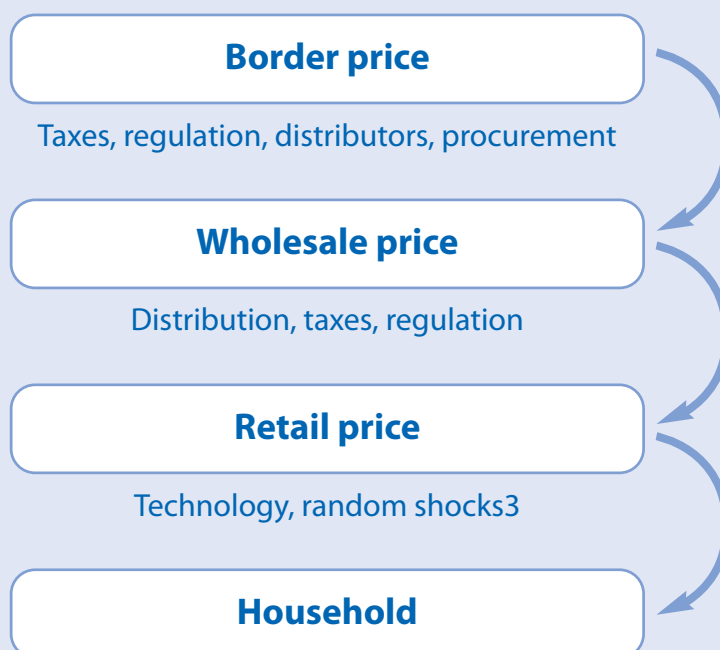
- **Prices.** Changes in prices modify the prices at which households and individuals sell and buy products. A case in point is the adverse effect of declining agricultural commodity prices (e.g. coffee, cotton) on small-scale

school fees). Box 3.2 provides further details.

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

### 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 market (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 analyzed 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 affected by 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)

pacts on government 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 fight against 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, e.g. because 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 achieves 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 90s. 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 is 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 as 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. Because for them the consequences of even small negative shocks are so serious, 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 ones. This might make them unwilling to seize opportunities that are beneficial in mean income terms but leave them vulnerable to 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 unequalising?***

Economic growth is the key to sustained poverty reduction. Only if it is very unequalising, 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 argument in favour of speeding up 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 these negative effects can be mitigated by phasing in the reform, or better still, by introducing compensatory-complementary policies. There is a trade-off, however, as larger shocks will typically reflect bigger differences between current and potential performance and hence may result in greater long-run gains from the given 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 push them 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)

In summary, to understand the interrelationship between trade and human development the following factors should be considered:

- Trade liberalization's redistributive effects with special attention given to vulnerable groups (e.g. farmers, informal sector, gender inequalities);
- The estimated impacts of trade volumes on the economic structures in a country and on inequality (e.g. wages and factor productivity) and vice versa;
- Country specific relations between economic growth and human development;
- Expected risks of potential trade shocks and their impact on the economy (e.g. food and energy prices) and especially on vulnerable groups (i.e. vulnerability mapping).

Among others, the following impacts of trade are more 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 capa-

bilities, changes in access to and/or quality of learning;

- Impact on lifestyle and culture: changes in the ways in which individuals and families organize themselves, including changes in gender roles;
- Impact on income and inequality;
- Impact on household expenditure patterns, including consumer basket;
- Impact on gender equality;
- Impact on food security;
- Impact on the environment.

### **3.3 Gender, trade 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 differently the economic and social behaviors (and opportunities) of men and women.

One of the examples often cited in 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 the economic and social dimensions, because of women's concurrent role as economic agents, and family and child carers. The situation in many transition economies is further complicated by cultural prejudice 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 equality.

The identification of gender biased barriers should mark the process of AfT needs assessments. The main question is if and how a change in the current trade pattern would influence the position of men and women and whether it would contribute to gender equality. Gender equality 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"<sup>17</sup>. The opening of an economy to international trade often implies adverse short term negative shocks or adjustments and, given that women's vulnerability is likely to be exacerbated by existing inequalities, the negative effects of trade liberalization are likely to be felt more

by women than men. In the poorest CIS countries it is common that women are involved in shuttle trade.<sup>18</sup> Shuttle trade has certainly helped women escape from unemployment and poverty, but it has also not eliminated the economic risks they face and their vulnerability.

Gender inequality, if interpreted through its economic dimension, can be described by looking at differences in<sup>19</sup>:

- Employment opportunities (participation rate in all sectors and occupations);
- Returns from labour (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 analyze to what extent there is gender equality in the country by using secondary data, including two key indices - the Gender Related Development Index and Gender Empowerment Measure.<sup>20</sup> 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.<sup>21</sup>

17 DFID (2002)

18 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.

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

20 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)

21 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 female employment;
- Foreign direct investments: percentage of women employed and growth of female 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 forecasts 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 FDI, comparison with other employers (state, private sector);
- Percentage of female professional & technical workers;
- Percentage of business women (i.e. women entrepreneurs, CEOs, depending on available statistics);
- Female 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 forecasts about those changes;

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

- Implementation of the labour 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 childcare services and related costs (e.g. free of charge by the state) in relation with available resources;
- Dynamics of fertility of employed women.

Human development dimensions are often interlinked. Box 3.5 highlights a possible strategy - fair trade - to link sustainable

trade with gender empowerment. Furthermore it is important to consider trade and environment through a gender dimension.

In many developing and transition 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. Inter-

national markets provide opportunities for such products: fair trade labels often work with women's associations to market their products in Europe and the US.

### Box 3.5 Fair trade initiative

#### Economic 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.

#### Social benefits

- 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.

#### Environmental benefits

- Provides opportunities to raise awareness of and change practices minimizing the environmental damage caused by production processes;
- Improved, more carefully considered production processes may reduce the use of (for e.g.) 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

- Creates dependence on small niche markets;
- Could prompt buyers to go elsewhere as part of a "race to the bottom".

#### Social disadvantages

- 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.

#### Environmental disadvantages

- Does not account for externalities such as carbon dioxide emissions from air miles needed to transport goods;
- Does nothing to reduce the environmental impacts of consumerism as a whole.

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



### 3.4 Environment and trade

Any economic activity has an impact on the environment, and trade is no exception. Undoubtedly the production and exchange of goods and services 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 because:

- 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) 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 sanitation, 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 insecure rights to the resources they manage (especially land), and spend longer hours on collection (of water, firewood, etc);
- High economic growth is necessary in many low-income countries to achieve the MDGs. Ignoring the environmental sustainability of growth may lead to short-run economic gains for some, but risk undermining long-term growth and poverty reduction;
- The access and entitlements of poor people to natural resources are crucial to the fulfilment of basic human rights such as food, housing and health. Involving poor people themselves – and building on their views and knowledge – is thus key to ensuring good governance of environmental resources.

Trade and development policy traditionally revolves 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 Eastern Europe and the CIS, the abundance of natural resources (i.e. connected risks of overexploitation) and the heavy industrial heritage from the Soviet times make environmental issues a particular concern.

In the nineties environment impact assessments of new investment, production facilities and trade agreements grew considerably and can now 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 EU has enacted a number of directives to define the obligation of conducting environment assessments, while similar rules

are applied in other OECD countries. For example the Directive on Strategic Environmental Assessment<sup>22</sup> 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 is obvious that trade policies and agreements can influence the priorities and objectives of the plans and programmes for the sectors listed above.

The evaluation of how trade impacts the environment remains a challenge. It appears that the expansion of trade has a positive impact on social and economic well-being, but may bring negative consequences for the environment. A trade off does exist, especially if only the short term effects are taken into consideration. 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 that 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.

The AfT study should first look at the ratification and implementation of multilateral environmental trade agreements (e.g. Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) 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 hide protectionist policies. The solution lies in enhanced cooperation between importers, exporters and standard setting organizations. Nonetheless, the negotiations, at the time this guide was drafted, were far from being concluded.

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 strengthens the cause of sustainable development. Environment related measures, if properly incorporated into trade agreements, could help to level the playing field, allowing for increased competition and better allocation of scarce resources. The AfT action matrix should include measures designed to

22 European Directive 2001/42/EC

minimize negative environmental impacts and magnify opportunities for sustainable development.

The methodologies used for analyzing 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, identifying sectors that will be influenced the most by the introduced trade measures;
- Identification of (and consultation with) relevant stakeholders;
- Assessment of likely environmental impacts of introduced actions and identification of the significance of those impacts;

### 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](http://www.offshore-sea.org.uk).

Source: OECD (2006)

- Production of relevant policy recommendations.

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

Furthermore the EC developed a sophisticated tool called Trade SIA to monitor these

impacts. Methodologies to measure the environmental impact of trade to some extent overlap and the choice of which to use should depend on the specific context. Box 3.7 provides details on these tools for further reference. AfT studies should also identify capacity gaps in the country's institutional framework that will affect its ability to assess the environmental impacts of trade. The existence of appropriate coordination bodies and the adequate allocation of human resources should be checked.

### Box 3.7 Additional resources on environmental impact assessment

Resources on trade and environment	Source	References
<b>Trade Sustainability Impact Assessment (Trade SIA)</b> 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: <ul style="list-style-type: none"> <li>• to integrate sustainability into trade policy by informing negotiators of the possible social, environmental and economic consequences of a trade agreement;</li> <li>• to make information on the potential impacts available to all actors (NGOs, aid donors, parliaments, business etc.).</li> </ul>	EC	Handbook for Trade Sustainability Impact Assessment, European Commission, External Trade, March 2006 <a href="http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127974.pdf">http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127974.pdf</a>
<b>Integrated Assessment of Trade-Related Policies</b> 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 national level, providing policy and decision makers with information necessary for informed decision-making.	UNEP	UNEP dedicated website <a href="http://www.unep.ch/etb/areas/Int-TraRelPol.php">www.unep.ch/etb/areas/Int-TraRelPol.php</a> Training Resource Manual Integrated Assessment (with focus on trade-related policies), UNEP 2001 <a href="http://www.unep.ch/etb/publications/intAssessment/refmania-Final.pdf">www.unep.ch/etb/publications/intAssessment/refmania-Final.pdf</a>

Resources on trade and environment	Source	References
		Integrated Assessment and Planning for Sustainable Development, Guidelines for Pilot Projects, UNEP, March 2004 <a href="http://www.unep.ch/etb/events/Events2005/midTermReview/IAPGuidePilPro.pdf">www.unep.ch/etb/events/Events2005/midTermReview/IAPGuidePilPro.pdf</a>
<p><b>OECD Guideline for Strategic Environmental Assessment</b></p> <p>Drawing on practical experience and established 'good practice', 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 and shared model that allows for flexibility in developing appropriate applications of SEA to the 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.</p>	OECD	OECD (2006) Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-Operation <a href="http://www.oecd.org/dataoecd/4/21/37353858.pdf">www.oecd.org/dataoecd/4/21/37353858.pdf</a>

## 4. AID FOR TRADE NEEDS ASSESSMENT: STRUCTURE AND PROCESS

The purpose of this guide is to provide suggestions for producing AfT needs assessments that are nationally-owned, oriented toward human development and capable of producing useful recommendations which contribute to improving the links between trade and human develop-

ment. It is important, therefore, that the outline and process adopted are appropriate for the task at hand. Below we suggest a structure of an AfT study (chapters outline) that can be adapted to context specific needs.

### Box 4.1 Research tips - the eightfold box path – 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 to be 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)

#### **4.1 Aid for Trade needs assessment's structure: chapters' outline**

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 a country's specific circumstances. The important point is that the analysis in each chapter should end 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 suggested chapters is discussed in chapters 5-9 of this guide.

We suggest that an AfT needs assessment contains the following chapters:

##### *(I) Introduction*

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

##### *(II) Macroeconomic and business environment*

Here, relevant features of the macroeconomic environment are highlighted, par-

ticularly 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.

##### *(III) 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 negotiation strategy; and reforming trade-related legislation.

##### *(IV) 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 tapes and other behind-the-border barriers to trade. The purpose of this chapter is to identify the underlying

causes of inefficiency, poor service delivery and high costs related to the movement of goods so that systemic problems, not only symptoms, are addressed.

#### (V) *Sectoral analysis*

This chapter should choose several important sectors that have a potential to address the needs of the poor via trade and analyse them. It should give a general overview of the sectors identified and highlight economic opportunities (or risks) which have a high impact on human development. If necessary, expected impacts on the environment should also be considered.

#### (VI) *Trade policy impact assessment*

The assessment of a country's trade policy may require a separate chapter in order to present a formal and structured impact analysis. In particular it should

focus on trade policies and measures that are expected to affect the population and especially the poor.

#### (VII) *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 4.2 Research tips - specificity of recommendations**

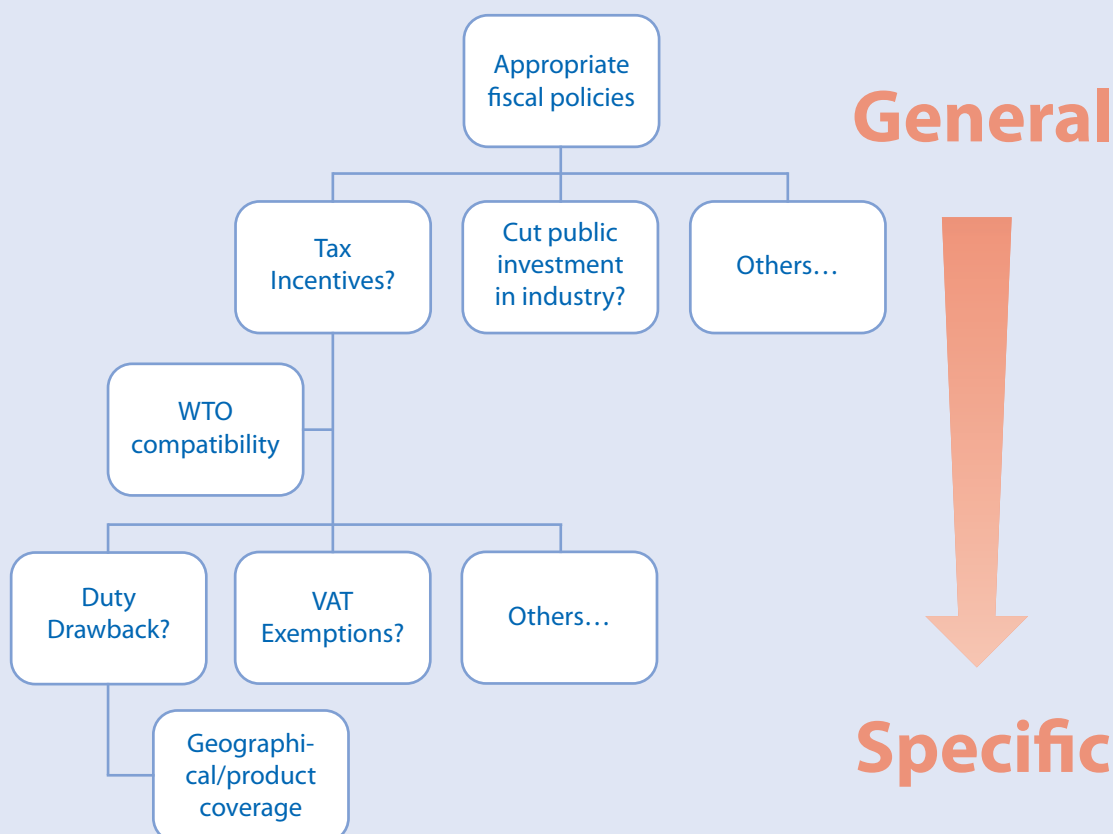
The intended outcome of the AfT needs assessment study is a list of specific, actionable recommendations aimed at improving the links between human development, trade and economic growth. The analysis in the needs assessments is not an end in itself, but should support and explain these recommendations.

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 in this example is a discussion of what kinds of fiscal or trade policy (or both) can help industrial products become more competitive. The diagram 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 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. Examples of policy recommendations which achieve the right balance include:

- **“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 Establishing the context

The context for the AfT study needs to be established before the needs assessment exercise begins. This stage involves rethinking and increasing understanding of

the need for an AfT needs assessment, recruiting a team leader, and forming/recruiting the authors’ team, selecting an advisory board and indentifying a peer review group. Efforts should be devoted to building awareness of the study and its aims, In-

formational workshops with relevant stakeholders, including members of government, representatives of civil society and the private sector are helpful. Establishing the project's legitimacy and building support at this stage will help later on with the analysis and implementation of recommendations.

national development plan or poverty reduction strategy and possible 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.

### 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, resulting in a product that is 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 their points of view.

#### **Promotes 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.

#### **Maximizes impact**

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

#### **Makes 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/>

We suggest organizing preliminary consultations designed to lay the groundwork for the needs assessment and delineate the scope of the exercise. This should involve, among other issues, establishing clear objectives and taking stock of past and ongoing work including implementation of a

Contacts should be made with key stakeholders in government, the private sector and civil society to obtain their perspectives and insights. Draft terms of reference (ToR) for a team leader and team members should be prepared in consultation with the government and key stakeholders. It

should be cleared by the government agency responsible for trade policy.

### 4.3 Research design and work plan

A clear work plan should be developed for all stages of the preparation of the AfT study (see Table 4.1). The work plan should

be feasible and realistic, and correspond to the local context. The work plan will also need to be periodically revised and updated to take into account the possibility of unexpected events. In addition, the planning and timing of the AfT study should be, when possible, coordinated with the drawing up of national poverty reduction strategies. A clearly defined set of objectives and deliverables from the beginning will help

**Table 4.1 Workplan – Aid for Trade needs assessment**

Stage	Actions or deliverable	Responsible person or party	Resources required	Deadline
<b>Phase 1: Preparation</b> 1. Establishing the context 2. Drafting terms of reference 3. Selection of the authors' team				
<b>Phase 2: Production</b> 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)				
<b>Phase 3: Dissemination and follow up</b> 1. Launch and dissemination 2. Follow up strategy implementation				

avoid delays and ensure that the AfT study maintains its focus.

The design and the selection of methodologies that will be used in the study is particularly important in the preparation phase. As presented in this guide, a trade needs assessment may turn to be a long and complex exercise. Nonetheless an AfT study can be designed in different ways and tailored to the 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 it would most likely take between three to nine months. An introductory workshop/training to present the human development approach towards trade analysis is advisable. Annex 5 presents a draft agenda for such an event.

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 regional comparative reports 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 for possible collaboration.

The dissemination and follow up phase is key for achieving the objectives of the AfT study and therefore this should also be planned well in advance. Depending on circumstances a media plan could be pre-

pared to promote key messages to the general public and 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 strategic approach towards trade. Therefore the follow up strategy needs to be developed wisely. A longer term approach 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 well prepared on how to handle politically sensitive issues with policymakers and the public.

#### 4.4 Participation and consultation with stakeholders

Consultation with government and interest group representatives, as well as with the public has increasingly proved to have a positive impact on policy making. There is a widespread recognition that such participation brings political, legal and social benefits and reduces slightly the risks of strong opposition and unrest. Investing effort in participation, even if costly, has always proved to be effective and efficient. Trade is no different. Consultations can be categorized in the following way:

- Consultation between government agencies (i.e. line ministries, specialized agencies such as customs etc.);
- Informal consultation with representatives of interest groups (e.g. trade



**Box 4.4 Tools for involving stakeholders in trade policy impact analysis**

Name of Tool	Main Use	Relevance
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.
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 a process of assessing the effectiveness of policy implementation.
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.
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: <ul style="list-style-type: none"> <li>a) generate data for initial stages of setting the agenda and identifying policy alternatives;</li> <li>b) analyse data during the examination of policy options;</li> <li>c) frame indicators of well-being and impact for Monitoring &amp; Evaluation.</li> </ul>
Venn Diagrams	A way of visualizing institutions, people/groups, places, their interrelations and importance within a dynamic system.	
Key Informant Interview	Structured interview with some amount of flexibility (open-ended) to gather firsthand information.	
Seasonal Calendar	A means of mapping changes in people's activities during different seasons by highlighting any periods of increased risks and vulnerability.	

Name of Tool	Main Use	Relevance
SWOT (Strengths; Weaknesses; Opportunities; Threats)	A process of analyzing strengths and weaknesses of a programme, policy, or process, and identifying opportunities and threats.	
Focus Group Discussion	Allows open group discussion of a particular topic or issues based on a moderated pre-determined interview structure.	
Wealth Ranking Exercise	A means of identifying people's perceptions on indicators of wealth (assets, resources) and well-being.	
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)

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 methodologies 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.

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 (titles and names often 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;

*Special committees:* Trade facilitation committee, Aid for Trade committee;

- **Business and trade unions**

*Business:* national business association, sectoral business associations,

### **Box 4.5 Roles and responsibilities for engagement: relevant tools, approaches, and skills**

#### *Think tanks and research institutes*

- Gathering evidence by conducting research, analyzing data or providing direct advice and recommendations to policy makers and other decision makers;
- Established sources of evidence-based information;
- Position papers on topics related to policy.

#### *Professional associations*

- Expert knowledge on specific topics;
- 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*

- Commission research on the impacts of policy reforms on the poor;
- Providing financial support to other civil society organizations;
- Policy briefs based on information generation to promote policy-relevant knowledge among policy makers and others regarding reforms;
- Sponsorship of forums for policy dialogue.

#### *Trade unions and workers cooperatives*

- 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 public policies in the public domain in order to provide a key monitoring function;
- Local media's role in collecting firsthand data from communities, publicizing opinions and disseminating information in debates around policies.

#### *Community-based organizations*

- Bringing grass-roots evidence or experienced knowledge into the process;

- Monitoring processes and outcomes;
- Participatory methods of assembling citizens' voice and gathering information such as through: action research; community profiles; community household level questionnaires; and community resource mapping;
- 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, etc.) or experienced 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-relevant knowledge among policy makers and others regarding reforms;
- Bringing disparate groups together around common issues (e.g. women's movements);
- Analyzing policies and budgets based on support for poverty reduction.

Source: UNDP (2008, forthcoming)

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/co-operatives of workers;

- **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.

## 5. MACROECONOMIC AND BUSINESS ENVIRONMENT

The needs assessment should involve a brief description of the macroeconomic environment to set the background for the subsequent analysis. A stable macroeconomic environment and exchange rate are a prerequisite for improving trade performance. In turn, strong macroeconomic and trade performance can lead to higher levels of human development. The analysis in this chapter should be supplemented by a description of the business environment, which is essential to establish a framework where trade and exports can flourish. Data collection and verification should be the first strategic stage for the AfT assessment.

### 5.1 Macroeconomic environment

It should be noted that macroeconomic analysis is not the main area in which the AfT needs assessment can add value. A large number of macroeconomic reports are usually available, including the International Monetary Fund (IMF) and OECD reports and analyses developed by regional development banks, which have a comparative advantage in macroeconomic analysis. The macroeconomic chapter of the AfT guide should therefore establish the context for subsequent discussions rather than provide a new analysis. The general macroeconomic environment analysis should provide summarized information on:

- GDP: growth, per capita, composition
- Balance of payments
- Fiscal, monetary, exchange rate, and foreign exchange policies;
- Domestic and external debt
- 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:

1. 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);
2. The possibility of 'Dutch disease' and analysis of its potential impact;<sup>23</sup>
3. 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, region) to reflect poverty distribution. A brief overview on social expenditures (e.g. social spending as a percentage of GDP on education, health and social assistance)

<sup>23</sup> 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

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 exports 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 well integrated with the description of business environment to avoid redundancy and repetition. 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, being a useful tool for organizing the country background information needed for the Aft study.

## 5.2 Business Environment

The presence of a friendly business environment is conducive to sustainable growth. It is crucial for governments to create an enabling

### Box 5.1 PEST analysis

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

POLITICAL	ECONOMIC
<ul style="list-style-type: none"> <li>• Tax policy</li> <li>• Labour laws</li> <li>• Business regulations (competition, standards, safety)</li> <li>• Environmental regulations</li> <li>• Trade restrictions</li> <li>• Tariffs</li> <li>• Political stability</li> </ul>	<ul style="list-style-type: none"> <li>• Economic growth</li> <li>• Exchange rates</li> <li>• Interest rates</li> <li>• Inflation rate</li> <li>• Income distribution</li> <li>• Savings, debt and credit availability</li> </ul>
SOCIAL	TECHNOLOGICAL
<ul style="list-style-type: none"> <li>• Health consciousness</li> <li>• Population growth rate</li> <li>• Age distribution</li> <li>• Career attitudes</li> <li>• Emphasis on safety</li> </ul>	<ul style="list-style-type: none"> <li>• Research and development activity</li> <li>• Innovation</li> <li>• Automation</li> <li>• Technology incentives</li> <li>• Rate of technological change</li> <li>• Safety and health regulations</li> </ul>

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

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, to budgetary misallocation, to misuse of donor funds. Possible

good governance indicators are presented in Box 5.2, while other indicators that could reinforce the analysis are the World Bank's Doing Business indicators<sup>24</sup>, the European Bank for Reconstruction and Development's (EBRD) transition indicators<sup>25</sup> and Transparency International's Corruption Perception Index<sup>26</sup>.

### Box 5.2 World Bank - Worldwide Governance Indicators

The World Bank 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, 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;

#### 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

Measures 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](http://www.govindicators.org)).

<sup>24</sup> <http://www.doingbusiness.org/>

<sup>25</sup> <http://www.ebrd.com/country/sector/econo/stats/index.htm>

<sup>26</sup> [http://www.transparency.org/news\\_room/in\\_focus/2008/cpi2008](http://www.transparency.org/news_room/in_focus/2008/cpi2008)



A quick review of the judicial system and the level of corruption should be provided if it is perceived as one of the impediments for growth. Slow court proceedings and a 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. In addition, a weak enforcement of product standards and patents 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 easily 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 sys-

tem.<sup>27</sup>

One goal of the AfT diagnostic is to identify problems with the business environment and recommend remedial measures to address them. These measures may include simplifying business registration procedures, reforming land titling procedures and reducing red tape involved in customs 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.<sup>28</sup> The World Bank's Doing Business survey annually assesses the business environment in 178 countries.<sup>29</sup>

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 easily available. If not available the commissioning of background studies (e.g. administrative and regulatory cost surveys) maybe considered.

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 disproportionately bigger for small entrepreneurs. Capacity gaps should be identified as well. The AfT study

27 Commission on legal empowerment of the poor (2006) – more information on the initiative can be found at <http://www.undp.org/legalempowerment/>

28 Emery, J. M.T. Spence, Jr., L.T. Wells, Jr. and T. S. Buehrer (2000)

29 <http://www.doingbusiness.org/>

**Box 5.3 Checklist of policies and laws**

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

should consider the following:

- Administrative Barriers
- Trade-related infrastructure
- Business services
- Financial services and trade finance

**Administrative Barriers**

The analysis should focus on costs and time requirements and should cover the following:

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

vision, 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 rationalised without compromising the government's development objectives. Company law, bankruptcy law and competition policy should also make it easy for businesses to operate.

### Trade-related infrastructure

The presence and the quality of infrastructure networks make a key contribution to the business environment. The analysis should include an evaluation of the following items and an assessment of costs of fruition:

- Telecommunications infrastructure, including telephone services and the internet;
- Electricity, water, sewage infrastructures;
- Transportation infrastructure (land, sea, air, including vehicles): road and rail coverage; sea and/or dry ports with container terminals; airports.

The existence of appropriate structures that ensure 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.

### 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, identify gaps and bring them 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 commerce, transporters, shipping agents, freight forwarders, clearing agents, accounting, marketing and law firms, labour organisations, employer associations, export processing zones or special economic zones, and SME development agencies or business incubators that foster entrepreneurship and research.<sup>30</sup> Box 5.4 outlines the case of social corporations in Kazakhstan as an example of government and private partnership.

### Financial services and trade finance

A shortage of finance can be one of the main constraints on business start-ups and expansion. In a study by the World Bank, access to finance is the second leading cause of slow business growth in the world after taxes and regulations.<sup>31</sup> 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.

The AfT assessment should look at access

<sup>30</sup> 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

<sup>31</sup> Batra, Kaufmann and Stone (2003)

### Box 5.4 Social corporations as an example of government and private partnership in Kazakhstan

Kazakhstan's state-owned enterprises known as social corporations are helping to diversify the economy away from its reliance on raw materials and to modernize the business environment. These social corporations provide land and engineer networks in areas deemed socially desirable such as education, healthcare, culture and sport. There is a clear emphasis here on human development. Private companies provide the investment and know-how, based on the 'cluster' approach.

A state-owned company, the Saryarka Social Corporation, was launched in 2007. In subsequent months Saryarka evaluated over 50 investment projects and implemented 15 of them at a total cost of about US \$250 million. The projects include processing farm products, alternative fuels, construction, metallurgy and metal-working, reconstruction of base vegetable stores, and processing domestic waste. The total cost of the projects is about US \$185 million including over US \$16 million invested by social corporations.

*Source:* ITC (2008)

and availability of credit, real interest rates, functioning of the leasing and insurance markets. Particular attention should be dedicated to trade finance. Financial sector development indicators should be used, when available.

#### Competitiveness

The business climate section should be concluded with an assessment of the competitiveness of the economy. The economy may be compared with several countries in the region or beyond. The Global Competitiveness Report<sup>32</sup>, published by the World Economic Forum, produces an indicative world ranking of competitiveness by looking at the macroeconomic environment, the quality of public institutions, and technology.

<sup>32</sup> <http://www.gcr.weforum.org/>

## 6. TRADE AND INVESTMENT POLICY

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;
- Actual and anticipated membership in global (i.e. WTO) and regional economic integration structures (e.g. EU, Eurasian Economic Community); and
- 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 has a greater chance of increasing trade flows and profits from trade. However, many countries, especially developing and transition countries, suffer from time-consuming customs regulations, complex investment approval procedures, and land and property registration. The assessment should examine the causes of these constraints and propose workable solutions through reforms and technical assistance. Trade and investment policy review should focus both on the analysis of trade flows and on the description of the policy and institutional framework. Country

comparative advantages and opportunities should be discussed and key sectors should be identified. The following sections discuss how selected trade policy issues including membership in regional economic integration arrangements, free trade areas and the WTO, could be handled in the AfT analysis.

### 6.1 Trade flows and economic openness

There is no 'formal' consensus on how to measure 'economic openness'. However some measures have become popular and offer good prospects for benchmarking. The most obvious indicator being trade flows (i.e. exports plus imports per a 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 is however to understand the overall position of a country's economy vis-à-vis international trade and its vulnerability to external shocks channelled through international markets. The vulnerability check should look at the exposure to risks on the one side and to the capacity of coping with them on the other. The analysis should specifically take into account the geographic positioning of the country being assessed. Possible dependency traps (e.g. export concentration on few raw materials) should be also discussed.

Tables with data on trade flows should be presented. Historical and sectoral trends should be highlighted and explained. Comparison with similar countries and best performers should 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. promoted diversification, moved production into higher value added sectors, increased international competitiveness). Therefore the analysis should describe with tables and charts the dynamics of: exports and imports – the level of imports over a period of five to ten years (in volumes and as a percentage of GDP); distribution by sector; geographical patterns; benchmarking with other similar countries.

Export/import dynamics of products that are strongly linked with human development should be highlighted. In particular, 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 the following economic and social dimensions related to trade (using the human development lens):

- Evolution of trade patterns, e.g. movement from labour intensive exports industries to mid high-tech manufacturing industries, diversification of exports, etc.;
- Employment in the export sector, showing employment and wages dynamics, the number of enterprises, employment of workers aged over 20 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

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

### 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 should be given special consideration. Box 6.1 provides an introductory checklist for assessing political decision making and policies that has been developed by the OECD.

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 pikes and effective rate of protection;<sup>33</sup>

<sup>33</sup> The effective rate of protection measures the total effect of a country tariff structure on the value added per unit.

### 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](http://www.oecd.org/LongAbstract/0,3425,en_2649_34141_35220215_1_1_1_1,00.html)

- 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 should be esti-

mated. 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 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)<sup>34</sup> database is organized around five thematic areas, including trade policies and trade outcomes. If updated data are available for the country under assessment they could be used to substantiate the analysis (see Box 6.2).

**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 WTI itself is a comprehensive database made of about 300 indicators grouped in five thematic areas: Trade Policy, External Environment, Institutional Environment, Trade Facilitation and Trade Outcome. The rank (the first being the best performer) of Europe and CIS countries is presented below.

<sup>34</sup> <http://go.worldbank.org/3Q2ER38J50>

	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
Turkey	4	37	57	34	72
Kazakhstan	8	30	71	134	50
Moldova	12	111	92	106	54
Kyrgyz Republic	16	101	94	103	122
Hungary	21	73	45	35	25
Latvia	21	73	22	42	14
Lithuania	21	73	26	58	36
Poland	21	73	74	40	16
Slovak Republic	21	73	32	50	8
Ukraine	46	100	139	73	65
Croatia	51	58	97	63	92
Azerbaijan	58	9	96	111	27
Bulgaria	64	36	46	55	26
Russian Federation	72	30	106	99	33
Albania	78	7	136	140	60
Belarus	84	12	110	74	75
Romania	116	23	48	51	13
Armenia	..	..	39	132	11
Bosnia & Herzegovina	..	..	105	88	154
Georgia	..	..	18	..	53
Macedonia, FYR	..	..	75	90	12
Montenegro	..	..	81	115	..
Serbia	..	..	86	115	138
Tajikistan	..	..	153	147	152
Turkmenistan	..	..	..	..	..
Uzbekistan	..	..	138	130	80

## 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

The AfT study should review the country's trade institutions. The relationship between institutions should be described as well as the coordination mechanisms in relation to the formulation of trade policy and the

management of trade promotion programmes. This section should identify capacity gaps and eventual needs for technical assistance (see Box 6.3). A brief description of trade functions and responsibilities of the most important institutions should be provided.

#### Box 6.3 Georgia – trade capacity building project

In December 2007 a study called the 'Assessment of the Impact of Potential Free Trade Agreement between EU and Georgia' was launched by the UNDP office in Georgia. The report highlighted some capacity gaps in the Ministry of Economic Development (Foreign Trade and International Economic Relations Department). A technical assistance project was initiated in 2008 with the aim of strengthening the capacity of the staff of the mentioned department and respective ministries in skills necessary:

- a) for the analysis of trade information and policy;
- b) to better understand trade agreements and formulate negotiating positions on issues that are of relevance to Georgia's economic growth;
- c) to effectively present relevant information to policy makers.

To achieve the mentioned goals the project, among others, organized dedicated workshops on:

- (I) qualitative analysis of the impact of trade policy (including human development);
- (II) quantitative analysis of trade information and policy;
- (III) understanding and negotiating trade agreements.

Source: UNDP Georgia (2008), more information on [www.undp.org.ge](http://www.undp.org.ge)

The institutional mapping should provide a detailed assessment for the specialized agencies, which often have a key role in promoting and facilitating trade and investments. These are:

- Customs Agency
- Export Credit Agency
- Investment Promotion Agencies
- Special Economic Zones
- Office/Ministry for European Integration.

Dedicated paragraphs should look at the trade facilitation committee or the Aft committee, if present. Other specialized agencies that have important roles in trade should be considered as well (if relevant for the country), including: the National Statistics Office (collection of trade statistics), Central Bank (exchange rate regulations), national and development banks and funds (management of trade promotion programmes, dedicated credit lines).

### Box 6.4 Trade policy in Central Asia

The trade policy regimes of the Central Asian countries have diverged since independence. Kazakhstan and Kyrgyzstan have liberalized more or less steadily since the early 1990s. Tajikistan opened its markets rapidly after the end of civil war in 1997. Turkmenistan has undertaken little trade liberalization. Uzbekistan has partly reversed the liberalization completed in the first half of the 1990s. The varying pace of trade liberalization across the region has affected the rate of poverty reduction.

Tariff rates are fairly low and uniform in Kyrgyzstan and Tajikistan. Kazakhstan has a complex tariff schedule but a relatively low non-weighted average rate. In Uzbekistan, the tariff schedule is less complex, but the non-weighted average rate is almost twice as high. In Turkmenistan a range of different tariffs applies to a number of products.

A major problem in all the countries is that changes in tariff schedules have been frequent and unpredictable. Kazakhstan, Turkmenistan and Uzbekistan have experienced tariff escalation – when rates rise cumulatively as goods undergo more processing. Some Central Asian countries impose other taxes on imports that are not levied on domestically produced goods or that have higher rates for imported than domestically produced goods.

Explicit export taxes are less common in Central Asia than taxes on imports, and there are no explicit export subsidies. All countries apply quantitative restrictions on either imports or exports, or both, for a variety of reasons.

#### Trade agreements

Of the five Central Asian states, only Kyrgyzstan is a member of the WTO. A striking feature of trade policy in Central Asia is the large number of regional and bilateral agreements. Overlapping agreements have resulted in a 'spaghetti bowl' effect, leading to conflicting and confusing trade policy rules at the border. The main regional trade agreements include:

- The *Commonwealth of Independent States (CIS)*, created after the collapse of the Soviet Union with the aim of maintaining the common economic area of the Soviet Union. The new borders have become ever more economically disruptive, with trade in the region remaining inhibited;
- The more narrowly-focused *EEC (also referred as EURASEC)* aimed at creating a customs union between Kazakhstan, Kyrgyzstan, Russia, Belarus and Tajikistan and Uzbekistan. It has faced many practical obstacles to establishing a common external tariff. In October 2007 Russia, Belarus and Kazakhstan announced that they will first form a customs union by 2011, with other members expected to join the union later on;
- In February 2003 Belarus, Kazakhstan, Russia and Ukraine reached a tentative agreement to create a *Single Economic Space (SES)*. Progress remains slow;
- The *Economic Cooperation Organization (ECO)*, which the newly independent Central Asian countries all joined in 1992, has resulted in a slow expansion in trade with southern neighbours Iran, Pakistan and Turkey;
- The *Shanghai Cooperation Organization (SCO)*, an intergovernmental international organization created in 2001 by Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan and Uzbekistan with the goals of strengthening mutual confidence and promoting effective cooperation in politics, trade and economy, and other fields.

These regional arrangements have often been in implicit competition with each other, reflecting differing and mutually exclusive political pacts. Their economic impact has been minimal. Progress towards a customs union has been slow or virtually non-existent due to a lack of enforcement or arbitration mechanisms.

Source: UNDP (2005)

### 6.2.3 Trade Agreements and Market Access

The AfT assessment should provide a comprehensive overview of existing trade agreements and ongoing negotiations. If on-going negotiations are in place (e.g. WTO accession) a separate section should be dedicated to this topic to 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
- EU accession agreements (see section 6.2.5)

- Bilateral agreements, especially free trade agreements (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 that have been signed has increased dramatically. The EU and the USA are particularly active players in the design of such agreements. Countries that are in the process of signing should evaluate them cautiously.

Chapter 9 provides descriptions of quantitative and qualitative tools that can be used to measure the human development impact when analyzing trade agreements. The purpose of the trade assessment as described in this guide is to identify the relationships between trade and human development and to assess the opportunities and risks that an increase in trade has on vulnerable groups. The analysis (ex-ante) should be able to draft alternative scenarios and to propose different policy options.

The effectiveness of a country's trade policy can also be assessed by looking at the access its major trade partners guarantee to its domestic products. This issue is fundamental for countries that claim to have the devel-

### Box 6.5 Assessing free trade agreements

Assessing FTAs will require looking at the following potential impacts:

- (I) How might the proposed FTA affect the quantity of imports and exports? An FTA aims to provide domestic businesses with wider opportunity for export and to 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.
- (II) The direction and composition of trade. Which countries and products will gain or lose as a result of the FTA? Trade diversion<sup>35</sup> 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 industrial changes on the poor.
- (III) 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.
- (IV) How the overall trading changes will affect consumption and production (GDP). An increase in net exports will by definition result in an increase in GDP.

<sup>35</sup> If joining a free trade agreement leads to replacement of high-cost domestic production by imports from other members of the agreement – the case of trade creation – a country gains. But if joining leads to the replacement of low-cost imports from outside the zone with higher-cost goods from member nations – the case of trade diversion – a country loses (Krugman, 2003)

- (V) 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 to 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?
- (VI) Sectoral changes. Which sectors will lose or gain? As above, these sectors should be analyzed for their sensitivity for the poor.
- (VII) Tariff preference erosion. Aid for Trade 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.
- (VIII) Human development and poverty. Will the agreement have a redistributive impact? Who will be the losers and the winners? Are there mitigation measures in place to cope with negative impacts?
- (IX) Political implications. Will the trade agreement lead to enhanced international cooperation? Will there be any domestic political impact?

oping countries status with associated benefits. Many countries in transition should enjoy preferential treatment in a number of markets (i.e. Generalized System of Preferences<sup>36</sup>) and improved relations with the EU, including potential trade agreements and economic partnership arrangements.

#### 6.2.4 WTO Accession (if applicable)

The WTO was established on 1 January 1995, but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided a framework for multilateral trade rules. Over the years GATT evolved through several rounds of negotiations and expanded membership. The last and largest GATT round, was the Uruguay Round (1986-

1994) which resulted with the creation of the WTO. The spectrum of rules covered by the WTO has been expanded in respect to GATT and its agreements now cover trade in services, and intellectual property rights.

Out of 32 countries and territories of Central and Eastern Europe and the CIS, 21 countries are members of WTO, while 9 states are negotiating their membership in the organization. The accession issue is particularly relevant for Central Asia (only Kyrgyzstan is a member), Belarus, Russia, Azerbaijan and few countries in the Balkans (see Box 6.6). We recommend that countries that are in the process of WTO accession discuss in their needs assessment how the benefits from WTO accession can be maximized and how adjustment measures can be identified and financed.

<sup>36</sup> UNCTAD manages a database on the Generalised System of Preferences schemes at <http://www.unctad.org/Templates/Page.asp?intItemID=1418&lang=1>



## Box 6.6 WTO members and acceding countries in Europe and CIS

### WTO Members

<i>Eastern Europe and Balkans</i>				<i>Commonwealth of Independent States</i>	
Albania	2000	Latvia	1999	Armenia	2003
Bulgaria	1996	Lithuania	2001	Georgia	2000
Croatia	2000	Malta	1995	Kyrgyz Rep.	1998
Cyprus	1995	Poland	1995	Moldova	2001
Czech Rep.	1995	Romania	1995	Ukraine	2008
Estonia	1999	Slovak Rep.	1995		
Macedonia	2003	Slovenia	1995		
Hungary	1995	Turkey	1995		

### WTO Accession

Country	Applied	Working Parties	Goods Offer (latest)	Services Offer (latest)
<i>Commonwealth of Independent States</i>				
Azerbaijan	Jun-97	May-08	Feb-08	Mar-07
Belarus	Sep-93	May-05	May-06	Sep-06
Kazakhstan	Jan-96	Nov-06	May-04	Jun-04
Russia	Jun-93	Mar-06	Feb-01	Jun-02
Tajikistan	May-01	Oct-06	Jun-06	Jun-06
Turkmenistan	Not applied			
Uzbekistan	Dec-94	Oct-05	Sep-05	Sep-05
<i>Eastern Europe and Balkans</i>				
Bosnia and Herzegovina	May-99	Nov-07	Feb-07	Feb-07
Montenegro	Feb-04	Feb-08	Jun-08	Jun-06
Serbia	Dec-04	May-08	Oct-07	Nov-07

Source: [www.wto.org](http://www.wto.org) (updated May 2008)

Examples of issues to be addressed include the following:

- Outline of the main requirements for WTO accession (e.g. tariff bindings, domestic support for agriculture, implementation of trade-related regulatory agreements, etc.), the major constraints to meet 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 drawn from the experience of similar countries - especially in regard to equity, public sector capability and policy space - that have joined the WTO in recent years (such as Ukraine, Kyrgyzstan and Estonia);
- 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, etc.), suggested priorities for the country's legislative action plan, and technical assistance needed to implement these reforms.

It is important that in the analysis the issues of poverty and human development are taken into account. For example, researchers need to explain what would be the impact of WTO accession on micro and small and medium enterprises or small farmers. The identification of potential 'losers' should be enriched by an analysis of possible solutions (e.g. free training for fired workers) and mitigation measures.

### 6.2.5 Trade Agreements with the European Union

Most of the countries of Central and Eastern Europe and CIS are strongly oriented towards the EU's market and several others are directly dealing with the prospect of membership. The Western Balkans, Turkey - and increasingly Caucasus - are facing a real prospect of integration with the EU common market. The impact on the economy and the degree of preparedness differs from country to country. Most countries in Central and Eastern Europe have already successfully passed through this process and their experience is valuable. Many countries in the CIS are now facing the challenge of signing or implementing free trade agreements with the EU.

The EU has been a force of positive change in the region, felt most strongly by countries that are closest to it and less so by those farther away. Trade with the EU is highly important for the whole region, and is likely to remain so in coming years. For some countries the EU is the biggest trading partner and an important source of investments. Most countries in the region are significant net importers from the EU. To be able to increase exports to the EU domestic companies need to apply EU standards and negotiate for better access to the common market.

The EU has different 'layers' of agreements, mirroring often a country's prospects for membership. The following list presents the main trade agreements that can be signed with the EU:

- **Autonomous trade measures (ATM)**  
A set of trade measures that guarantee preferential access to the EU common market. ATMs include exemption of duties and quantitative restrictions.

Balkan countries are benefiting from ATMs which are guaranteeing an almost open access to the EU;

- **Europe agreements (EA)**

Bilateral association agreements signed with the countries of Central and Eastern Europe<sup>37</sup> to create free trade areas and strengthen political and economic cooperation. Europe Agreements recognize that the ultimate objective of the associated countries is to accede to the EU;

- **Partnership cooperation agreements (PCA)**

The aim of these agreements is to encourage political, commercial, economic and cultural cooperation between non member countries and the EU. Examples of signed PCA come from Russia and the countries in Central Asia;

- **Stabilization and associations agreements (SAA)**

Agreements signed between the EU and Balkan countries, aimed at creating a free trade area and an enabling background for the adoption of the EU's standards. These agreements are often regarded as a first important step towards EU membership.

As of 2006, Turkey enjoys a customs union with the EU on merchandise goods, Georgia is negotiating a FTA and bilateral PCAs with each Central Asian country have been signed.

In addition, in order to bring their economies into line with EU standards, countries in Central and Eastern Europe formed the Central European Free Trade Agreement (CEFTA). See box 6.7.

### Box 6.7 Central European Free Trade Agreement (CEFTA)

An expanded Central European Free Trade Agreement (CEFTA) was signed at the end of 2006 and it now includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia and Kosovo.

The widened CEFTA is intended to replace a complex network of bilateral arrangements, which were responsible for restricting trading opportunities in the region. The various bilateral deals were difficult to administer, dispute rulings were hard to enforce and rules of origin differed. CEFTA includes new areas such as services, intellectual property, consumer protection, competition rules, public procurement and intellectual property rights.

CEFTA was originally established in 1991 by Poland, Hungary and Czechoslovakia with the aim of liberalizing trade, attracting investment and bringing economies into line with EU standards. The free-trade area subsequently included the remaining EU candidate states in Central and Eastern Europe. Croatia and Macedonia joined later. When a CEFTA member accedes to the EU, it has to leave CEFTA. Romania and Bulgaria left CEFTA when they become members of the EU in 2007.

37 Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Romania, Slovakia, Slovenia and Poland.

Countries outside the Balkans and excluding Turkey that are not considered potential candidate countries are benefiting from the EU's European Neighbourhood Policy (ENP) that provides a framework for the list of agreements presented. The ENP was designed in 2004 by the EU in order to strengthen prosperity, stability and security in Europe and in the neighbouring regions. The ENP, even if distant and distinct from the process of enlargement, goes beyond trade agreements to propose a deeper political and economic integration. The ENP includes Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. The relationship with Russia is not covered by the ENP, but by a Strategic Partnership. ENP Action Plans were agreed in 2005 with Moldova and Ukraine and in 2006 with Armenia, Azerbaijan and Georgia. An ENP action plan is not yet in place with Belarus. From 1 January 2007 the EU support programmes in Europe and CIS (e.g. TACIS) have been replaced by a single instrument, the European Neighbourhood and Partnership Instrument (ENPI), which is the financing instrument for ENP.

### 6.3 Investment policies and foreign direct investments

For many of the Central and Eastern European countries the EU has presented possible answers for trade and investment policy challenges. Preferential and asymmetrical access to the single market has helped to solve one of the main trade negotiation problems developing or transition countries have to face. EU accession in particular turned the new EU member states into export platforms that were able to attract FDI. FDI helped modernize these economies, finance the large current account deficits, and raise living standards closer to EU lev-

els. The path was less linear in the Balkans and CIS (including and especially in Central Asia), where countries' productive capacities were less developed and the access to the market not automatically guaranteed. In the case of the latter, enterprises inherited from the Soviet system were not turned into competitive modern companies. In the resource-abundant economies FDI was mainly attracted by oil, gas and other extractive industries with poor linkages to the private sector and the local economy. Very little FDI reached the non-extractive sectors, whose development is still far behind European standards in terms of technology and know-how. This chapter is intended to provide guidance when analyzing FDI and its impact on human development.

Investment, including FDI and portfolio investments, can provide both economic and human development benefits. An immediate benefit includes employment, which can have a direct impact on human development by improving working conditions and offering the possibility of wider choices in life. Foreign investors may also bring improved working practices, better and greener technologies and a wider range of imported products, all of which can enhance the ability of people to live fulfilling lives. The needs assessments, together with a heightened focus on human development, can help ensure that countries benefit fully from FDI. Where the financial sector allows for it, portfolio investment and other related investment flows are as important as FDI. However these may destabilize the balance of payments and cause a currency crisis.

Further economic benefits include export development and integration into global supply chains, 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 benefits will only be realized and evenly distributed if a country has a sound investment climate and a business-friendly environment. The underlining 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 also improves human development, since greater wealth can raise the capabilities and choices of the poor.

The purpose of conducting an investment policy analysis<sup>38</sup> of a country's investment regime is to identify the incentives offered to investors and evaluate their effectiveness in attracting investors. Such a review should cover the following areas: (I) the trends of inward and outward FDI, (II) the investment policy framework (III) the strategic perspective and long-term outlook.

(I) *Investment trends*: this should show whether FDI has made a difference (e.g. has it promoted diversification, moved production into higher value added sectors, increased international competitiveness). The section should:

- Look at the driving forces behind FDI inflows (e.g. what are the level of inflows over a period of five to ten years, what is the FDI distribution by sector, how does this compare with other similar countries in the region, have the government's priority sectors attracted FDI, what are the sources of FDI);
- Look at the driving forces behind FDI outflows (e.g. are wage costs high, have firms relocated their low-end operations to lower wage countries, are a country's core competences developed to international standards e.g. tourism, financial services; domestic savings);
- Map the evolution of FDI (e.g. is FDI moving from labour intensive, low wage low-tech industries to value added high wage, high-tech industries, from the assembly of low-cost garments under licence to the export of own-brand name goods to high-value niche markets, are there new supply capabilities developed in marketing, product design, research and development, resulting in higher wages and improved living standards for workers, farmers and other local suppliers);
- Look at employment in foreign firms (e.g. how has employment increased, can the study present a table showing the number of FDI enterprises, the level of employment of workers aged over 20);
- Look at the export performance of FDI;
- Examine local supply linkages (e.g. do the spin off effects and multiplier effects from FDI create demand for goods and services such as consultancy, water, electricity, transport, technical inputs);
- Does FDI promote skill transfer (e.g. does FDI provide managerial skills, on-the-job training, make a statement about availability or shortage of domestic training opportunities, e.g. vocational training, tertiary education).

<sup>38</sup> Adapted from the UNCTAD Investment Policy Review approach and the OECD  
<http://www.unctad.org/Templates/Page.asp?intItemID=3534&lang=1>;  
[http://www.oecd.org/document/40/0,3343,en\\_2649\\_34893\\_1933032\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/40/0,3343,en_2649_34893_1933032_1_1_1_1,00.html)

(II) *Policy and operational framework for FDI*: identify reforms favourable to a more attractive investment environment, and best practices. This section can look at:

- 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 – identify on the base of the current investment law and bilateral investment treaties the following:
  - National treatment – are investors treated as if they were nationals or are they given a guarantee of fair and equitable treatment;
  - Non-discrimination – is MFN treatment extended to investors;
  - Funds repatriation – looks at the existence or absence of exchange controls and free repatriation of returns, e.g. profits, fees, royalties;
  - Expropriation – looks at guarantees against expropriation, will expropriation only take place for public purposes with due process, is there prompt and fair compensation;
  - International arbitration – are judicial hearings offered locally, is there the opportunity of international arbitration, is the country a member of the International Centre for Settlement of Investment Disputes (ICSID);
  - Double taxation treaties – looks at the number of tax treaties (present,

under negotiation, awaiting ratification), are there exceptional provisions with particular countries, etc.

- Investment incentives. This section should provide:
  - Background – map the history of the use of incentives and show how incentives have influenced investment flows, look at areas where incentives have failed to achieve the desired outcomes;
  - Incentives description – look at the range of incentives on offer, give a table of investment incentives by sector; list the priority sectors and then discuss the successes or challenges met in each priority sector.

(III) *Strategic perspective*: this should give a review of the country's investment strategy. A broader vision of foreign investment should be provided together with the reasons why the implementation of current or older strategies on investments has or has not met expectations (e.g. bottlenecks limiting investment, slow privatization, weak institutions). The strategy should identify the most promising sectors for investors.

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

- Skills and human resource development – such as demand-driven training, education, academic, technical;
- Deregulation and liberalization (e.g. telecommunications services) – has FDI increased competition for improved services, lower costs;
- Creation of greater regional links – regional cooperation / integration, e.g. agreements for better access to regional markets;
- Promotion of global supply linkages with local SME suppliers.

If negative impacts are recorded, these impacts should be analyzed with a view to providing recommendations. The most common negative consequences of FDI are the introduction of monopolistic measures (such as market protection, tax privileges and incentives), the appearance of a technological gap when local firms compare themselves to the new investor, as well as a possible negative impact on the environment. However, rather than being a direct consequence of FDI, these negative effects are often more likely to be related to the country's general business environment and the preparedness of its local firms to compete. The experience from East Asia and the Pacific, in addition to the successful examples from Central and Eastern Europe, provides good ground for the identification of measures that can facilitate productive interlinkages between FDI and the local economy.



## 7. TRADE FACILITATION AND STANDARDS

Trade facilitation 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 imports, including manufactured goods and agricultural products. Both trade facilitation practices and standards can become barriers to trade unintentionally and sometimes on purpose. 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 assessment<sup>39</sup> is to identify the underlying causes of inefficiency, poor service delivery and high cost related to the movement of traded goods so that systemic problems, not only symptoms, are addressed in a comprehensive, enduring manner. The efficient movement of goods across national frontiers, both in terms of duration and cost, depends on many factors. Therefore, 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. The assessment covers a range of suggested issues for review, not all of which may be relevant to a country's particular 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. Country benchmarking can be used to highlight the country's relative performance. For example the World Bank produces the composite Logistics Performance Index (LPI)<sup>40</sup> that summarizes seven areas of performance<sup>41</sup>.

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

40 [www.worldbank.org/lpi](http://www.worldbank.org/lpi)

41 They include: (I) Efficiency and effectiveness of the clearance process by customs and other border control agencies; (II) quality of transport and information technology infrastructure for logistics; (III) ease and affordability of arranging shipments; (IV) competence in the local logistics industry (for example, transport operators and customs brokers); (V) ability to track and trace shipments; (VI) domestic logistics costs (for example, costs of local transportation, terminal handling, and warehousing); and (VII) timeliness of shipments in reaching destination.

## Enterprises (importers and exporters)

### 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.

## 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; and recommend how the customs department could perform its work more effectively.

- Examine the trade facilitation department's role, including its ability to ease 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, such as the Almaty Programme of Action for landlocked countries<sup>42</sup>; promote the efficiency of postal, courier and other delivery and containerised transport services on behalf of traders; increase awareness among traders of the benefits, opportunities and the options available for electronic commerce; and 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;

<sup>42</sup> [www.un.org/special-rep/ohrlls/lldc/Almaty\\_PoA.pdf](http://www.un.org/special-rep/ohrlls/lldc/Almaty_PoA.pdf)

average release times for goods; use of electronic declarations; contribution of customs duties and taxes to government revenue; and 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 differences, 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.

*Pre-shipment Inspection Agency (if applicable)*

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

*Exchange Control/Central Bank/Ministry of Finance (if applicable)*

- Determine the purpose of exchange controls or other mandatory financial requirements 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.

*Antitrust, Competition and Consumer Protection Institutions (if applicable)*

- Determine the purpose of antitrust, competition and consumer protection institutions and their role in the

regulation of markets; arbitration and resolution of competition infringements, and control measures.

**Business service providers**

(including business associations and chambers of commerce)

*Chamber of Commerce*

- Ascertain the size of its membership and whether it is a statutory or a voluntary organisation; the role of the chamber 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; and 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, International Trade Centre (ITC); the International Chamber of Commerce; foreign chambers; regional organizations; and national business organizations and the areas of cooperation, for example, best practices, technical assistance, information sharing, etc.

*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;<sup>43</sup> 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.

#### *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 organisations 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.

### **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 customs, late arrival of manifests, banking requirements, exchange controls,

<sup>43</sup> These are internationally recognised documents that facilitate the transactions of freight forwarders, including forwarders certificate of receipt, forwarders certificate of transport, warehouse receipt, negotiable and non-negotiable multimodal bills of lading, shippers declaration for the transport of dangerous goods, shippers intermodal weight certificate and forwarding instructions issued by International Federation of Freight Forwarder Associations

availability of connecting and multi-modal 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 declarations 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 of the authorities in 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.

#### *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,

### 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 the 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)<sup>44</sup> should adopt 16 key legal instruments administered by the United Nations Economic Commission for Europe (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 are 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](http://www.unece.org/trans/main/speca/docs/13th_document04.pdf).

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 business 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

<sup>44</sup> 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>.



### Box 7.2 Cost-benefit analysis and multi-criteria models for developing transport infrastructure

The development of transport infrastructure needed for international trade requires the careful use of scarce resources as well as the appropriate balance between new development and maintenance/improvement of existing transport routes. The appraisal of transport projects can be performed effectively with the aid of cost-benefit analysis. This type of analysis has been used widely in high-income countries only. However, UNECE (2003) provides a set of guidelines for socio-economic cost-benefit analysis of transport infrastructure project appraisal in CIS countries. This methodology for the assessment of transport infrastructure needs in UNECE emerging market economies is important as a planning tool that can facilitate considerably the appraisal and selection of transport infrastructure projects. Ideally, the cost-benefit analysis would be also used to assess and plan international transport networks. This is however not feasible even in high-income regions such as Western Europe or North America due to insufficient data. Realistically, the work on international transport networks can be based on a multi-criteria approach that complements the quantitative analysis of the available data with the qualitative evaluation of strategic and political concerns. Tsamboulas (2007) describes the multi-criteria model applied in Trans-European Motorway and Trans-European Railway projects' Master Plan. A modified version of this planning tool has been used in the joint UNECE-United Nations Economic Commission for Asia and the Pacific (UNESCAP) project aiming to develop Euro-Asian transport linkages that included a number of emerging market economies in Eastern and South-eastern Europe, Caucasus, Central Asia as well as Afghanistan, China and Iran (ECE-ESCAP, 2008).

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, vari-

able levies and fees; causes of disputes (classification, value, loss, damage, security).

### 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 denied these countries the opportunity of taking full advantage of export markets. Many developing countries and countries in transition find it a challenge to meet international standards 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. Technical regulations cover product specifications such as quality, safety and production processes and methods involving agricultural and industrial products. 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.

Standards in the target developed country markets, for example the EU or the US, can become what is 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.<sup>45</sup> 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.<sup>46</sup>

In other cases, SPS and TBTs could be arbitrarily invoked by a country as a protectionist measure to limit competition. A well-known example of a technical barrier to trade from the early 1980s is the case of Poitiers. Instead of entering through France's major port cities, for a brief period Japanese video cassette recorders (VCRs) imported into France had to pass through a small, remote town called Poitiers 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 to increase the price and limit the number of Japanese VCRs sold in France to 3000 units per month, a quantity far below the size of the French VCR market.<sup>47</sup> The use of international standards endorsed by international agencies such as those of the United Nations create transparency and predictability, thereby facilitating trade and avoiding the arbitrary use of SPS and TBTs such as in the Poitiers case. In this regard, the WTO has introduced two agreements to facilitate trade through international product standards:

- Agreement on Technical Barriers to Trade (TBT)
- 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

<sup>45</sup> Fairclough (2007)

<sup>46</sup> Other examples on 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).

<sup>47</sup> Jovanovic (1997)

**Table 7.1a Main International Standard Setting Organizations**

Name of organisation	Areas of standardisation	
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

Source: ITC (2004)

products. Compliance with these standards is achieved by establishing a standard and quality control process which includes certification and quality assurance procedures for product safety and hygiene.

There are over 50 organizations that develop and promote international standards for use in international trade, of which only

seven organizations are recognised by WTO 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.

**Table 7.1b Other International Standard Setting Organizations whose standards and regulations are not mandatory for compliance with WTO**

Name of organisation	Areas of standardisation	
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)

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 creating the capacity to implement standardization activities.

Standard setting and certifying organizations widely used in the private sector include the International Organization 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 EU market. Certified exporters with products bearing these markings can gain access to international markets.

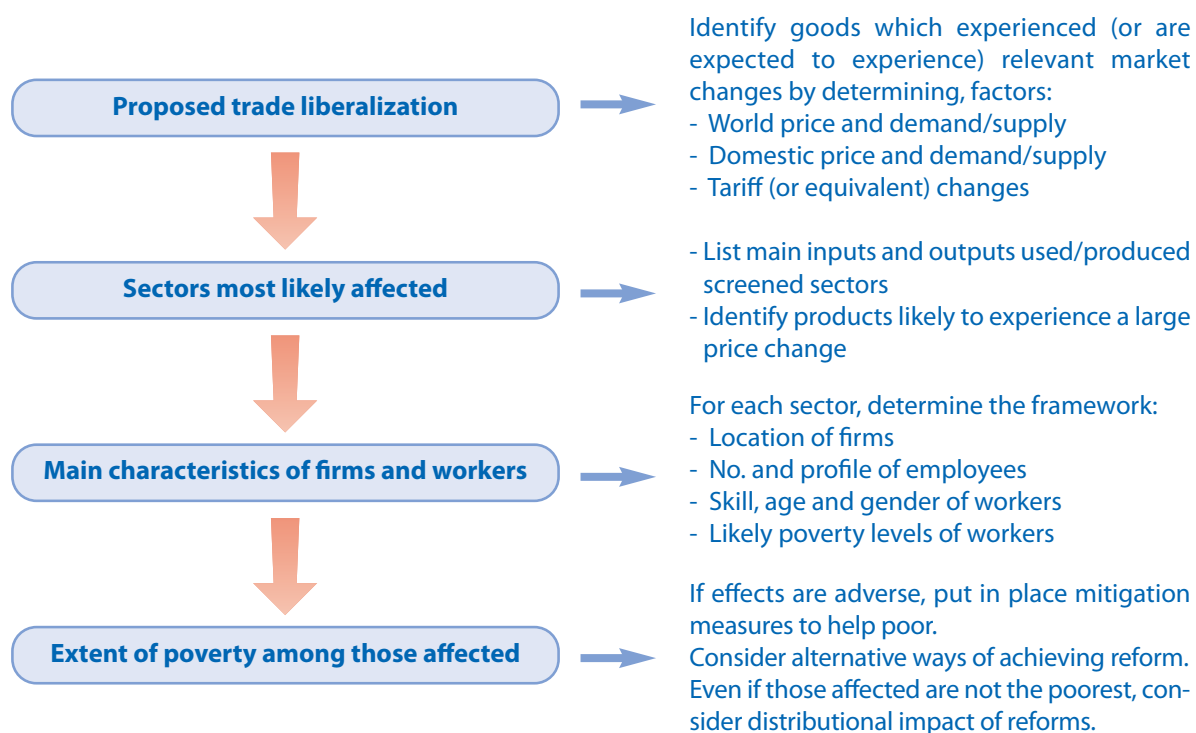
The number and percentage of industries that have obtained an ISO certification is often used as a measure of the preparedness of a market for exporting to advanced economies. The analysis should also mention the availability and the costs of certification services in the economy. The distribution of 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 a trade potential that can address the needs of the poor. These emerging economic activities present governments with opportunities for export development, SME linkages to global supply chains, job creation and improvements in the standard of living. Figure 8.1 provides a template for the selection of the sectors and presents the reasoning behind the application of a sectoral approach in the Aft studies, meaning the selection of the sectors that are most affected (or most likely to be affected) by trade liberalization are the ones that are better placed to gain from liberalization.

Once the economic opportunities have been identified the task of product and market development can begin. This involves identifying business opportunities with a potential for trade and human development within three broadly defined sectors: (1) Agriculture and natural resources; (2) Manufacturing; and (3) Services (see Table 8.1 for some examples). The ITC 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 sector winners and losers by comparing national sector performances with world ones. It was developed with the aim of revealing comparative and competitive advantages, identifying the potential for market or

**Figure 8.1 Trade liberalization and sectoral analysis**



Source: McCulloch et al. (2001)

**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 <sup>48</sup> Gold Lead Natural gas Nickel Tin Wool Zinc	Automobiles and automotive parts Cement Construction materials Machinery Processed food Textiles	Construction Financial Services

product diversification and designing trade development plans. Therefore, it could be a useful tool for indentifying the sector to be analyzed in the AfT report.<sup>49</sup>

A fairly detailed sectoral analysis should be conducted for each sector identified as suggested in the following sectoral study guideline. The choice of a specific sector should be properly justified taking into account the objectives of the AfT study.

### 8.1 Sectoral analysis guidelines

For each sector identified, whether agriculture and natural resources, manufacturing or services, the priorities should be discussed with relevant stakeholders, 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, its supply and demand structure and its dynamics;
- Diagnose the sector performance against success factors (e.g. export share in world markets);

<sup>48</sup> Grains include barley, maize, millet, oats, rye, sorghum, wheat and mixed grains

<sup>49</sup> ITC at <http://www.trademap.org>

- Assess the adequacy of available factor endowments (i.e. capital, a 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 improved, 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 the feasibility and effectiveness of identified market opportunities and public interventions;
- Discuss the assessment's findings and the identified options with relevant stakeholders;
- Prioritise 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 (I) identifying and addressing supply constraints and (II) developing a market/product development strategy by 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, multi-modal 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 standard/leader, etc..

The economy's supply capabilities analysis can be enriched by undertaking SWOT, 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 analysis techniques are briefly described in this chapter.<sup>50</sup>

#### 8.1.1 SWOT Analysis

The SWOT methodology<sup>51</sup> is a simple and very popular strategic planning tool used to measure the strengths, weaknesses, opportunities, and threats of a given strat-

<sup>50</sup> A possible alternative sector assessment methodology – SHAPE – has been developed by ITC. SHAPE offers a complete support package for the development of sector trade strategy and implementation plans. (ITC 2006)

<sup>51</sup> More information and links on [http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis)

**Box 8.1 Example of a SWOT analysis – textile and garment Sector in Romania**

STRENGTH	WEAKNESSES
<ul style="list-style-type: none"> <li>• Many firms currently exporting</li> <li>• Few if any barriers to exporting</li> <li>• A good potential for additional exports exists</li> <li>• Government policy to encourage production for export</li> <li>• Some firms understand the need for producing a quality product</li> <li>• ‘Lohn’<sup>52</sup> has maintained skilled labour force, introduced new technology, taught management about export</li> <li>• Most upgrading of machinery has been with good equipment</li> <li>• Natural fibers increasingly available from domestic sources to support additional exports</li> <li>• Labour force available and relatively cheap</li> <li>• Development of the SME sector</li> </ul>	<ul style="list-style-type: none"> <li>• High dependence on ‘Lohn’</li> <li>• Below standard management and marketing skills</li> <li>• Lack of information on firms</li> <li>• Limited assistance from business support organizations.</li> <li>• Lack of understanding of quality standards for target markets</li> <li>• High cost of working capital from the banking system</li> <li>• Insufficient market intelligence</li> <li>• Very weak primary sector</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Education and training</li> <li>• Increased FDI</li> <li>• Domestic brands</li> <li>• Enhanced market intelligence</li> <li>• Geographical proximity to markets</li> <li>• Relocation of Western mills</li> <li>• New technologies available to increase productivity, quality level and sophistication</li> <li>• Additional knowledge relative to design</li> <li>• CAD/CAM increased use</li> <li>• Branding strategies</li> <li>• Retail/distribution chain development strategies</li> <li>• Sizable domestic market</li> </ul>	<ul style="list-style-type: none"> <li>• Migration of ‘Lohn’</li> <li>• Economic downturn</li> <li>• International competition based on cost</li> <li>• Labour costs increase</li> <li>• Poor inter-firm cooperation</li> <li>• Costs with development of R&amp;D, and product design</li> <li>• Low productivity to reduce the cost advantage</li> <li>• Quality assurance means</li> <li>• EU regulations to introduce trade limitations, after integration</li> <li>• Continued imports of low quality and price products into the domestic market</li> </ul>

Source: <http://www.chfinternational.org/romania/>

52 Outward processing production system. Under the typical Lohn transaction, a Western European producer ships fabric and clothing designs to a Romanian factory which then transforms the raw materials into finished apparel.



egy, business venture or economic activity. Flexibility and immediacy being the main advantages of this method, a SWOT analysis should be used to frame the Aft sector analysis. A SWOT first requires a clear assessment of the objective(s) of the analysis. The process then entails identifying internal and external factors that are favourable and unfavourable to achieving these objective(s). Box 8.1 provides an example of a SWOT analysis for the textile and garment sector in Romania, which was part of a wider sectoral analysis conducted to draft a sector development strategy.

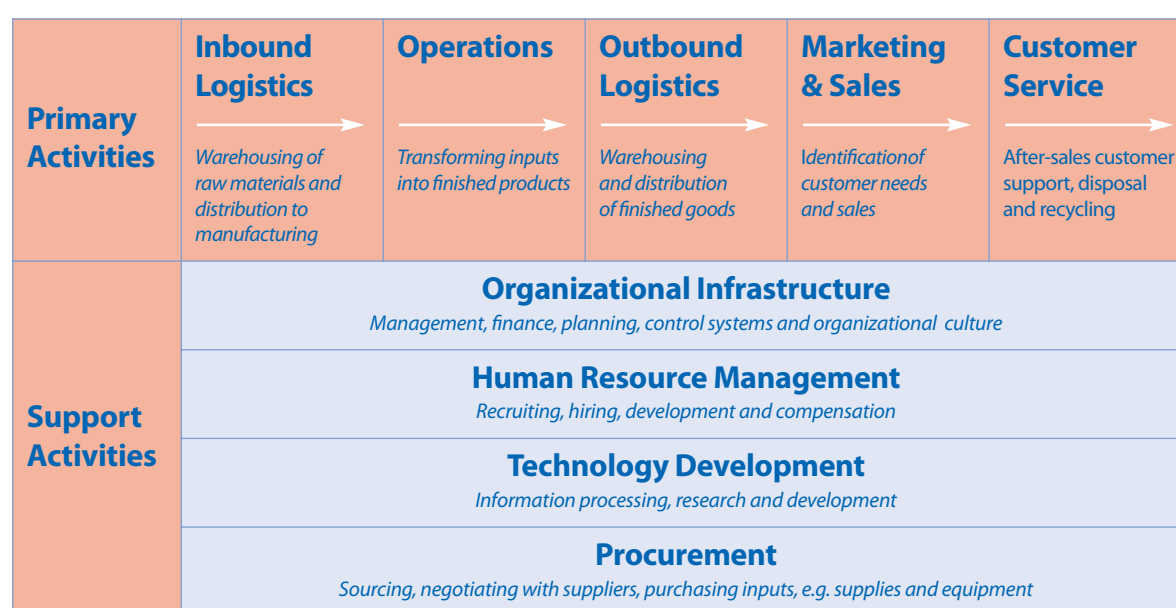
While the SWOT analysis should necessarily be connected with the sector's potential for economic growth and trade, it should also help to identify available options to enhance human development and eventual needs for mitigation measures. A SWOT should be used as an input to generate a set of possible strategies, 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?

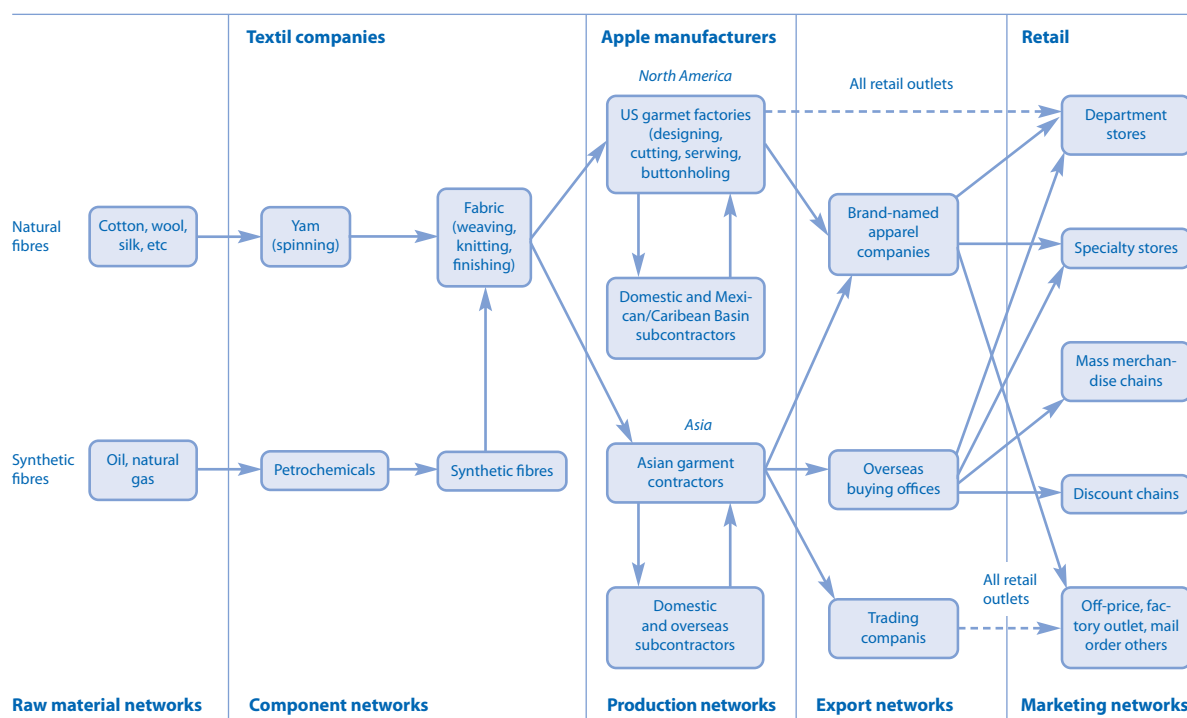
### 8.1.2 Value Chain Analysis

A value chain describes a chain of activities which 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 activity of the chain the product gains some value. The value chain approach analyses the firms - suppliers, producers, processors and buyers - and the relationships among them. It analyses the factors influencing their performance, including access to and the requirements of end markets; the legal, regulatory and policy environment; vertical and horizontal coordination between firms and the level and quality of business support services. Value chain analysis is increasingly used to identify competi-

**Figure 8.2 The value chain**



Source: Adapted from Porter (1985)

**Figure 8.3 The apparel value chain**

Source: Gereffi and Memedovic (2003)

tive advantages and develop business strategies to increase, for example, export sales.<sup>53</sup> This tool helps address competitiveness issues that determine export performance; helps identify market opportunities; develop business support programmes; and devise strategies on employment, skills development and diversification.<sup>54</sup>

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 mar-

keting generally earn higher returns and create more employment compared to countries that only supply raw materials.<sup>55</sup>

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 stakeholders (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

<sup>53</sup> 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 free on board (FOB) price and the cost of intermediate inputs (World Bank 2007)

<sup>54</sup> 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

<sup>55</sup> See ITC (2003). For e.g., the newly industrialising countries in East Asia used an export-led growth strategy, backed by massive investment in economic and social infrastructure, starting out with low wage export-oriented assembly operations under license and then made the transition to exporting their own high-value branded goods (see Mosk)

downstream segments of the apparel value chain).<sup>56</sup>

The objective 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 analyzing value chains has been developed by the United States Agency for International Development (USAID). USAID's Microenterprise Development Office provides a detailed look at the value chain framework through a dedicated online free training module.<sup>57</sup>

### 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 multi-sectoral approach to analyse local industries with the objective of identifying business linkages and other cluster characteristics,<sup>58</sup> mapping the interrelated industries and executing a plan to market and attract investors to enter and develop the cluster. The emphasis is put on identifying forward and backward linkages and opportunities for vertical 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.<sup>59</sup>

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 information and communications technology industry in the US; the US automobile industry in Detroit; information outsourcing in Bangalore, India; the fashion industry of Paris, France; and the automotive supply industry of Slovenia.<sup>60</sup>

## 8.2 Sector assessments and human development

The sector analysis should identify linkages with human development by looking at new opportunities that will spring from increased trade flows and the sector's economic expansion. Traditionally most direct

<sup>56</sup> For more information on value chain analysis, see Schmitz (2005), World Bank (2007) and Kaplinsky and Morris (2000)

<sup>57</sup> [http://www.microlinks.org/ev\\_en.php?ID=13712\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=13712_201&ID2=DO_TOPIC)

<sup>58</sup> Cluster characteristics include competing firms, business-to-business relationships and availability of input suppliers.

<sup>59</sup> For more information on business clusters, see Porter (1990) Krugman, (1991) and Dermastia (2006)

<sup>60</sup> See the cluster initiatives of the Competitive Institute <http://www.competitiveness.org/cid/cilist>.

## Box 8.2 Growing inclusive markets initiative – selected tools

### Heat Map Methodology

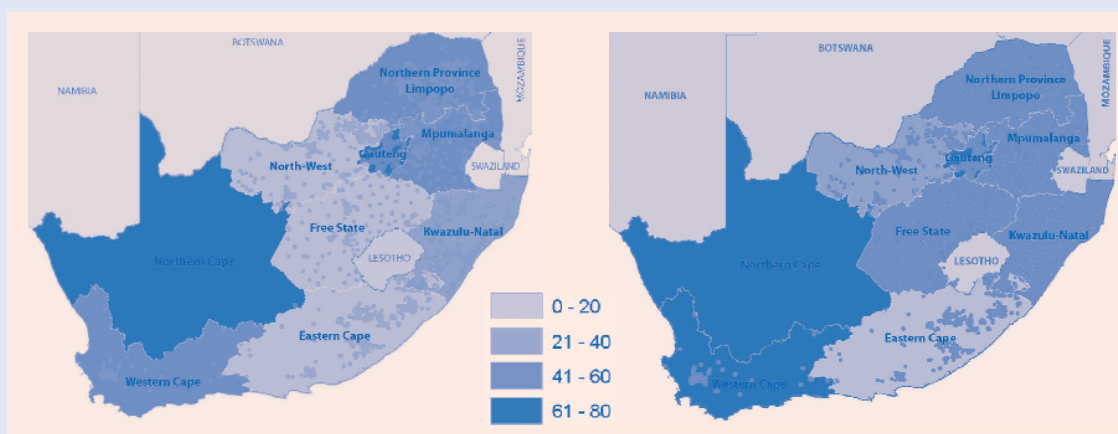
Market heat maps help to illustrate how much the poor participate in markets. They show access to goods and services in selected sectors and countries, and they show how the goods and services are provided. The maps provide information on the nature and composition of markets pertinent to human development 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 US \$2 a day with access to a mobile phone, 2006 (figures refer to percentage of adults) in South Africa.

#### Less than US \$2 a day

#### More than US \$2 a day

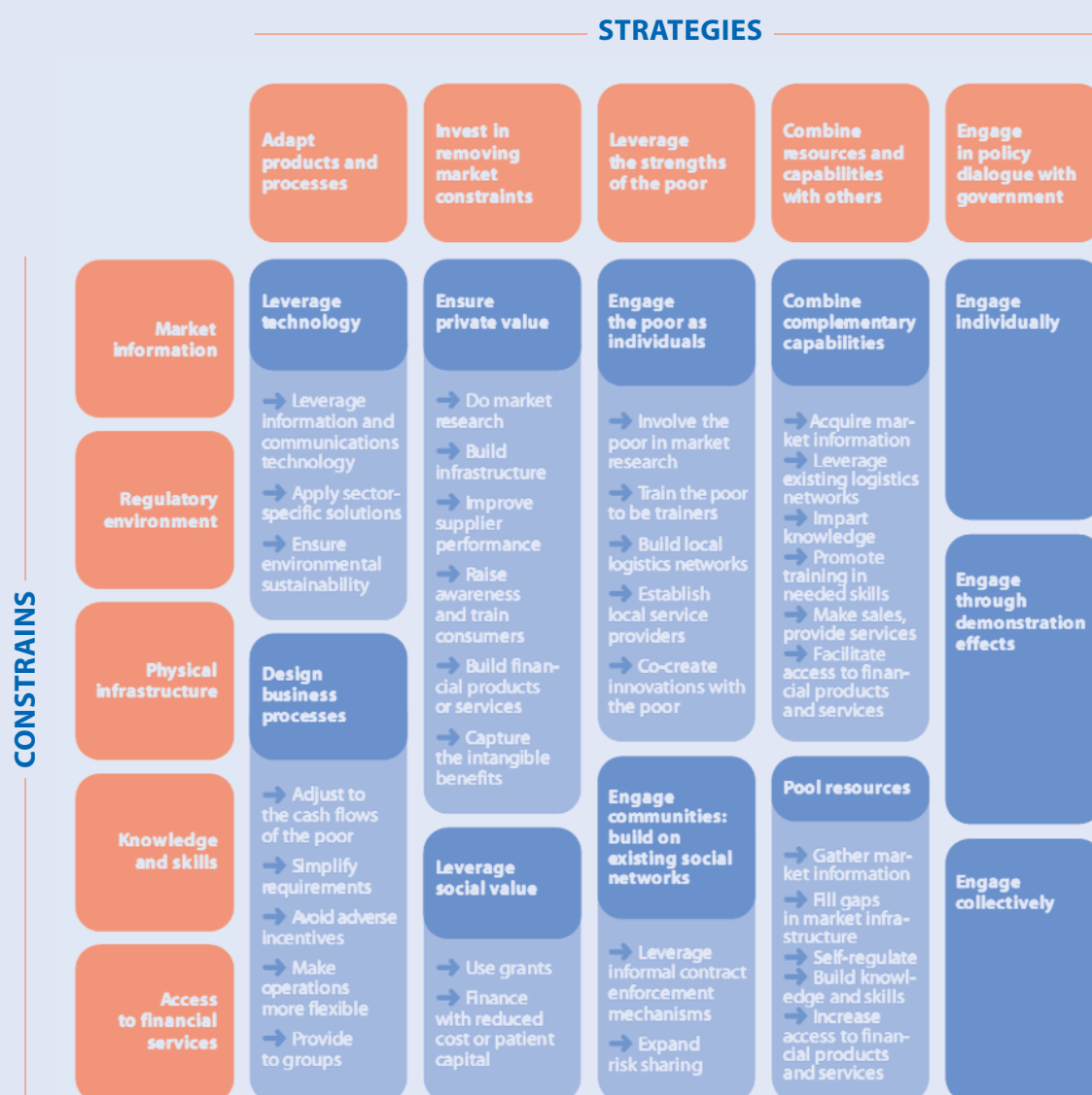


### Strategy Matrix

The strategy matrix is constructed to help formulating 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)



Source: adapted from UNDP (2008) and [www.growinginclusivemarkets.org](http://www.growinginclusivemarkets.org)

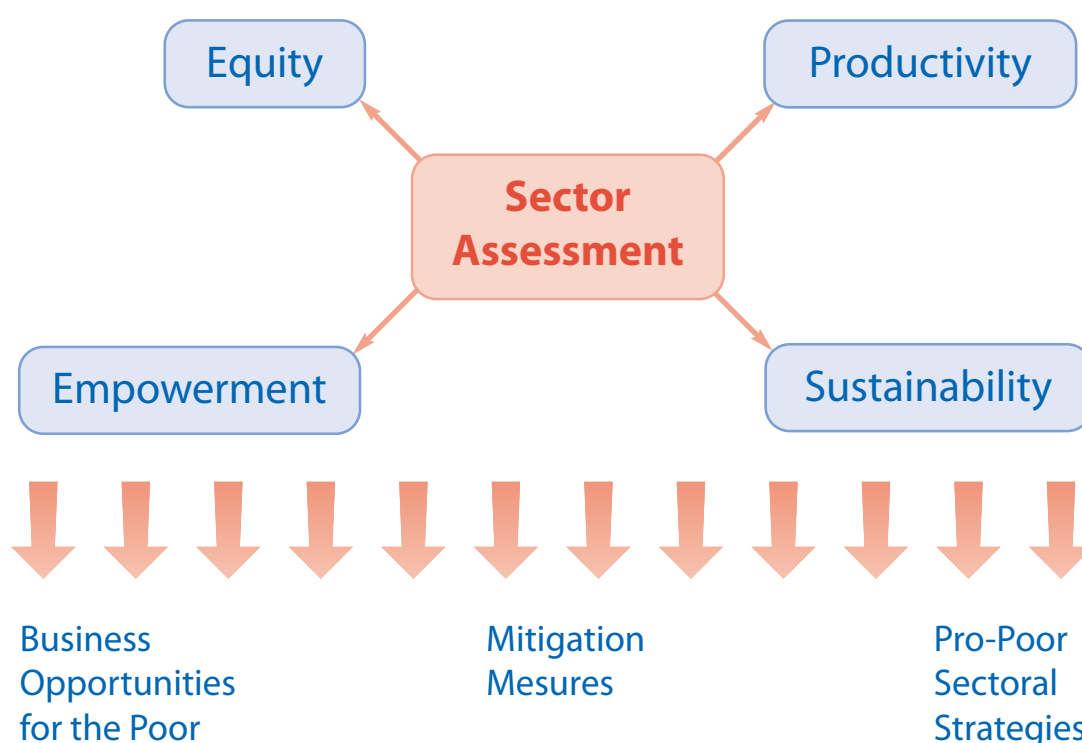
linkages are related to employment opportunities and changing working conditions. This guide proposes a human development approach that should innovatively look at these linkages with the aim of identifying specific pro poor measures.

One of the examples of how to look at business with a human development lens is the Growing Inclusive Markets (GIM) 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 strength-

ening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment'<sup>61</sup>. An example from Europe and the CIS region is the Danone affordable milk porridge sold in Poland, which Danone marketed at a very affordable price for low income families. Practical tools generated by GIM are presented in Box 8.2. The strategy matrix, particularly, could be adapted sector wise to identify pro-poor export strategies.

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 economic analysis. Two main channels determine the outcomes in those four areas: prices and production. The latter - in other words employment - being the most important.

**Figure 8.4 Sector assessment and human development**



61 UNDP (2008)



*Productivity*

The access to new goods and services (e.g. internet, reliable electricity sources, new agro-processing technologies), or to already commercially available products at lower prices, improves people's and enterprises' productivity. There is an obvious virtuous cycle between productivity, profits, exports, employment, wages and human development. Access to new services can 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. For example, 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 FDIs), and company size.

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

ductivity through, for example, vocational training.

*Equity*

Increased opportunities for exports and access to new markets should boost entrepreneurship and employment. However, the mechanisms through which growth is 'trickled down' to the poor depend on the equity structure of the economy (in this case of one identified sector) and its characteristics. The study should assess the sectors' characteristics in terms of equity, wage inequality being the first variable. The working environment should also be discussed in terms of 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 also be required.

Equity should be analyzed in terms of market access. If this is relevant for the selected sectors (e.g. agriculture) 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<sup>62</sup> definition of human development includes the 'protection of the life opportunities of future generations'. This recognition should be embedded in the sector analysis. In partic-

62 UNDP (1996)



ular 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 Environment 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 consider the possibility of the application of 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 the easiest variable to measure; however a qualitative assessment should complement this analysis by looking at the dimensions that are often hidden when taking a purely economic review, and consider dimensions such 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 the newly registered enterprises), etc. Qualitative surveys can be conducted on 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 entrepreneurs and their (current and expected) share and contribution to the economy. Empowerment can also be assessed by looking at the role, membership and diffusion of trade unions.

To summarize, the objective of this section should be to identify the most promising linkages between trade and human development. The approach should be proactive, meaning that the merit is the identification of 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 the sector's 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 methodologies have been developed to study, in a broader and less context specific ground, the impact of public policies on the economy and welfare. This chapter provides suggestions and explains how these methodologies can be linked to the AfT framework, while it does not pretend to provide a comprehensive overview of the relevant literature. The presentation that follows focuses on the following methodological 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) – presented in Chapter 3

### 9.1 Human Development Impact Assessment (HDIA)

The UNDP Regional Centre in Colombo developed a simple methodology to address the linkages between trade and human development. The theoretical framework that underpins this tool has been explained in Chapter 3. The methodology, called HDIA, can be described by discussing ten key questions grouped in four sections: (I) trade policy change and expected effects, (II) transmission channels and expected trade related outcomes, (III) HDIA implementation considerations and constraints and (IV) post-assessment considerations.

#### Trade policy change and expected effects

##### (1) Which trade policies are being analyzed?

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 – midterm evaluation and adjustment) or after the trade policy change (ex-post evaluation).

##### (2) What are the expected effects or changes?

Usually, expected effects of trade policies include an increase in trade flows as a result of 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. On the other side, protectionist trade policies aim to protect internal markets and infant industries from the world's competition, decrease internal prices (e.g. export bans after the food crisis) or increase a country's policy space.

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

Increased trade is usually believed to increase net incomes. Yet even if it creates an aggregate improvement, economic restructuring due to new trading

arrangements may make some groups worse off, particularly in the short-run. It is important that the AFT needs assessment exercises pay special attention to the impact on vulnerable groups. The analysis here should start from the identification of the 'losers'. To determine effects on specific groups researchers may use secondary literature and existing surveys or conduct specific assessments.

### **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. Different 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 conclusions 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 time that is allocated to take care of children), food and health security, environmental sustainability and community provisions (e.g. social capital).

### **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 market 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.

### Post-assessment considerations

#### *(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. 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 per se 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 TRIPS or the phase 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 analysis described in Chapter 8.

## 9.2 Poverty and social impact assessment (PSIA)

The PSIA framework aims to measure the distributional impacts of policy reforms, and places the focus on poor and vulnerable groups. While focusing on distributional impacts, the methodology covers issues of sustainability, risks, and social impacts. PSIAs are expected to improve policy making by examining 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<sup>63</sup>:

63 UNDP (2008, forthcoming), World Bank (2003), World Bank (2004)

- **Asking the right questions**  
Increasing understanding of underlying problems that a planned reform intends to address. Carrying out a problem diagnosis or another scoping exercise to map out a chain of cause and effect, from policy objectives to constraints, to choices, to 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, etc.;
- **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 the nature of the topic, levels of capacity and availability of data;
- **Analyzing 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 people 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 as a result of apparent adverse effects revealed by analysis; considering mechanisms to respond to adverse effects which cannot be avoided; and considering delay or suspension of reforms especially if the benefits are much less than the costs to compensate or mitigate their effects;
- **Assessing risks**  
Analyzing 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 so as to formulate policy;
- **Fostering policy debate and feeding back into policy choices**  
Sharing experience and information on policy with wider stakeholder

groups, ensuring that results are discussed as part of a 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

Trade economics is a relatively well developed branch of economics. Furthermore, in the last decades quantitative analysis of the effects of public policies (and trade policies) has grown steadily in number and quality. Economic theories exist and analytical tools are available. Key challenges include (I) the reliability of data, and (II) interpretation of the results. The main issue left is ‘how to use economic modelling’ to evaluate the impact on human development. Indeed, most of the techniques provide estimates of economic dimensions as income, factor prices and wages but rarely move forward on the other dimensions of human development. Thus, the results of economic modelling need to be discussed from the

human development perspective. This section does not aim at explaining how to use economic and econometric analytical tools, but highlights existing instruments and sources for further reading.

AfT studies, when possible, should use quantitative methods to predict economic changes and to estimate policy outcomes. Economic modelling should complement and do not substitute qualitative analysis. These 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, the results of the simulations should be handled with care. While economic models provide important information for policymakers, their ability to interpret the future is limited and the results should be used only to identify the sense of the magnitude that changes in trade policy can bring.

The three main classes of quantitative tools are partial equilibrium models, computable general equilibrium models (CGE), and gravity models.<sup>64</sup>

#### 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 to compute and incorporate more variables and

64 WTO (2005)



### Box 9.1 The econometrics methodology

Econometrics may be defined as the social science in which the tools of economic theory, mathematics and statistical inference are applied to the analysis of economic phenomena. This technique is often used by social scientists to analyse human development trends and the impacts of policy options. It employs the following general methodology:

1. Create a statement of theory or hypothesis;
2. Collect data;
3. Specify the mathematical model of theory;
4. Specify the statistical, or econometric, model of theory;
5. Estimate the parameters of the chosen econometric model;
6. Check for model adequacy and model specification testing;
7. Test the hypothesis derived from the model;
8. Use the model for prediction or forecasting.

Source: UNDP (2007)

resources and offer a more precise measure of a policy impact.

Several partial equilibrium models are used in the assessment of trade policies, including: Agricultural Trade Policy Simulation Model (ATPSM) developed 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.<sup>65</sup> Further examples and references can be found in Box 9.7.

#### Computable General Equilibrium models

The Computable General Equilibrium (CGE) models try to recreate the functioning of an 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 Accounting Matrix (SAM) to estimate scenarios. CGE models are mainly used to assess the impact of multilateral or regional trade agreements due to the fact that all sectors of an economy are influenced.

A CGE model should be able to explain the linkages between economic factors and market and the reality that changes in one market have implications on others. The main channels through which linkages manifest themselves are consumers' and producers' behaviours. A more than proportional reduction of a tariff on car imports in respect of motorcycles will increase the demand for cars, due to lower prices and increased selection, at the expense of its main substitutes (in our case motorcycles) with a net benefit for the consumer. If the price change is sub-

<sup>65</sup> WTO (2005)

### 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. If you are using this for teaching, I recommend starting 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 &c:** 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](http://www.i4ide.org/handbook/Models/Index.htm)

stantial it may even change consumer behaviours and modify the internal structural demands for these goods. On the production channel the lower price of cars may reduce the returns for car assembly firms and pull out some producers from the market. This relays factor of productions (labour and capital investments) employed in the car production

sector that should be re-employed in sectors with higher economic returns (for example the beverage sector). The internal demand for cars will then be covered by imports. The explanation of gains from trade is the same as that of the mainstream economic theory, namely by allowing factors of production to move to more productive sectors. The analysis

### 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 GDP. On the positive side, the FTA should result in an increase of foreign investments and lower internal prices which in turn should boost 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 of local by 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 percentages 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)

should never forget to assess the impact on the workers that become unemployed due to the closure of the car assembly

plant and have to find a new job in the beverage sector (in our example the one with the highest 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 is an important instrument for planning trade policy options, even if it can only process the income dimension of poverty.

### **Gravity models**

The gravity models of trade are econometric models used to describe bilateral trade flows. The assumption, which is common to other similar applications in the social sciences, predicts 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 gravity between two bodies described by Newton.

Gravity models have been widely used to assess preferential trade agreements, bilateral trade agreements and monetary unions. The model has a high explanatory power in analyzing bilateral trade and in highlighting key explanatory variables behind trade flows. However, even if the model has been successfully implemented, its theoretical justification is still an object of dispute. Gravity models are still criticized for their lack of theoretical foundation 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 for development. As the Guide has tried to show, 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, but require targeted institutional and policy changes aimed specifically at empowering people and improving capabilities and choices.

This Guide aimed to present a systematic way of assessing needs under the AfT programme. Without putting forward a blueprint, the intention was to outline a process which looked at the relevant areas of the economy and human development situation, and which tried to maintain and improve 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 are not just buzzwords; they 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 AfT itself, will be less successful if they are not owned by national policymakers and other stakeholders. Enhanced ownership and mainstreaming will also make it

easier for trade to be perceived holistically and integrated into policy toward the social sectors. Likewise the idea of policy space has become increasingly popular in recent years; yet it is more than just a fad. If policymakers 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 assessments include 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 analyzed 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 value, and thus are likely to involve some more original research. Finally, 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. The second

**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						

**Table 10.2 Donor intervention (Aid for Trade)**

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

theme that should be embedded in the guide is the identification of capacity gaps and of possible solutions, including donors' interventions. The Integrated Framework (IF) can be taken as an example for designing donor coordination mechanism, even for countries that are not eligible to IF funding.<sup>66</sup> The AfT study should be completed only by 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. Possible structure of an action matrix is presented in Table 10.1.

Conclusions should highlight capacity gaps and propose measures that are required to overcome these weaknesses. Before pre-

senting the action matrix or in a separate chapter the AfT study should map recent and ongoing donor projects as well as commitments (see Table 10.2) and indicate the eventual need for an increase in cooperation among donors. It is advisable to briefly summarize existing projects and to identify budget, duration and donors.

It is important that the AfT study is well presented to the public and discussed by policy and decision makers. Ideally the AfT needs assessment should provide a proper background for political decisions on trade policies. Taking into account that the debate on the report's recommendations and their subsequent adoption are the main objective of the AfT needs assessment process, the launch of the follow up strategy is a key factor in determining the success of the whole exercise.

<sup>66</sup> More information, a manual and examples can be found at the official website of the Integrated Framework ([www.integratedframework.org](http://www.integratedframework.org)).

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# ANNEX 1 Millennium Development Goals

Official list of MDG indicators

Effective 15 January 2008<sup>67</sup>

Millennium Development Goals (MDGs)	
Goals and Targets <i>(from the Millennium Declaration)</i>	Indicators for monitoring progress
<b>Goal 1: Eradicate extreme poverty and hunger</b>	
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 US \$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 US \$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
<b>Goal 2: Achieve universal primary education</b>	
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 2.1 Proportion of pupils starting grade 1 who reach last grade of primary 2.2 Literacy rate of 15-24 year-olds, women and men
<b>Goal 3: Promote gender equality and empower women</b>	
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

<sup>67</sup> 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 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
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 <sub>2</sub> emissions, total, per capita and per US \$1 GDP (PPP) 7.3 Consumption of ozone-depleting substances 7.4 Proportion of fish stocks within safe biological limits 7.5 Proportion of total water resources used
Target 7.B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss	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	
<p>Target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system</p> <p>Includes a commitment to good governance, development and poverty reduction – both nationally and internationally</p> <p>Target 8.B: Address the special needs of the least developed countries</p> <p>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</p>	<p><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></p> <p><i>Official development assistance (ODA)</i></p> <p>8.1 Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national income</p> <p>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)</p> <p>8.3 Proportion of bilateral ODA of OECD/DAC donors that is untied</p> <p>8.4 ODA received in landlocked developing countries as a proportion of their gross national incomes</p>



<p>Target 8.C: Address the special needs of land-locked 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)</p> <p>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</p>	<p>8.5 ODA received in small island developing States as a proportion of their gross national incomes</p> <p><i>Market access</i></p> <p>8.6 Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty</p> <p>8.7 Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries</p> <p>8.8 Agricultural support estimate for OECD countries as a percentage of their gross domestic product</p> <p>8.9 Proportion of ODA provided to help build trade capacity</p> <p><i>Debt sustainability</i></p> <p>8.10 Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)</p> <p>8.11 Debt relief committed under HIPC and MDRI Initiatives</p> <p>8.12 Debt service as a percentage of exports of goods and services</p>
<p>Target 8.E: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries</p>	<p>8.13 Proportion of population with access to affordable essential drugs on a sustainable basis</p>
<p>Target 8.F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</p>	<p>8.14 Telephone lines per 100 population</p> <p>8.15 Cellular subscribers per 100 population</p> <p>8.16 Internet users per 100 population</p>

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 Methodologies

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 analyzing both internal and external factors. The SWOT approach involves organising key data and information about four main categories: strengths, weaknesses, opportunities, and threats	<a href="http://en.wikipedia.org/wiki/SWOT_analysis">http://en.wikipedia.org/wiki/SWOT_analysis</a> ; <a href="http://www.businessballs.com/swotanalysisfreetemplate.Htm">http://www.businessballs.com/swotanalysisfreetemplate.Htm</a>
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.	<a href="http://www.comminit.com/planningmodels/pmodels/planning-models-126.html">http://www.comminit.com/planningmodels/pmodels/planning-models-126.html</a> ; <a href="http://www.odl.org.uk/Rapid/Tools/Toolkits/Policy_Impact/Index.html">http://www.odl.org.uk/Rapid/Tools/Toolkits/Policy_Impact/Index.html</a> .
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	Competitive Advantage of Nations, by Michael Porter (New York: The Free Press, 1990). <a href="http://www.rbda.gov.au/literature_review/literature_review.pdf">http://www.rbda.gov.au/literature_review/literature_review.pdf</a> ;

Strategic tool	Brief description	References
	<p>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:</p> <ol style="list-style-type: none"> <li>1. Factor conditions: the availability of inputs such as skilled labour, infrastructure, and capital;</li> <li>2. Demand conditions: the level and sophistication of local demand;</li> <li>3. Business/sector structure, strategy, and rivalry: the degree of competition;</li> <li>4. Related and supporting industries: the availability and degree of linkages between core and supporting activities.</li> </ol>	
Scenario planning	<p>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:</p> <ol style="list-style-type: none"> <li>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</li> </ol>	<p>Plotting Your Scenarios, by Jay Ogilvy and Peter Schwartz (December 2004, Global Business Network Web site) at: <a href="http://www.gbn.com/ArticleDisplayServlet.srv?aid=34550">http://www.gbn.com/ArticleDisplayServlet.srv?aid=34550</a>; <a href="http://scenariothinking.org/wiki/index.php/Main_Page">http://scenariothinking.org/wiki/index.php/Main_Page</a>.          Developing and Applying a Participative Strategic Planning Tool, by Frans Berkhout and Julia Hertin (March 2002, Greener Management International);          Regional Economic Modeling: A Systematic Approach to Economic Forecasting and Policy Analysis, by George I. Treyz (1993, Kluwer Academic Publishers).</p>

Strategic tool	Brief description	References
	<p>exist and how they might interact to change the external environment. Scenarios are then created and analyzed for their implications on the economy;</p> <p>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.</p>	
Importance strength analysis (locational comparative advantage)	<p>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 analyzing the competitiveness of individual sectors, especially to identify and prioritise.</p>	<p>Local Economic Development: Analysis and Practice, by J. P. Blair (1995, Sage Publications).</p>
Systemic competitiveness	<p>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):</p> <ul style="list-style-type: none"> <li>- Meta-level: Local actors' capacity to cooperate and trust / degree to which they can agree upon shared objectives;</li> <li>- Macro-level: Financial (budgetary) capacity and management;</li> </ul>	<p>Systemic Competitiveness Revisited: Conclusions from Technical Assistance in Private Sector Development (<a href="http://www.mesopartner.com/englisch/epubl.html">http://www.mesopartner.com/englisch/epubl.html</a>)</p> <p>Systemic Competitiveness. New Governance Patterns for Industrial Development, by K. Esser, W. Hildebrand, &amp; J. Meyer-Stamer (German Development Institute)</p>

Strategic tool	Brief description	References
	<ul style="list-style-type: none"> <li>- Meso-level: Existence of local economic support (incubators, business assistance, etc.);</li> <li>- Micro-level: Linkages between firms/stakeholders in the local economy (clusters).</li> </ul>	
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.	Regional Economic Development–Analysis and Planning Strategy, 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: <ol style="list-style-type: none"> <li>1. Leadership (strong vs. weak);</li> <li>2. Institutions (effective vs. ineffective);</li> <li>3. Resource endowments and market fit (good versus poor).</li> </ol> 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.	Stimson, R. J., R. R. Stough, & M. Salazar. (2005). "Leadership and Institutional Factors in Endogenous Regional Development." <i>Investigaciones Regionales</i> . 7: 23–52. Brief overview ( <a href="http://www.ersa.org/ersaconfs/ersa04/PDF/697.pdf">http://www.ersa.org/ersaconfs/ersa04/PDF/697.pdf</a> )
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	<a href="http://www.balancedscorecard.biz/Introduction_BSC.html">http://www.balancedscorecard.biz/Introduction_BSC.html</a> ; <a href="http://www.centre-for-egovernment.com/balscore.htm">http://www.centre-for-egovernment.com/balscore.htm</a> ; <a href="http://www.auditscotland.gov.uk/index/99ms_01.asp">http://www.auditscotland.gov.uk/index/99ms_01.asp</a> .

Strategic tool	Brief description	References
	(efficiency); and 4) learning and growth. Monitors performance across a balanced set of indicators (the specific categories can be re-defined to meet identified specific needs; 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.	
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 prioritising sectoral opportunities.	<a href="http://www.ciphersys.com/hofhelpp/Hamel%20Prahalt/hamel-prahaladhelp file.htm">http://www.ciphersys.com/hofhelpp/Hamel%20Prahalt/hamel-prahaladhelp file.htm</a> ; Competing for the Future by G. Hamal and D. K. Prahalad (1994, Harvard Business School Press)

Source: Assessing Competitiveness. Guide to Strategic Frameworks. LED Resource Guide [www.citiesalliance.org](http://www.citiesalliance.org)

## ANNEX 3 International and regional 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](http://comtrade.un.org))

### ***UNCTAD-TRAINS***

TRAINS (Trade Analysis and Information System) provides online access to indicators of Trade Control Measures (Tariff, Paratariff 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?intltemID=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-dependent 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 Special Drawing Rights (SDRs).

(<http://www.unctad.org/Templates/Page.asp?intltemID=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 im-



ports aggregated at national or regional group level.

(<http://www.imfstatistics.org/DOT/>)

## ***The International Trade Centre (ITC)***

### **Trade Map**

Trade Map - [www.trademap.org](http://www.trademap.org) - is an on-line 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, representing about 95 per cent of world trade.

(<http://www.trademap.org>)

### **Market Access Map**

Market Access Map - [www.macmap.org](http://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](http://www.macmap.org))

### **Product Map**

Product Map - [www.p-maps.org](http://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](http://www.p-maps.org))

### **Investment Map**

Investment Map - [www.investmentmap.org](http://www.investmentmap.org) - an interactive tool that combines statistics on 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](http://www.investmentmap.org))

## ***The World Bank***

### **The World Integrated Trade Solution**

The World Integrated Trade Solution (WITS) is software developed by the World Bank, in close collaboration with 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;
- The Integrated Data Base (IDB) and Consolidated Tariff Schedule Data Base (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 be fee-charging or 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)***

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The IAF allows you to access the IDB and CTS on-line, select markets and products and compile reports for browsing on-line. The WTO 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 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 a AfT 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 recom-

mendations 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
<b><i>Preparation phase</i></b> 1. Establishing the context 2. Drafting terms of reference 3. Selection of the authors' team				
<b><i>Production phase</i></b> 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)				
<b><i>Dissemination and follow up</i></b> 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;
  - b.) An assessment: the cost of exporting to the EU.
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 (authors' team) 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 AfT 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, authors' team, 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

2 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 policymakers, 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 methodologies 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-breaking)       |

#### 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 can trade objectives 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 works.*

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 be facilitated?
- What are tools for guaranteeing productive participation?

*Note: this sub-section focuses on participatory tools and techniques. The approach will be inclusive of stakeholders, which might be marginalized, such as women, labour 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 methodologies***

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. A particular focus should be given to human development and*

*how the concept should be analyzed 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 be assured?
- ☐ Does the country have a recent census or household surveys?
- ☐ Does the country (if WTO member) have 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 fiscal and monetary policy?
- ☐ Has the team presented a summary of the country 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 analyzed?
- ☐ 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 methodologies 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 analyzed 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?
- ☐ 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***

#### ***Trade flows***

- ☐ Have trade flows and terms of trade been analyzed 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?
- ☐ 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 been 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 been tested for selected products?
- ☐ Has the quality of business and infrastructure services offered to exporters and importers been evaluated?
- ☐ Does the underlying causes of inefficiency, poor service delivery and high cost related to the movement of traded goods so far 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 agencies' 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?
- ☐ Have 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 international standards is diffused and widely 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 major export products respect the relevant international standards?
- ☐ Has your country faced market access restrictions due to the lack of application of international standards?
- ☐ Do enterprises have easy and affordable access to internationally recognised 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?
- ☐ Have 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 a 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 possible export opportunities been analyzed and forecast?
- ☐ 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 prioritised areas where donor intervention may be called (e.g. market information, development of business linkage)?
- ☐ Has the team drafted key recommendations?

### **Human development analysis**

- ☐ Has the sector assessment identified the linkages with human development by

looking through at new opportunities that will spring from increased trade flows and the sector's economic expansion?

- ☐ Has the sector assessment identified the linkages with human development by looking through the main transmission channels (prices and production)?
- ☐ Has the profile of the poor and vulnerable households that live on the selected sector income 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 present, have inclusive business models been proposed to involve the poor?

#### **- Productivity -**

- ☐ Has the AfT study explained sector productivity statistics? In the 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 (i.e. permanent access to health services)?

#### **- Equity -**

- ☐ Has the study assessed the sectors' characteristics in terms of equity? Has data been 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 analyzed in terms of opportunities and equity?

#### **- Sustainability -**

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

#### **- Empowerment -**

- ☐ Has the study analyzed the dimension of employment creation and of new business opportunities?
- ☐ Have prospects, trends, and changes in wages been identified?
- ☐ Has the team evaluated the quality and sustainability of new jobs created?
- ☐ Has the team identified capacity gaps and areas for donors' intervention?

### **TRADE POLICIES: AN IMPACT ASSESSMENT**

- ☐ Has the team identified a key trade policy for a complete impact assessment?
- ☐ Has adequate time, human and financial resources been dedicated to compiling the assessment?
- ☐ Has the team identified the methodology or set of methodologies that are best adapted to the specific context?
- ☐ Are the selected methodologies applicable with the available data?
- ☐ Do selected methodologies provide a balanced approach between quantitative and qualitative analysis?
- ☐ Are the methodologies selected in line with the human development approach? Do they provide insights for a human development centered analysis?

- ☐ Do the methodologies 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?







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