Aid for Trade Development:
Lessons for Lomé V

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Summary

The private sector has recently been recognised as an engine for growth and a key actor in the development process. However, in ACP countries, decades of preferential market access have not been sufficient to stimulate private sector development and economic growth and a wide range of supply-side constraints have prevented the private sector from becoming really competitive. **Aid for trade development** is therefore seen as an essential element in preparing developing countrries to address the challenges of globalisation.

After several years experience, donors can report few success stories in their trade-related assistance. It seems that this assistance was often hampered by the policy environment in recipient countries (including factors such as political instability, anti-export bias, repression of the private sector, pervasive intervention of governments) or by poorly-designed projects (including factors such as a focus on governments, their ad hoc nature, and lack of any coherent strategy).

Today, the picture is changing, both in developing countries and among donors. Developing country governments are transforming the role of the state and accepting the private sector as a prime economic mover. Private sector actors are becoming more structured and organised. Donors are aware of the need for a comprehensive approach, for proper coordination with economic reforms, and for a focus on the competitiveness of the private sector. The difficulties in implementing these new approaches should not be underestimated, especially in least-developed countries (LDCs). Field studies in Uganda and Ethiopia clearly show that two crucial hurdles have to be overcome before trade-related assistance can be effective: donor coordination and cooperation with the private sector.

However difficult **donor coordination** is, it is an essential part of coherent and effective cooperation. Several initiatives are moving in this direction. These include the Integrated Framework for Trade-related Technical Assistance (IF) in LDCs and the new EU strategy for private sector development which emphasises a comprehensive approach in coordination with other donors.

A second, more imperative element, is **genuine participation of the private sector** in the design and implementation of donor projects and in the wider policy dialogue. History shows that those developing countries that have experienced economic growth and started a genuine development process are those where a constructive and structured "trialogue" takes place between government, private sector and civil society. Such public-private dialogue is essential to creating both social stability and a policy environment that stimulates private sector initiative. This dialogue is far from easy and there are many stumbling blocks (not least is the lack of capacity at all levels). Nevertheless, making aid for trade more efficient and effective requires that donors, developing country governments, private sector and civil society actors actively participate in the dialogue process.

This paper reviews some recent initiatives that aim to improve the performance of trade-related aid projects. It then looks at the European Commission's (EC) experience, considering the results of evaluations and assessing the new directions that are being followed. The concluding section provides some recommendations. Two case studies (from Uganda and Ethiopia) illustrate the challenges the new EC strategy will face when it comes to be implemented in a forthcoming Lomé Convention.

Acronyms

ACP	Africa, Caribbean, Pacific
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CDI	Centre for Development of Industry
DAC	Development Assistance Committee (of the OECD)
DFID	Department for International Development (United Kingdom)
EAC	East African Cooperation
EC	European Commission
ECGD	Export Credits Guarantee Department
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
FDI	Foreign Direct Investment
GSP	Generalised System of Preferences
IF	Integrated Framework for Trade Related Technical Assistance
IMF	International Monetary Fund
ITC	International Trade Centre
LDC	Least-Developed Country
MFN	Most-Favoured Nation
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
OECD	Organisation for Economic Cooperation and Development
RIP	Regional Indicative Programme
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
STABEX	System for the stabilisation of export earnings from agricultural commodities
THC	Trade Health Check
TRTA	trade-related technical assistance
UEMOA	Union Economique et Monétaire Ouest Africaine
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WTO	World Trade Organisation

Introduction

Aid for trade development — trade-related technical assistance (TRTA) — is increasingly called upon by developing countries to help them face the challenges of globalisation. The successive Lomé Conventions, through which the European Union (EU) provides a preferential trade regime and financial aid to the African, Caribbean, and Pacific (ACP) countries, have supported several such trade development projects. Like many donors, most of these projects have had mixed results, and the European Commission (EC) has begun a radical overhaul of its strategy to assist trade development.

There are many definitions of "aid for trade" — ranging from support to the private sector to macro-economic support.

- *Bilateral donors within the OECD Development Assistance Committee (DAC)* are comprehensive: "Trade development requires a combination of macroeconomic and trade policy reforms, infrastructure and institutional development, human resource and enterprise development geared to the goal of achieving competitiveness and a sustainable export drive in new areas" (OECD, 1997c: p. 5).

- The six agencies in the *Integrated Framework* (the IMF, ITC, UNCTAD, UNDP, World Bank and WTO) limit 'trade related technical assistance' to activities directly intended to enhance the opportunities of (LDCs) to improve their trade performance, including enhancing the supply capacity (WTO, 1997c). It does not include activities aimed at expanding production or productive capacity.

- *The new EC's approach* to 'trade development' focuses on increasing competitiveness and is very comprehensive in the means to be used. It is suggested that an integrated approach must simultaneously tackle bottlenecks in (i) government (to create an enabling environment), (ii) trade-related service providers (to increase and improve the supply of such services) and (iii) the firms themselves (to increase their overall competitiveness).

In this paper, we use a narrow definition, only considering donor-sponsored activities that directly aim to improve the trade capacity of the developing countries/exporters. This definition excludes compensation mechanisms and debt relief operations (such as Stabex and Sysmin), as well as general support aiming to remove supply-side constraints (*e.g.* support to structural adjustment).

Changed Needs, New Principles?

Improve the Capacity of Developing Countries to Trade

While international trade can be a powerful engine for growth and development, the performance of ACP countries has been very weak and they face the risk that they become further marginalised in the world economy. There are three main ways donors can help enhance the capacity of the developing countries to trade:

(i) *Support to economic transformation*. The main obstacle to poor countries trading on world markets is their inadequate competitiveness, which is largely rooted in the macro-economic and institutional environment of exporters. Creating a stimulating macro-economic environment for production and trade is therefore essential. This includes a wide array of domains – many not directly related to international trade – such as financial sector reform, fiscal reform, and privatisation. Donors help developing countries address these constraints through structural adjustment support.

(ii) *Market access*. In general, multilateral trade liberalisation erodes the value of traditional trade preferences. However, until multilateral free trade is achieved, preferential market access remains important.[1] Beyond preferences, the sustained progress in non-preferential (MFN-based) opening of world markets to products that are of most interest for poor countries — including "sensitive" goods such as agriculture and textiles — is essential.

(iii) *Aid for trade.* There is an increasing concern among developing countries and donors that, even with structural adjustment and greater market access, the poorest countries lack sufficient capacity to expand their exports. It is argued that trade-related technical assistance and cooperation that develops analytical skills and strengthens institutions is necessary to enable exporters to take advantage of emerging trade opportunities. This is all the more important as new issues – such as international norms, intellectual property, and environmental and labour standards – emerge, and are likely to have an important impact on the way poor countries trade.

Against this background, several initiatives by multilateral bodies and donor agencies have recently been taken:

- in March 1997, a DAC workshop on capacity development for trade was an opportunity for donors to exchange experiences, to promote coordination, and to emphasise best-practice (OECD, 1997a);

- in October 1997, an ambitious initiative was launched at the WTO high-level meeting for trade-related technical assistance to LDCs. It aims to improve the effectiveness of aid and the coordination of donors, by listing the needs of each participating LDC and calling on all donors in the country to coordinate their responses. Although not formally part of this initiative, the EU and its Member States have contributed to its setting-up as WTO members (see box 1);

- in January 1998, the European Commission released its draft negotiating mandate for a post-Lomé IV agreement, calling for a deeper economic partnership between the ACP and the EU, and proposing to extend the coverage of the comprehensive Lomé "aid and trade" package to the ACP. This was adopted by the EU Council in June (EU Council, 1998).[2]

- In February 1998, the EC began to reorganise its private sector and trade development units into a single department, shortly after issuing new guidelines for its trade development programmes. A reflection process should result in the formal adoption of a new approach in the course of 1999 (COM (98) 667, Final 20 November 1998).

- In November 1998, business people from developing countries participated in a DAC follow-up meeting on capacity development for trade. For the first time, they were able to contribute their experience and insights to the process by which donors stimulate trade development (OECD 1998).

These initiatives reflect both a growing *demand* by developing countries as well as the necessity to adapt and improve the *supply* of trade-related support by donors.

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[1] "The observation that preferences under Lomé and the CBI have made a limited contribution to economic development is not an argument for imposing obstacles upon the trade of beneficiary countries. But it does make the case against the deployment of arguments opposing multilateral trade liberalisation in the name of preserving preference margins" (OECD, 1995: p.7). This is an important part of the post-Lomé negotiation. (see ECDPM, 1998 and Solignac Lecomte, 1998).

[2] The proposed approach includes efforts to improve the capacities of ACP countries to handle trade-related issues (e.g. intellectual and commercial property rights, standardisation and certification, sanitary measures, competition measures and security of investment). The mandate also extends cooperation to "other trade-related areas".

Box 1: The Integrated Framework for Trade-related Technical Assistance (IF)

The idea for an integrated framework to provide trade-related technical assistance was initiated in the WTO Ministerial Conference of 1996 in Singapore. The IF aims to coordinate and increase the efficiency of trade-related technical assistance (TRTA) provided to LDCs by the IMF, ITC, UNCTAD, UNDP, the World Bank and the WTO. The IF seeks to ensure that the TRTA of the six multilateral institutions is demand-driven and that ownership is in the hands of the country concerned. This coordination exercise attempts to properly sequence and synchronise the TRTA and will provide comprehensive information to other donors and the private sector.

The TRTA covers a wide range of activities: From institution-building for trade related policy issues to the strengthening of export supply capacities, export support services and trade facilitation capabilities., to human resources development and training. The IF also seeks to assist in creating regulatory and policy frameworks to attract investment and stimulate private sector development and trade.

The procedure jointly developed by the six institutions has several steps:

- a needs assessment by the LDC, preferably involving its private sector. A focal point in the relevant government ministry is appointed to coordinate the process;
- on the basis of this assessment, the six agencies design and sequence a programme of activities to respond to the needs, according to their respective mandates, expertise and resources;
- a round table is scheduled for intergovernmental agencies, bilateral donors, and the private sector to present the conclusions of the assessment and the proposed programme of TRTA. This should provide the opportunity for participants to endorse a multi-year plan of activities and to designate implementing agencies (including bilateral donors and, where appropriate, the private sector).
- In implementation, lines of communication have to be established to ensure coordination and synchronisation, financing is by the six agencies as well as other donors, the recipient country's government is responsible for implementation and monitoring, country-specific programmes are evaluated annually and the results are published in a database.

Sources: A web site (http://www.ldcs.org/) has background information as well as the country needs assessments and the current state of play. See also WTO (1997a).

Changing the Nature of Aid for Trade

In the 1970s and 1980s, donor assistance to trade development was mainly channelled through government trade promotion organisations. This tended to yield meagre results, due to (i) the unfavourable macroeconomic environment and (ii) the fact that these agencies were not particularly geared towards private sector development. In the late 1980s, structural adjustment programmes (SAPs) promoted trade liberalisation and private sector development. However, policies implemented under SAPs proved a necessary but not sufficient condition to successfully enhance the exporting capacity of developing countries. Many stumbling blocks remained on the supply-side, e.g. inadequate infrastructure, technology, export finance and know-how. The marketing support also proved to be insufficient as the bottlenecks were to be found much earlier in the production-chain. Increasingly therefore, 'aid for trade' projects focussed at the micro-level, on improvements to product design, production and the manufacturing process in individual companies, as well as developing the capacity of export promotion organisations. Some previous orientations were progressively dropped (trade fairs) while others remained, (promoting business contacts between companies in developing and developed countries).

The agreed principles of donors under the various new initiatives cited above are similar:

- *a comprehensive approach*. Trade-related aid is part of donor support to the move towards an outward-oriented economy, and not a substitute for it. It can only help if the national environment — i.e. the governments' economic policy, the legal and institutional environment, basic infrastructure — is conducive to enhancing competitiveness and improving export performance. Aid for trade should therefore be designed within an integrated programme combining support to macroeconomic and trade policy formulation and implementation, support to intermediate trade-service institutions and support at the level of firms;

- following *a demand-driven process*. Donors sometimes tend to offer "what they have in stock" rather than what recipients need. This is particularly true of technical assistance (TA). Aid for trade should instead be designed after a comprehensive needs assessment has been conducted. As ownership is a key condition of effectiveness, this assessment should be conducted by the beneficiaries (i.e. private sector);

- a consequence of the two former principles is that trade-related assistance should be *context-specific*. Not all countries need the same type of support, depending on the orientation of the government's economic policy, the size of the private sector, the structure of the economy, etc. For similar reasons, proper sequencing with general economic reforms is needed.

- the ultimate objective is to *enhance competitiveness*. This implies avoiding market distortions and aid dependency.
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- This entails that, while associating governments, the focus should be on the development of *the private sector*.

- finally, *trade-related projects* have to take account of various new issues such as phytosanitary requirements, investment, environmental norms, and maybe labour standards. Their emergence creates new opportunities that trade-related assistance can help them seize (see IIED, 1997), as well as new constraints – such as quality standards and ISO certification norms – that other projects will help them tackle (See UNIDO, 1997a and b).

However, in spite of the consensus on these principles, important questions remain:

- *Ownership*. The DAC underlines that the needs assessment has to be "undertaken by the partner country itself"(DAC, 1997, p.7). Nevertheless, as the case of Ethiopia illustrates, there are many ways in which "partner country ownership" can contradict ownership by the beneficiary, for example where central government excludes the private sector and local governments. The IF suffered from this bottleneck: The needs assessments were conducted by governments, and there were few ways to ensure that the concerns of private actors were taken into account.

- *Participation*: Targeting a beneficiary, or group of beneficiaries, is not the same thing as having the beneficiary participating. Here again, a case is the involvement of the private sector in the design/implementation of the programmes.

- *Implementation*: Absorption capacity varies across and within countries, and the representativity of private sector institutions is a common problem. Private sector support calls for flexible, transparent and rapid interventions, requiring a certain capacity that is often lacking, both on the donor and recipient sides.

Aid for Trade under Lomé

The Lomé framework combines financial aid with trade provisions in a comprehensive package that has no equivalent among North-South cooperation schemes. Lomé trade provides preferential market access for most ACP products. The financial aid package is provided by the European Development Fund (EDF) in the form of programmable and non-programmable aid. All ACP countries are 'entitled' to programmable aid in the form of National or Regional Indicative Programmes (NIPs or RIPs).[3] Non-programmable assistance is fixed per instrument and granted to ACP states on a case-by-case basis. Stabex, Sysmin, risk capital and interest rate subsidies are included in this latter category.

Programmable Aid

NIPS and RIPs

Within the NIPs and the RIPs, few ACP countries have allocated their EDF resources for trade development and promotion projects. Under Lomé IV, only eight countries specifically allocated NIP resources for trade development (see Table 1). Moreover, those NIPs that identified sectoral projects in areas such as agriculture and rural development, often missed linkages with marketing and distribution networks at national, regional and international levels. This might reflect the low priority that many ACP governments give to trade. In addition to the NIPs, EDF funds were also used to pay for participation in trade fairs and exhibitions, the impact of which was very limited. Often, objectives were ill-defined, representation inadequate, many ACP products were not geared towards export markets and, most of all, the private sector was rarely associated with the projects. Since 1996, after evaluations confirmed the weak impact of these trade activities, the EU budget for participation in such fairs was reduced.

Overall, the experience from EU trade development projects has not been very positive, neither from the NIPs nor from the RIPs. In the EC's own words, projects were "often badly designed, lacked mutually supportive inputs, operated in hostile environments and did not evolve over time. This led to inappropriate selection of beneficiaries and vehicles for intervention. […] Evaluation of some of the major past projects pointed to a lack of relevance to beneficiary needs and a lack of efficiency in project execution as being the main causes of the absences of effectiveness. […] Past trade development programmes have often been found too ineffective because they only provided a partial analysis and an inconsistent range of services, […] because the support provided was largely channelled through trade development organisations or government ministries". As a result, these projects "both locked in to government control and lacking in the quality of service and staff […] lost credibility and were progressively ignored by their target clients" (European Commission, 1998b : p. 2 and 8). Annex III summarises the results of recent evaluations of EC funded trade-related projects.

[3] Programmable aid also includes support for the Structural Adjustment Facility. See Koning (1997: p. 129).

Table 1: Lomé IV NIP and RIP Allocations for Trade Development

	Country	Amount allocated (Ecus millions)	% of NIP
NIPs	Nigeria	40.0	11.0
	Ethiopia	84.5	37.5
	Niger	36.5	28.0
Specific	Burundi	30.8	27.5
Allocations	Zimbabwe	11.0	12.0
	Zambia	10.0	10.0
	Congo	7.0	14.0
	Jamaica	2.6	6.0
	Mali	32.0	24.0
Non-specific	Ghana	31.5	30.0
Allocations	Ethiopia	56.0	25.0
(shared with other	Kenya	39.0	28.0
Priorities)	Tanzania	50.0	30.0
	Mozambique	46.2	30.0
	Zimbabwe	20.0	23.0
	Fiji	8.0	35.0
	Solomon Islands	7.0	37.0
	Papua New Guinea	4.0	10.0
	Madagascar	35.0	27.0
	Comoros	6.6	30.0
	Mauritius	8.0	25.0
RIPs	Pacific	3.40	4.86
	West Africa	1.65	2.36
	Indian Ocean	1.50	2.14
	COMESA (PTA)	1.22	1.74
	Southern Africa	0.65	0.93
	Central Africa	n.a.	-
	Sahelian Africa	n.a.	-
	Caribbean	n.a.	-
	Unallocated	3.59	5.12

Source: DG VIII/A/5, TDI.

All-ACP Programmes

- **ACP/EU Trade Development Programme (TDP),** financed by EDF funds and approved by the EC at the end of 1994, it was allocated Ecus 7.2 million for two years, with substantial resources for technical assistance. The objective – as Annex XX of the Lomé IV Convention stipulates – was to stimulate, create and diversify trade through the development of new trade policies, tradable products, export markets, trade information services and training of personnel in the export corridor. A mid-term evaluation revealed serious flaws in the design of the project. The study on which the TDP was built was outdated by the time the project took off, there was confusion of objectives, a lack of coherence with other interventions on trade development and a very rigid and bureaucratic management system which was totally unsuited for the task.

Despite this, the results from one component (namely products and markets) have been considerable and, due to the positive appreciation by major ACP and EU stakeholders, the EC considers it inopportune to interrupt the TDP at this time. The EC is therefore considering a programme that would allow a smooth transition between the past and current interventions of TDP and the new trade development strategy. In this, the TDP could be transformed into a focal point to stimulate the use of the different instruments in a coherent, integrated fashion, in coordination with the national networks. In addition, the existing network of correspondents will be strengthened and extended to all ACP countries. They will function as intermediaries between government, private sector operators (formal and informal) and donors. They will also play a central role in the needs assessments and implementation of the new interventions. The ACP Secretariat however is of the opinion that the proposed changes are insufficient and unrealistic, both in time and resources. They plead for a continuation and extension of the entire TDP programme, rather than just one component.

- **COLEACP** (Europe-ACP Liaison Committee for the Promotion of Tropical fruits, Off-season Vegetables, Flowers, Ornamental Plants and Spices). COLEACP provides information, technical and commercial support, training and inter-branch consultation to help ACP countries diversify exports and enhance export earnings by developing competitive horticulture sectors. One evaluation suggested that the programme had lost its relevance due to the changing dynamics in the horticultural sector; it was inefficiently organised, had little if any developmental impact and was totally non-sustainable.[4] It is also not clear how the programme fits into a renewed overall European strategy on trade-related aid.

- **APROMA** (Association des Produits à Marché). APROMA groups actors in the cash crop sector (mainly coffee, cocoa, tea and oilseeds). Support includes training of exporters, strengthening local associations and enterprise networking, providing trade information and promoting investment.

- The **Forum of the European Trade Promotion Organisations** was created by the European Trade Promotion Centres, the European Commission and ITC in 1986 as an informal network to coordinate their trade development activities and share experiences. The ultimate goal is to jointly implement a coherent EU-wide promotion policy. The Forum itself has had limited success, and several members were on the verge of being closed at the time of this report.

The EC has also supported other multilateral initiatives such as **UNCTAD's train for trade** which aimed to produce training packages responding to the priority needs of developing countries, to develop a cooperative network of training institutions and to create capacity in selected training institutions to use the packages effectively.

Non-Programmable Aid for Trade

The Centre for the Development of Industry (CDI)

CDI encourages and supports the creation, extension or restructuring of companies in ACP countries, mainly in manufacturing and agro-industry. It fosters financial, technical and commercial partnerships between ACP and EU businesses. It assists in the definition and search for financial backing of projects and the provision of various services related to all activities surrounding enterprise development: market studies, feasibility studies, technical assistance, equipment, auditing, promotional activities, and training of personnel, implementation assistance, assistance in negotiations, identification of partners.

CDI works with local antennas, often public or state-supported agencies — including chambers of commerce, specialised institutions, a network of sector specialists, commercial banks, regional organisations, etc. Nowadays, private sector structures are included, e.g. professional federations or associations, or private consultants specialised in particular sectors. A recent evaluation (Govinden and Queyrane, 1997) identified several handicaps:

4 An evaluation by David Jones & Associates 1997 (see Annex III)

- CDI's organisational structure and the governing bodies have had a rather stifling effect on the performance of CDI. Reducing this to one governing body as well as some internal reorganisation would considerably improve the functioning of the Centre.
- The budget (Ecus 73 million for 5 years) is insufficient to cover the mandated activities.
- CDI has relative flexibility in terms of instruments and clients, however some crucial sectors are excluded from its mandate, e.g. tourism, services and transport.
- While the efficiency of CDI's industrial partnership can be questioned, the specialised meetings have a higher success rate.
- CDI should improve the sustainability of its interventions.
- More coordination and clear task-division are required with other EU institutions dealing with private sector i.e. the Commission and the European Investment Bank.
- From an ACP point of view, the definition of SME is quite inadequate. Setting the value of the projects between Ecus 150.000 and 5 million eliminates many ACP operations. Alternative ways to target smaller enterprises should be found.

The ACP negotiating mandate calls for CDI to become a "prime instrument" of private sector development and to change its name to the Centre for the Development of Enterprise. In addition to increasing its financial resources, the Centre should extend its field of operation to all sectors including manufactured goods and services. A study should be undertaken on the advisability of decentralising the CDI and perhaps relocating it to an ACP country. This last point is unlikely to happen soon, but the EU is in principle in agreement with the other suggestions. A suggestion has been made that for ACP countries to receive CDI support, it would be mandatory to have a percentage of the NIP allocated to industrial/private sector development. Another proposal is to establish enterprise support funds, by way of trust accounts for each ACP country, to which the private sector would have direct access – rather than through the lengthy bureaucratic EDF procedures (CDI, 1998: p. 7).

The European Investment Bank (EIB)

The EIB's mission is to "further the objectives of the EU by making long-term finance available for sound investment". Support to the EU's cooperation and development policies is a minor activity of the EIB. In 1996, ACP financing amounted to only 1.7 percent of the total portfolio. The EIB has two windows of financing for the ACP countries:

(i) it provides loans from its own resources carrying an interest subsidy financed by the EDF.

(ii) a more flexible window is risk capital drawn from the budgetary resources of the EC, which is provided on concessional terms. Risk capital, instead of EIB resources, is used as soft loans for guarantees, as conditional loans, for equity or quasi-equity participation.

Direct loans mainly go to major infrastructure works, while support to the private sector consists of lines of credit for small and medium sized enterprises (SMEs) through the local banking system. The latter is a de facto decentralisation and should permit capacity building and strengthening of the local financial institutions and markets. The EIB tries to prevent its concessional interest rates from distorting the financial market, through stripping out the subsidy, either at the level of the state or the financial intermediary, and ensuring that it is used for capacity building or other development purposes.

Critics argue that: (i) the EIB supports public rather than private sector development, as it finances mainly national development banks that prefer to support state enterprises (ii) most lending is in infrastructure and utilities, often state firms, although many are being privatised and (iii) that little support is provided to SMEs, other than indirect support via intermediary financial institutions.

The ACP negotiating mandate for a post-Lomé IV agreement mentions the need for a new investment guarantee and protection mechanism, as well as a mechanism to underwrite the risk of FDI flows. It pleads for an increased role for the EIB. The EU agrees and has announced a new investment facility to be run by the EIB, replacing its current programme providing risk capital. It will be used at three levels: Direct financing of firms, indirect financing via local financial intermediaries, and support for privatisation processes. The new investment facility is the subject of a heated debate in the ongoing negotiations between ACP and EU and even among the EU Member States.

Stabex

Stabex is designed to compensate ACP countries for the shortfall in export earnings caused by fluctuations in the prices of (largely) agricultural commodities. Its future is a hot issue in the negotiations. On one side, the ACP insist that it is an essential mechanism to help some of their economies face fluctuating commodity prices. They assert that the low impact and delays in implementation of Stabex funds were mainly due to the administrative hurdles and lack of flexibility and good management. On the other side, many in the EU want to do away with Stabex, arguing that each country can make the necessary provisions within their national development programme, rather than having a multitude of separate instruments. The current instrument is too rigid, too cumbersome and not adapted to the objective of economic reforms.

The New EC Policy and the Post-Lomé IV Agreement

Principles of the New EU Strategy

Since late 1997, the European Commission has been restructuring its trade development and private sector support strategies, combining both into one comprehensive strategy (EC, 1998c). The single aim of this strategy is to improve the *competitiveness* of ACP exports. The announced principles and modalities of the new strategy show that DGVIII is aiming at a radical re-orientation of its trade-promotion activities based on ACP ownership, private sector logic, coherence with other donor activities and an integrated approach. The new trade development strategy assumes that support is needed at three levels:

- Support for and dialogue with government to create an appropriate macro-economic environment and a supportive legal and institutional framework to stimulate trade.
- An intermediate level of associations and institutions — chambers of commerce, private sector networks, sectoral associations — that provides adequate and efficient specialised services for the private sector.
- at the level of firms, many constraints need to be tackled (i.e. limited access to credit, low levels of technology, weak quality control and understanding of standards, poor product design, poor management, lack of information on market access, inadequate packing etc.).

Given the inter-linkages and mutual dependence of these three levels, referred to as the "pyramid of trade development", a comprehensive and integrated approach, as well as a constructive dialogue among all actors and donors are said to be necessary. For this new strategy to be successful and sustainable, the EC proposes several basic principles:

- only intervene when there is a clear commitment from the government/ private sector;
- donors should not substitute for governments or service providers;
- donor interventions should not distort the market;
- donor interventions should be coordinated;
- public-private dialogue is necessary at all levels (ACP, regional, national, sectoral, local);

- the overall aim should be to improve the competitiveness of the ACP firms;
- the private sector should be involved in conceptualising and implementing any interventions.

This proposed integrated approach is an attempt to make the EC's trade development strategy more coherent and more efficient. However, it will require serious coordination among all actors, which implies a broad dialogue, and probably a long process. All actors involved will need to adjust to this new logic and adapt their ways of working. For private sector actors, a broad policy-dialogue might seem to be too time-consuming, while donors and governments have their own agenda, priorities and bureaucracies. The EC intends to base the implementation modalities on the principles of speed, flexibility, transparency and decentralised management. Sceptics, however, stress the existing capacity constraints, both in Brussels and in the delegations, as well as bureaucratic constraints that are partly linked to accountability requirements.

Implementing the New Strategy

The Trade Health Check: Screening Recipients to Maximise Impact

In the new EC strategy, a needs assessment — the "Trade Health Check" (THC) — is the first step in a given country or region. The THC is supposed to prevent aid being channelled where absorption capacity is inadequate. It aims to identify the obstacles to private sector and trade development, and to draft a concrete plan of action for the country or region. On the basis of this analysis, an action plan is to be worked out.

Where the trade environment is inadequate and an anti-export bias exists, the main focus of EU support will be to reinforce government capacity to improve the regulatory and macro-economic framework. In addition, although to a lesser extent, support will be provided to intermediate organisations supplying services to the private sector, as well as for enterprises.

If, on the other hand, the THC indicates a dynamic private sector, operating in a liberal and supportive trade environment, there is then little room for intervention. However, some bottlenecks might persist and prevent ACP countries from increasing their market share. The THC will highlight the specific problems facing certain sectors and enterprises within them. The EC's intent is that an integrated programme of intervention — addressing the particular impediments at the enterprise and intermediate levels — will be designed and discussed in a Regular Partnership Dialogue, with all relevant stakeholders represented.

A Radical Turn

Most ACP countries will fall somewhere in between the cases described above. So far, no decision has been taken on which countries/regions will be subjected first to a THC, although countries in the SADC, UMEOA and CARICOM regions are the most likely candidates. Obviously, most of the potential countries to undergo a THC will not be LDCs, but rather countries that are relatively well-endowed in exportable resources or relatively industrialised, and where some experience with export marketing already exists. It is therefore a very different approach from that of the "needs assessments" in the Integrated Framework. It may be viewed as a strategy to "pick winners", not only among firms, but also among countries.

When looked at in relation to the changing ACP-EU trade relationship, it appears to be a step towards increased selectivity of aid on the basis of the level of development, but in a way that is opposite to the poverty-focus currently being mainstreamed among DAC donors. Beneficiaries would probably be relatively better-off ACP countries. For the post-Lomé IV trade regime, the EU proposes to replace non-reciprocal trade preferences with free-trade agreements (See Solignac Lecomte, 1998). Since

LDCs would be allowed to retain the former, it is mostly the non-LDC ACPs that will have an incentive to sign an FTA with the EU, in order to retain their current market access to the EU. The alternative for them would be the less generous European GSP. Therefore a situation may arise where, under the next Convention, the better endowed — and richest — ACP countries (e.g. Cameroon, Ghana, Zimbabwe, etc.) will open their markets to European products through an FTA *and* benefit from EU's assistance under its new integrated trade development approach. The poorest ACP (e.g. Ethiopia, Niger, Malawi, etc.) may wish to retain their preferences and remain more protected, and so would be excluded from the new trade assistance. Several of these countries that benefited from 'old-style' trade-related aid will no longer do so under the new strategy.

This new strategy therefore represents (i) a drastic turn away from the EC's own past activities and (ii) a step away from the poverty-focused approach of multilateral agencies towards more "bilateral" strategies. As we see from the two studies in annex, this may help the EC find its *niche* — in the area of trade development — one that would not necessarily imply focussing *away from* the poorest countries.

The New Instruments

For the implementation of this new strategy for private sector development, the Commission will establish **four facilities**, in addition to those already available in the national or regional indicative programmes. These facilities are:

1) To execute the "trade health check" in ACP countries, the Commission envisages setting up **DIAGNOS**, a supporting analysis unit. This will help identify the macro-economic level constraints that prevent the creation of a stimulating business and investment environment in ACP countries. Second, it will help draft a concrete action plan for countries or regions. This plan would feed into the economic policy dialogue between government, private sector representatives, professional organisations and donors.

2) An **Export Business Assist Scheme** to improve the competitiveness of the ACP private sector by activating and supporting the market of financial and non-financial intermediary services for the private sector. The programme will subsidise (on a demand-driven/cost-sharing/direct access basis) individual enterprises so they can obtain the specialised services. The first programme (Ecus 30 million over three years) will be launched in September 1999.

3) The **EU-ACP Partnership Programme for the Promotion of Investment and Technology Flows to the ACP Countries** (**PROINVEST**) is to act as a catalyst for increased investment and economic cooperation with and within the ACP regions, (whether this investment is from the EU, intra-regional or from non EU-ACP countries). It seeks to promote inter-enterprise investment and cooperation agreements, i.e. investment and marketing and technology agreements which may lead to investments in the ACP regions on a sustainable and continuous basis, in identified sectors and sub-sectors which will have a maximum impact and sustainability. It contains two major components (i) Investrade, which is a facility to organise business-to-business investment cooperation meetings and (ii) Interpower, a facility to provide Institutional strengthening of investment promotion agencies and private sector intermediary organisations (e.g. chambers of commerce and industry, manufacturers' associations) in the ACP regions.

4) An **Investment Facility (INFAC)** will be managed by the EIB in the post-Lomé era to provide funds for investment purposes on a commercial basis. The facility will replace the current programmes providing a risk capital and interest rebates and will function on the basis of revolving credits. Through this facility, the bank will support investment in viable enterprises with loans, equity and guarantees, using these instruments to catalyse higher private investment in enterprise. During Lomé IV bis, the EIB will continue to manage risk capital and its own resources on the conditions established in this convention.

Lessons for Lomé V

Should There be Aid for Trade Development?

Ahead of issues related to implementation, a major question mark remains regarding the usefulness of trade-related technical assistance. Some argue that donor funds are better used to support the overall economic and legal framework rather than individual projects. They say the donors like technical assistance as it represents a fairly easy way to spend money, while allowing national TA agencies to benefit from the resources involved. Different voices from the private sector can be heard on this issue. While some say they have greatly benefited from targeted actions such as training, others mostly point at structural obstacles that project aid cannot tackle. These include restrictions on the availability of foreign exchange, the independence and competence of judiciary power, infrastructure, etc.

This can be seen as an illustration of the project versus programme aid debate. The EC's proposed strategy is clearly geared towards an increasingly programmatic approach. The potential difficulty of implementing its more "selective" aid for trade approach is illustrated by the two case studies. Very often, even in LDCs that have made recognised progress in improving the macro-economic fundamentals — like Uganda — the environment is flawed at several levels. The "screening" may therefore make many ACP countries ineligible to participate in trade-related aid programmes. Depending on the criteria used, neither Ethiopia nor Uganda would be viewed as suitable countries where EC money would be spent on trade-related programmes. However, it can be argued that the EC could play a role in both countries that neither multilateral nor bilateral agencies — nor, it must be said, the EC's previous strategy — could have played so far. This is to promote institutional solutions that associate private and public actors, at the levels of central and local governments.

How can Private Actors be Associated?

In spite of progress, demand-driven aid for trade is still a long way ahead. Private operators are directly targeted more often than in the past, but they are seldom associated in the design and implementation of projects. An Ethiopian exporter of leather products said that of all the money spent on him by donors, in capacity building or information, only 10 per cent had been of some help in addressing his needs. He said he had not been asked in the first place what he thought he needed. A similar experience was noted in Uganda, where donors financed the provision of information on potential markets that were considered irrelevant by the private sector. In general, donor projects are still largely supply-driven. They often unilaterally identify the sector of intervention, the targeted firms, the type of service and who delivers it. This calls for improvement at two levels.

1) *Effective participation mechanisms between the government, the private sector and donors*. In Uganda, significant progress has been made by government to bring the business sector into economic policy formulation and project implementation. Ethiopia is less advanced in this process. In the integrated initiative, private operators were not directly associated in needs assessment. Experience from other countries shows that mechanisms bringing together the public and private sectors along with donors are most effective. However, this requires adequate representation and genuine openness from the government.

2) *Representation of the business sector*. A major obstacle in both countries, is the weakness of the private sector. In Uganda, the private sector is invited to speak with government and donors, but inadequate capacity limits its inputs. In Ethiopia, Chambers of Commerce are still considered by some to be more accountable to the government than to their membership. Regular meetings between the administration and the business community are sometimes perceived as a rubber stamping exercise.

How can Donor Coordination be Enhanced?

Although the situation varies from country to country, donor coordination in trade development is still difficult. In Ethiopia and Uganda, efforts towards greater coordination are made at the level of the entire donor community. In Uganda, donor coordination on private sector support pre-dates the Integrated Framework. However the IF and other initiatives have reinforced and broadened the dialogue/coordination effort. A steering committee has been established with all donors (bilateral and multilateral) as well as the relevant ministries and private sector organisations. In Ethiopia, the government and donors are working together to improve coordination in social sectors (education), mainly to harmonise budgetary procedures. Regular meetings among donors also take place in specific sectors, including trade and private sector development. Moreover the EU has made Ethiopia one of the pilot cases for closer coordination between EU members (and with a view at enlarging it to other donors in a later stage).

However, in both countries, it has proved difficult so far to bring all the donors to the coordination meetings. Important ones like the EC or France were not aware of or were absent from key meetings, including those organised in the process of the Integrated Initiative.

This relates to:

i. The *difficulty to promote donor coordination in general*. Most donors have their own agenda. Some delegations have limited scope to actively participate in new initiatives as their policies on trade development are designed at headquarters.

ii. Coordination is only possible in very *country- and context-specific* manners. Timing and personalities play important roles in the success of such coordination. The capacity and willingness of the responsible ministries and their internal cohesion and power structure are significant determinants in the coordination process.

iii. The *limited scope for coordinating trade-related activities in countries where it is not a priority*. Few donors, apart from multilaterals, see trade development as a priority in LDCs like Uganda and Ethiopia. In concrete terms, this means that the economist in the EC delegation has much more on his plate than trade or private sector development. In addition, LDC governments often tend to give priority to domestic issues.

iv. Finally, *trade cooperation may be one area where common interests and approaches are difficult to work out between bilateral donors*. While some bilateral agencies have a strategy that is primarily geared towards development objectives, most bilateral donors tend to see trade development as a way to promote exchanges between local entrepreneurs and their own national operators, or as part of their general diplomacy. Bilateral donors may feel more like competitors than potential partners.

The New EC Strategy

Recognising the limitations of past policies, the EC has triggered a process to re-orient its trade development activities. The new strategy represents a radical change. Compared with other multilateral donors, it seems to be laying more emphasis on the private sector, and more clearly than in most bilateral projects, it is geared towards development objectives. However, the main challenge remains implementation.

An element of the radical change is influenced by the intention to open the Lomé Convention to non-state actors. In this context, the EC has undertaken a genuine effort to consult and discuss the private sector strategy with representatives of the ACP and EU private sector. This new public-private dialogue is believed to be essential to making the ACP-EU partnership more effective. The dialogue process started with the ACP Business Forum[5] endorsing the principles of the new strategy. The DIAGNOS instrument in particular was welcomed. This comprehensive analysis of the business environment in several ACP countries will include serious consultation with the national private sector before deciding on the strategy for support by the EC and other donors.

Whether the heavy bureaucracy, used to dealing with government partners for many years, will be able to adapt its lengthy and difficult procedures to the private sector, which needs flexible and speedy instruments, remains to be seen. But proper channels for dialogue between ACP and EU private sector and officials are being established to ensure more effective cooperation.

[5] The ACP Business Forum aims to become a genuine representative organ of the ACP private sector. Its aim is to contribute and add value to the ACP-EU policy dialogue, as well as to public-private dialogue at national and regional levels.

Annex I: A Ugandan Case Study

The Context

Economic Structure: Good Macro Economic Indicators, Weak Industrial Capacity

When President Museveni took over in 1986 after the civil war and many years of economic mismanagement, the economy was in ruins. An Economic Reform Programme was started in 1987, followed by Rehabilitation and Development Plan in 1993, and Uganda continued with a rigid and rapid implementation of a Structural Adjustment Programme (SAP). In the second half of the 1990s, economic growth slowed from an impressive 10.6 percent in the early nineties to a still enviable 6 percent. The performance of agriculture remains the main determinant of economic growth: The sector makes up 80 percent of the workforce, 50 percent of GDP and 90 percent of export earnings, while manufacturing counts for less than 10 percent of GDP and hardly appears in the export earnings. However, over 70 percent of incoming foreign direct investment goes to manufacturing. Uganda has been hailed by many donors as a "good example" in terms of macroeconomic policy. The improved macroeconomic environment, however, has so far not benefited all Ugandans. The government has now proclaimed the fight against poverty as a key priority and launched a large Poverty Eradication Action Plan.

Economic and Trade Policy: Macro Economic Discipline, Opening up to EAC

The WTO Trade Policy Review Board in 1995 concluded that trade liberalisation, underpinned by better macroeconomic management had helped to restore a sound basis for investment, employment and growth (WTO, 1995). Today, the share of foreign trade in Ugandan GDP remains small, and as imports far outstrip exports there is a serious trade deficit. Most imports have almost no risk of non-repayment as most are financed by donor agencies. Investment stagnated between 1996-1998 due to a less attractive business climate, inadequate physical infrastructure and a legacy of corruption.

While reversals in trade reforms have been common in many African economies, in Uganda they have been sustained. For the period 1997-2000, Uganda's external policies focus on promoting export growth, diversifying the export base, and encouraging non-debt creating capital inflows (IMF, 1997). To help achieve these objectives, the government has lowered the maximum import duty from 30 percent to 20 percent, with an aim to reduce it further and to introduce a low uniform duty in 1999/2000. The duty drawback system for exports was to be made more effective and export documentation will streamlined. The four remaining import bans (on beer, soft drinks, automotive batteries and cigarettes) would be phased out within two years. To ease the adjustment, temporary additional tariffs would be levied on these products for no more than two to three years from their introduction. In addition to harmonising and reducing external tariffs through active participation in the Cross-Border Initiative and COMESA, intra-regional trade barriers are being dismantled and cooperation enhanced, notably in the areas of payment settlements, transportation, and communication.

Regional Integration

There is evidence of a growing interest in regional cooperation among Uganda, Kenya and Tanzania, including the revival of the East African Community. A new East African Cooperation Treaty is expected to be signed in October 1999[6]. At a conference in mid April 1999, private sector representatives approved the treaty and made suggestions for small amendments[7]. In August 1998, Revenue Authorities of the three member countries also met to discuss tax administration, trade barriers and harmonisation of trade tariffs, smuggling and the possible impact on revenue of this treaty.

All imports enter Uganda at MFN rates except imports that receive preferential tariff treatment under COMESA/EAC trading arrangements. However, heavy administrative hurdles, corruption and other non-tariff barriers at Kenyan border make transport to and from Mombasa — the main port of the region — very cumbersome and expensive.

Small and Overly Protected Manufacturing Sector

As in many LDCs, the private sector in Uganda confronts several major constraints:

- *Inadequate infrastructure* is a major obstacle. Electricity supply in particular is low and costly.[8] Uganda has enormous, under-exploited, potential for hydroelectric power plants.[9] High transport costs result from a very poor road network and high fuel prices, especially constraining for a landlocked country as Uganda. Inadequate cold storage facilities, e.g. lack of proper fish landing site and adequate cold storage facilities at the airport of Entebbe make it very difficult to export agricultural produce/fish that meet the standards of OECD markets.

- *The cost of finance is high* due to costly information gathering and unfinished reform of the financial sector, still dominated by state-owned Uganda Commercial Bank.[10] The Uganda Manufacturing Association (UMA) has been asking for lower cost of credit, but after having liberalised prices across the board, it is unlikely that government would take control of the price of capital.

- Etrepreneurial, technical and managerial skills are still missing.

- *Variable taxation*. Instead of the current system of tax exemptions — which negatively affects investment decisions, as well as government revenue — the UMA is asking for a lower and more transparent tax system, to assure a level playing field for the private sector. A court of appeal for tax matters has recently been created.

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6 "The new initiative is based on the recognition that the private sector, especially the business communities are the primary actors in the new co-operation. … this realistic outlook will make it easier for the creation of enabling environment for the establishment of a single market and investment area in the sub-region." *New Vision*, July 10, 1998, 'Kinu Musoke pleads for Community Revival'

7 "Private Sector Backs EAC", New Vision, April 19,1999, Kampala

8 A survey suggests that 34 percent of total investment is to buy generators, as firms face an average 89 days per year of power cuts. See Collier, 1998: p.7.

9 A new dam is planned on the Nile at Bujigali Falls, which would even produce excess capacity to be exported to Kenya. If it goes ahead this would be the first privately owned hydroelectric facility in Africa. Loud opposition is voiced against the location of the dam by environmentalist and a rafting agency based on the falls, claiming this would kill the little tourist industry that Uganda has developed.

10 "When things go wrong, textiles and other products can be imported. However, no modern economic system can operate today with inefficient financial institutions or poor telecommunication networks" (ITC, 1997).

- *Corruption and crime*. According to an enterprise survey, 60 percent of the sample had been a victim of crime in the last 3 years (Collier, 1998: p. 7). Therefore firms invest heavily in their own protection, which entrepreneurs say is often more costly and less effective than if it were provided by the government.

- Lack of *information* on potential markets and on quality and phytosanitary standards. The National Bureau of Standards has no clear mandate and lacks the capacity to provide the necessary standards information or give adequate training programmes in standards and quality control management. Several uncoordinated and rather ad hoc programmes are offered by donor agencies, but are not necessarily adapted to local needs.[11]

- *Inefficient trade policies*. Under the 'special duty drawback scheme', imports of inputs for re-exports are exempted from import duties: firms pay a duty when they import the input and claim it back when they export the final product. However, the system is not working as it should: there are enormous delays in payback and uncertainty about the amount paid back. This can be considered as an export tax levied on non-traditional exports years (Collier, 1998: p. 9).

Private Sector Institutions: Partners in Policy Dialogue, but Insufficient Capacity

Uganda is characterised by a relatively open policy dialogue, promoted by the government, and involving the private sector. While the industrial sector is on the whole still weak and fragile, the UMA is a powerful body, often consulted by the government in the policy making process. UMA produces yearly comments on the budget before it is voted in parliament; mainly focusing on taxation policy, incentives for investment, tariffs/regional integration, minimum wage/social security, infrastructure and utilities. This can sometimes lead to tensions, especially on tax policy and tariff protection. Other important actors in the policy dialogue are the Economic Policy Research Centre and the National Agricultural Research Body. By contrast, farmers are badly organised, under-represented in the policy dialogue and lack a forum to formulate their demands. Table 2 provides a list of those organisations that are involved on trade and trade-related donor projects.

From 1992 onwards, UMA has organised a yearly National Forum on Strategic Management for Private Investment and Export Growth. Intended to facilitate policy consultation, these fora bring together public and private sector stakeholders and focus on investment and export promotion, financial sector development and tax policy/administration. More recently, the Private Sector Foundation (PSF) — a body representing business associations and public sector organisations including farmer representative bodies, sectoral interest groups, etc. — has taken over the organisation of the fora. Both policy-makers and private sector consider these fora a constructive and successful instrument for dialogue.

Both the Uganda Export Promotion Board (UXPB) and the Uganda Investment Authority (UIA) lack a clear mandate. Their activities often overlap and staff regularly request donor funding for participation in the same trade shows, instead of stimulating private sector participation. Originally the UIA was intended to be a one-stop shop for investors, but it failed to do so, and investment procedures remain cumbersome and lengthy.[12] The investment authority lacked direction, strong management and trained staff, and although several donors have supplied substantial financial and technical assistance, they are reconsidering the continuation of their support.

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[11] Uganda has submitted a specification of quality requirements for various products to the WTO early January, which comply with East African Standards. "The development of Eastandards is geared towards harmonizing the regulatory provision of quality of products and services in the EA region. This move will eliminate non-tariff barriers to trade when goods and services are traded within the region". G/SPS/N/UGA/1, 8 January 1999.

[12] In 1998, a new board and management team was appointed, but according to several donors it is still not clear whether they can turn things around.

The Uganda National Chamber of Commerce and Industry (UNCCI) has been in existence since 1978, but was dormant until 1996. The chamber has about 1000 members and 52 branches across the country, most of them struggling with a serious lack of capacity. The Chamber admits that it has been rather inefficient and ineffective till now.[13] Serious efforts are being made to increase the professionalism of the staff, and to create proper databases (of members for example), and administrative systems.

Table 2: Institutions involved in trade-related projects

No.	Institutions	Roles
1	Uganda Export Promotion Board (UXPB)	Development and promotion of non-traditional exports through dissemination of market information, organisation of trade fairs, and other marketing assistance to the private sector.
2	Uganda National Bureau of Standards	Formulation, registration and enforcement of standards; testing and inspection; international and regional harmonisation of standards and ensuring consumer protection.
3	Uganda National Chamber of Commerce & Industry*	Mobilisation and education of business persons on new trading opportunities and how to utilise these.
4	Uganda Manufacturers' Association (UMA)*	Organisation of stakeholders in manufacturing sector. It lobbies and advocates for its members' interests. Main activities include information services, trade fairs and exhibitions, business delegations, training, consultancy and policy analysis.
5	Private Sector Foundation (PSF)**	Provides support to private sector to make them more competitive through shaping the business environment, enhancing know-how through markets, financial and industrial partners. The role of PSF is to help institutionalise the process of public-private sector dialogue.
6	Uganda Women Entrepreneurs Limited (UWEL)*	Organises and represents women in business and provides advisory services.
7	Economic Policy Research Centre (EPRC)	Undertakes research to enhance the national capacity for policy analysis and decision making. Provides an environment for interaction between academics, politicians and policy makers. Research priorities: poverty, savings and investment, informal sector, taxation and trade policy

Source: Based on documentation for the Round Table Meeting for Uganda. Trade-Related Technical Cooperation Needs Assessment, WT/LDC/HL/12/Add.10, 27 October 1997.

Notes: * private sector organisations (NUCCI = independent, non-governmental organ).
** PSF is run by the private sector, but a joint initiative of the private sector, World Bank and Ugandan government.

Although international trade is not a priority in economic policy, substantial efforts have been made towards trade policy reform. Several major obstacles to the development of the private sector remain, but conditions for public/private sector dialogue are in place. Uganda is therefore an interesting case when asking how donors can best help develop trade in a country that has a potential, faces huge constraints and where authorities seem keen to 'play the game' of policy dialogue. We now turn to the experience of donors in private sector support and trade development in Uganda and try to draw some lessons.

[13] UNCCI, Business Plan, 1 October 1997,

Private Sector Support and Trade Development in Uganda

The European Commission

In Uganda, 55 percent of the NIP goes to economic infrastructure (extensive trunk road work, rail and water supply), while 10 percent of the NIP is earmarked for activities outside the areas of concentration, which includes support to the private sector, but specific actions are not defined. The EU and the NAOs of the East African Region agreed that a major priority was to deepen regional economic integration and to smooth the integration into the world economy, in particular through the promotion of the private sector.[14] The 8th EDF foresees Ecus 194 million to implement the RIP. The main support will go to infrastructure (both road and port) and it explicitly mentions the removal of the non-physical barriers to trade.

In the past, the EU's trade-related support has been rather limited and scattered. Within Stabex, an export diversification project gave support to the silk sector, and several market studies were undertaken, as well as a study on the export processing of fish. The EU also provided support to the National Bureau of Standards. Attending traditional trade and agricultural fairs still formed part of the EC 'aid for trade' support in Uganda, both for the UXPB and UIA, but will be discontinued and replaced by an All-ACP Export Business Assist Scheme — EBAS.

The new European approach to trade development is perceived as step in the right direction, which should enable the Delegation to consolidate and plan future interventions in Uganda. However no clear guidelines are available yet. Given the complexity of the Lomé procedures, the already-existing local initiatives, the limited capacity of the local private sector institutions and of the Delegation, the latter does not intend to invest in major programmes, but rather to focus on targeted actions that fit into a larger framework of support to private sector/trade development.

An EAC Digital Transmission project, intended to modernise the telecommunication system of the three member countries is currently being appraised by the European Investment Bank. A contribution of US$ 41.3m is foreseen by the EIB.[15]

Bilateral Trade Development Activities

In Uganda, notwithstanding the inherent difficulties and tensions, there is an attempt to coordinate among all donors. The World Bank takes a prominent role, chairing the monthly meetings in which general policy issues are discussed, such as the economy, corruption, taxes, procurement procedures, and reporting on new initiatives. At the sectoral level, there are also several coordination efforts, including meetings on private sector support, chaired by the Austrian government.[16] This coordination might be subsumed in the integrated initiative.

Austria has supported several small activities, including support for the UIA, Management Training & Advisory Centre, a library on international trade regulation and primarily focuses on micro-finance. The Austrian delegation also acts as the secretariat of the coordination group on private sector support.

Neither *Belgium* nor the *Netherlands* have special programmes for private sector support nor to strengthen the capacity for trade.

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[14] 'The main aim of the regional co-operation should be the support of the economic integration process, particularly the creation of economic areas which promote, facilitate and intensify trade and investment.' Framework of Cooperation Uganda/European Commission, NIP, Annex 3, regional cooperation.

[15] The Monitor, *EAC mega project to cost US $67m,* Kampala, August 4, 1998

[16] The Austrian senior economist has been based in Kampala the longest and therefore assured some continuity.

Danida facilitates and supports the creation of long-term business linkages between companies in *Denmark* and Uganda, mainly by providing funding for feasibility studies. Where assessment is positive, further subsidies can be obtained for start-up costs and training, as well as to reduce detrimental effects to the environment.

The *Swedish* EPOPA programme aims to promote organic farming and the export of organic products from Africa and to demonstrate the concept of "development through business. It involves 5,500 families or farmers, and has proven very popular. However, finding local management capacity to operate the scheme is proving to be a challenge. Sweden also co-produces an Eco-trade manual with CBI, Danida and Norad.

USAID is quite active in the area of private sector development, but is searching for a more integrated approach. Its PRESTO project — Private Enterprise Support Training and Organisational Development — began in 1997 and has three components: the Centre for Micro-Enterprise Finance, the Business Association Initiative and the Policy and Regulatory Reform Unit, which supported the setting up of a business arbitration tribunal and a tax tribunal. The USAID-financed Investment in the Development of Export Agriculture project (IDEA) has set up an Agribusiness Development Centre which provides assistance to non-traditional exports.

The Integrated Framework for Trade Related Assistance (IF)

From its start in January 1995, Uganda has been a member of the WTO. In May 1996, the WTO, ITC and UNCTAD announced a Joint Integrated Technical Assistance Programme in Selected Least-Developed and Other African Countries, including Uganda.[17] The main aim of this programme was to strengthen the understanding of the implications of the Uruguay Round on the economy and to build both the human and institutional capacity to enable Uganda to effectively participate in and comply with the requirements of the WTO. This includes building capacity to implement trade policy consistent with WTO obligations, to develop strategic analysis of trade issues, negotiating skills, representational capacity, and to provide relevant information. In March 1998, a Common Trust Fund of US$ 10 million was launched to support the implementation of the programme in 8 African countries. However, as a result of a High-Level Meeting in October 1997, the programme was to be subsumed in the larger initiative of the six major multilateral donor agencies (including the WTO, ITC, UNCTAD, UNDP, World Bank and IMF).

At the High-Level Meeting in October 1997, Uganda presented its "needs-assessment" in terms of trade-related technical assistance.[18] A 'focal point' was established within the Ministry of Trade to ensure that all relevant actors participated in and contributed to the process (ministries, private sector associations, and donors). Although informed, initially few actors were aware of the initiative or participated in the assessment. At the time of this study, however, an increasing number of actors showed interest and discussed priorities and a possible task division for concerned institutions. An ad hoc steering committee[19] was set up to refine the needs assessment — mainly in terms of including supply constraints — completing the inventory of actions already being undertaken by all donors, and designing a joint programme proposal addressing the needs.[20]

Uganda identified two clusters of needs in the framework of the IF. The first will improve the understanding of the implications of the WTO agreements to Uganda's economy, and build capacity to enable Uganda to participate effectively in WTO matters. The second can be labelled 'domestic supply response-related constraints'. These constraints are again grouped in eight categories: trade finance, cold storage chain (general post-harvest infrastructure), export/investment incentive regimes,

[17] Benin, Burkina Faso, Tanzania, Uganda, Côte d'Ivoire, Ghana, Kenya and Tunisia.
[18] WT/LD/HL/12/Add.10, Country specific Round Tables: Documentation, Uganda, 27 October 1997
[19] Minutes of First Steering Committee, held in MTTI Boardroom on 18th of June, 1998
[20] Members of the committee: ministry of trade, treasury, ministry of finance & planning, UXPB, UNCCI, PSF, UMA, UIA, WB, IMF, UNDP, UNCTAD/ITC/WTO, USAID, EC, bilateral donors.

technological base and research capacity, trade development institutional framework, trade representation services, market access problems and land-locked location of Uganda.

This process — refining the needs-assessment, completing the inventory of donor-funded trade-related projects, and designing a comprehensive response involving all actors — was discussed at a Donor Consultative Meeting in December 1998. While apparently a good opportunity for donors to rethink and structure their 'aid for trade' support, many actors hint that in reality it is rather complex — some say "idealistic"— to make the agendas of donors, private sector organisations and relevant ministries coincide.

Other Multilateral Projects

Through its Private Sector Competitiveness Programme, the *World Bank* supports the Private Sector Foundation (in their task to give policy advice to the government), the Uganda Investment Authority, a privatisation unit within the ministry of finance, and the Business Uganda Development (BUD) Scheme. This last provides technical assistance and grants (on co-financing basis) for non-financial services to Ugandan enterprises. However the Bank can only work with government, and not directly with the private sector. The Bank has further financed several studies on private sector support, among which an interesting private sector survey in 1995 and a study on the bottlenecks and attractions to Foreign Direct Investment in Uganda.[21]

UNDP's approach is rather large in size, something that is not always appreciated by the other donors, as it hardly takes account of other efforts. Business Promotion Centres at the district level were perceived as an expensive extension of an inefficient parastatal, and which received full support by the Ministry of Planning because of the enormous financial package attached to it.

The *IFC* has approved loans in almost every sector (mining, agriculture, flower, insurance, cellular phones, etc).

UNIDO is assisting the leather-sector via an integrated programme which includes policy formulation, quality improvement, environmental support, and training as well as technical and financial support for small and medium leather manufacturers.

Challenges Ahead

(i) *Develop the agricultural/agro-processing sector.* Given its low competitiveness, the Ugandan manufacturing sector does not seem to consider export as a priority concern. Operators focus on the small domestic market and are worried at import-barriers being dismantled. Today, Uganda's main export products are agricultural, as that is where its main comparative advantage lies. Economic expansion depends on Uganda's capacity to increase agricultural production, to add value to its products and to diversify within the sector. The barriers to trade for the agricultural sector are often quality and health standards in Europe, so technical support and information provision are essential. A major challenge is to attract investment for this sector.

(ii) *Build capacity at decentralised level.* According to several donors,[22] Uganda has been implementing a genuine and comprehensive decentralisation process with delegation of administrative and financial responsibilities to the districts. This is a long and fragile democratisation process, holding many opportunities in terms of participation and local control and at the same time a major challenge to the capacity of local governments. "The success of

[21] Consultants from Bologna had completed a similar study in 1995. Currently they are updating the study.
[22] Support for the decentralisation process was provided by such donors as the World Bank, the Netherlands, Belgium, DANIDA, Irish Aid, UNDP and UNCDF.

resource mobilisation and policy coordination at district level will determine the pace of future growth for the country as a whole" (Kayizzi-Mugerwa, 1998: p. 1). However, most support to private sector is concentrated on the Kampala region as that is where the manufacturing sector is mainly located.

(iii) *Enhance participation of private sector stakeholders in policy dialogue and in the design and implementation of aid for trade programmes.* In Uganda, the institutionalisation of a participative policy dialogue between private sector and government, even at the sectoral level, has taken root. While all interviewees agree that the policy dialogue is very open and participative, two concerns emerge. First, the capacity of civil society to make 'counter-proposals' to some of the donors or government proposals is still considered to be limited. Second, some warn that the momentum of economic reform is in danger of being sacrificed to powerful interest groups involved in the dialogue. Private investors applaud the current government policy to encourage private sector participation in infrastructure investment and development, and to recognise the private sector as an equal partner in the economic development of the country. However, they also call for a change in the rules to ensure more effective participation.[23]

(iv) *Support the regional integration process*. The EU, given its history and experience, certainly has a comparative advantage in supporting regional integration. The condition sine qua non is a clear political commitment within the EAC region to actually establish a community. Assistance is needed in terms of harmonisation of taxes, customs, regulations, etc. The existing Regional Indicative Programme and Cross Border Initiative aim to facilitate trade and private investment in the region.

(v) *Integrate and coordinate with existing initiatives.* Given the integrated framework for trade-related assistance and the new EU strategy for private sector support, this seems to be a good time to design a specific role for the EC in Uganda in terms of support for trade.

(vi) *Provide information on standards.* As the major export market for Uganda, the EU could play an important role in providing adequate information on quality, environmental, and phytosanitary standards. A serious capacity building effort is needed to bring the UNBS up to speed and capable of giving certificates.

The European fish-ban is a case in point. The frozen/canned fish sector has been built up in the last years exclusively for export because the local market only buys fresh fish. This is a very promising non-traditional area and capital investments have been made with support from several donors. In December 1997, the EU quite unexpectedly imposed a ban on Ugandan fish for 'health-safety' reasons, which was lifted on July 1, 1998. This was very detrimental to the industry and the ban was seen in Uganda as a purely protectionist measure. An urgent request from the industry and the entire private sector is for more transparency concerning standards and to receive relevant information on standards.

(vii) *Evaluation*. Lessons from successes and failures can critically help improve the relevance of donor activities.

(vii) *Attract more investment.* Fighting corruption to create a more stable, transparent business climate will certainly contribute to attract more investment. Plans exist to create duty-free zones to lure more FDI into the country.

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[23] "Government must work out an effective, transparent and simple regulatory framework and define the rules of the game to enable the private sector to participate effectively." Interview with Nintin Madhvani, chairman of Madhvani International, biggest national private investor in Uganda, in *The Monitor*, August 3, 1998, 'Madhvani draws 8$bn to revamp Uganda'.

Evaluation of Stabex operations in Uganda
Recommendation: A Role for the Private Sector

A reason for the slow movement of Stabex funds is the administrative effort required to ensure that the impact of risk of inefficient and corrupt practices is minimised and that funds are generally spent in accordance with the procedures and regulations laid down by the EC. The problem could be addressed by designing projects for execution by the private sector. Contracts would be put out for tender on the basis of the financial proposal and the technical merits of the proposal. A sufficiently punitive clause should also be inserted in contracts awarded to ensure that here were no serious infringements of EC procedures and regulations by the company that won the project. Performance bonds might also be requested to provide similar assurances. Interim and final audits of the companies' affairs would be required. We would recommend that technical assistance be employed to assess the administrative and legal requirements implied.

Source: Maxwell Stamp, 1995, p. 27.

A critique of the Stabex programmes in Uganda is that some of them, while ostensibly promoting the private sector, have in fact usurped it. In Uganda the Government is committed to promoting the private sector and a primary goal of Stabex as expressed in the FMOs of 1990 and 1991 is to support the major policy initiatives of the government in the agricultural sector. This suggests that a criterion for project selection should be to avoid subverting the role of the private sector in investing and reaping the subsequent profits or incurring losses. Given the right policy environment, an adequate infrastructure and the ready availability of credit on commercial terms, it is the private sector and not the civil servants, which should be making the investment decisions.

Annex II : An Ethiopian Case Study

The Context[24]

Difficult Transition to a Market Economy

During the eighties, war and socialism have impeded the economic development of the country. The Ethiopian economy remains highly dependent on agriculture, which accounts for more than half of GDP and generates the revenues of an estimated 85 percent of the population. Food insecurity remains a major issue. As in Uganda, international trade represents a small volume and is very concentrated with coffee accounting for almost 70 percent of total export earnings. Hides and skins make up another 15 percent.

Following the change of government in 1991, two major orientations were adopted: Donor-sponsored economic liberalisation and the devolution of increasing responsibilities to local governments at the regional level. Although to a lesser extent than Uganda, Ethiopia's macro-economic performance in the nineties shows a dramatic improvement compared to previous decades, with growth averaging more than 5 percent and inflation successfully controlled. However, despite substantial efforts in terms of reduction in protection, devaluation of the currency, dismantling of price controls, privatisation etc., economic transformation proved to be hard to implement, and the credibility of the actual liberalisation process is wavering.[25] Domestic investors feel frustrated by the slow progress in the setting up of a market-friendly environment, and more particularly one that would be conducive to private sector development and increased export performance (see box 2).

Box 2: The Ethiopia Foreign Trade Development Programme (FTDP)

"The assumed enabling environment for export development did not materialise in the lifetime of the FTDP. Although a number of liberalising measures were introduced at the time of the programme commencement, they were not sufficient to facilitate the smooth development of exports. Exporters who had been assisted by the Programme to identify new market opportunities were very often frustrated by restrictions on their freedom to take fast action. These restrictions were at all levels with the most obstructive being in terms of foreign exchange release, export pricing, excessive documentation and slow decision-making.

It follows from the experience of the FTDP that there needs to be a significant further liberalisation of the export environment before further efforts can have any chance of success in terms of incremental and sustainable exports. Furthermore, there needs to be an improvement in road, rail, air and telecommunication links with target markets. Finally, institutional support services need restructuring and/or there needs to the creation of a new trade development organisation created specifically to support development efforts and to advise government on ongoing policy requirements.

Unless Government takes distinct actions on export policy progress in the forthcoming months, further programmes of assistance cannot contain assumptions that an enabling environment will be in place."

Source: David Jones and Associates, 1995, p. 11.

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[24] At the time of this study, the 1998-99 conflict with Eritrea had not yet reached the scale of a war.
[25] For instance, only public shipping agencies are allowed to clear goods imported in the country.

This slow progress must be put in the perspective of the daunting challenges faced by the Ethiopian government. Leaving out the political issues and the difficult process of political reforms, its priorities – and those of donors – have focused mainly on food security and social needs, especially health and education. In this context, private sector and foreign trade development get less attention than the share they get in official policy statements.[26]

The government's announced strategy towards private sector development comprises (i) capacity building at the government level, (ii) reform of the institutional/regulatory environment and (iii) development of entrepreneurs' skills. Indeed, huge problems exist at these three levels. First, as in many transition economies that have experienced several years of administered economy, civil servants at the 'intermediary' level still consider private activities with suspicion, if not hostility. Second, the general business environment is still unfriendly to the private sector, and even more biased against non-traditional exports. Third, an overwhelming majority of private firms is 'informal', i.e. small, evolving outside the government-regulated environment, and altogether relatively unorganised.

In fact, when looking more closely at the business level, it seems fair to say that the weakness of the private sector, small and under-developed, can be interpreted both as a consequence and a cause of the slow transformation of the economy. A consequence as many obstacles constrain existing businesses and discourage potential investors, a cause as businesses cannot be a driving force of the process of economic transformation.[27]

In the 'formal' sector, two major organisations represent private sector interests: The Ethiopian Chamber of Commerce, and the Addis Ababa Chamber of Commerce. Partly because of their small membership, they are not organised by sectors yet. Both have experienced difficulty in attracting members, and many firms are still not registered. Among the reasons put forward by entrepreneurs for not joining, there is a perception that the Chambers do not reflect their needs and concerns. They are perceived as remaining accountable somehow to the government rather than to their constituencies. An Ethiopian Federation of Employers was also re-established, and sectoral associations exist in several sectors such as coffee, leather, tanneries and textiles.

Private Sector and Trade Development in Ethiopia

Several Ethiopian exporters have benefited from trade-related aid projects, including from the EC and its Member States. Results have been disappointing: "Precise cases have been encountered where, because initial conditions had not been taken into account, efforts of trade promotion ended up being sterile, for instance in Ethiopia, where several manufactured products are absolutely unsuitable for commercialisation in the countries of the Community." (DFA SA, 1995). However, by the time the post-Lomé agreement is put in place, there should be a wider scope for effective support.

1) The *political and economic environment* — war, public sector domination and inward-oriented policies — has made trade-related projects largely pointless. In 1998, however, the government adopted an Export Development Strategy and consultations have begun with the WTO to prepare for Ethiopia's accession.

2) Although still weak and barely considered as a real partner by the government and donors — with the exception of the coffee exporters — the *private sector* is slowly emerging. Non-

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[26] The "Medium Term Economic and Financial Policy Framework Paper 1996/97 – 1998/99" published by the Government in August 1996 put the rapid growth of private activities in general and export activities in particular at the heart of its economic strategy. See Hansson, 1998; p. 9.

[27] In addition, Hansson (1998) points to the issue of important private business related to the major, and ruling, political party, the EPRDF (Ethiopian People's Revolutionary Democratic Front), a factor that has created fears of unequal treatment among businesses.

traditional activities, *e.g.* horticulture, are regarded as having a strong potential for export. Chambers of Commerce, which were traditionally accountable to the government rather than to their membership, are being restructured.

3) A major problem is the *conception of trade-related projects* themselves. In particular, most donors have a very conservative approach to the private sector, mainly focusing on international trade fairs or the dispatch of technical assistance.

There are two types of trade-related support activities by donors: Projects targeted to the public sector (i.e. ASYCUDA, to improve customs) and those targeted to the private sector. There is widespread agreement among donors and in the government that both are needed and must be conducted in parallel. Support activities targeting the private sector are split between those aiming to strengthen representative institutions (mainly the Chamber of Commerce), and those directed to enterprises (capacity building, trade fairs, etc.).

The Government has set up a forum for consultation between the administration and exporters (public and private). The Export Promotion Council is chaired by the Prime Minister and is organised by sector. The government designated the private participants, but because private exporters are very few in Ethiopia, in each sector almost all of them are represented. The only exception is coffee, where about 20 major players were selected from more than 160. Meetings are held every three months. Most private operators said that government officials were originally reluctant, but gradually gained confidence in the dialogue, meetings were helpful to solve firm-specific problems and issues could be freely discussed.

The European Commission

EC trade-related aid is currently paused, with no major project running. This is a time to reflect on its past experience and its new orientations. Past projects were of two types. On the one hand, import support programmes – such as Sectoral Import Programmes – were designed to alleviate the difficulties of producers in accessing inputs, e.g. fertilisers. These difficulties were primarily the consequence of economic policies that restricted access to foreign exchange. Following the progressive liberalisation of the economy, inclkuding measures like the introduction of auctions for foreign exchange, these programmes are no longer necessary and have been discontinued. On the other hand, direct support to private firms from the NIP has helped to diversify Ethiopia's exports and to improve its trade performance.[28] That was the purpose of the Ecus 1.5 million Foreign Trade Development Programme.

In 1996, 90 percent of the latter had been disbursed. In terms of the results achieved, the EC annual report on cooperation between the EU and Ethiopia stated that "the project has contributed to increasing the quality and quantity of the exports of the sectors covered, notably in the leather sector and horticultural sector". According to the actors interviewed and the existing evaluation (Jones & Associates, 1995), results were quite mixed. Certianly, measuring results in terms of increased exports is a difficult task and may not necessarily reflect the benefits that can be derived from such schemes, but there are lessons to be drawn from the flaws observed in the process.

- Beneficiaries were invited by government to participate, but only after the scheme had been designed. They were not adequately consulted in terms of their perceived needs;
- The actual level of capacity and needs were not properly assessed. As a result, while some components of the programme proved useful, some were perceived as "too trivial" and some too advanced. In the words of one entrepreneur, "in the end, 20 percent of the assistance was beneficial";

[28] A branch of CDI is also active in Addis Ababa, which has been lending support to trade fairs and exhibitions, with few tangible results. Overall, substantial difficulties have been experienced in meeting the expectations of private entrepreneurs. Inadequate capacity and bureaucracy are pointed at as limiting factors.

- Upstream and downstream linkages within the industry had not been adequately taken into account. Trade promotion was focused on the leather sector, but the tanning sector, which supplies 80 percent of the inputs, was not covered. Thus, leather craftsmen were trained to high European standards in skills not adapted to the quality of the raw material;

- Some entrepreneurs felt frustrated that their claim for setting up a permanent training institution had not been heard: Employees of targeted firms were provided with a 3-year training package, at the end of which the incentives to remain within the firm had weakened;

- Budget management, jointly administered by the Ministry of Trade and the EU, resulted in heavy and costly controls by civil servants, whose participation took up a substantial share of the overall budget. Some firm owners suggested that the project should have been jointly managed with the firms on a cost-sharing basis

There is therefore a general problem stemming from failure to associate beneficiaries in the design and implementation of the project. This is by no means specific to the EC. Bilateral donors have experienced the same shortfalls, without having gone as far as the EC in acknowledging the need to drastically reconsider such activities and to redefine their strategy for trade-related assistance.

The 1995 evaluation of the Ethiopian Foreign Trade Development Programme clearly recommended that trade development should focus on private firms: "Any future Trade Development Programme needs to be more comprehensive than the latter and be linked to the provision of direct financial assistance to the private export sector of Ethiopia. In other words, it needs to contain or be part of specially designed programmes of assistance to small and medium sized enterprises. In the absence of a more export conducive policy-environment, such a programme should be part of the forthcoming EU/SME. This gives specific recognition to the special circumstances of Ethiopia and provides the essential link between assistance and effectiveness. It will cause some diversion of funds from other projects but if export development is a priority this will be justified." (Jones & Associates, 1995, p.13 -Recommendations)

The current EC approach, yet to be implemented, is to:

- concentrate on improving the overall economic environment, rather than targeting specific firms or providing business services;

- build capacity at the levels of the government and the private sector, as provided by the NIP;

- focus on building 'new partnerships' between the government and business that would improve on the current situation of formal consultation mechanisms set up by the former.

Given the EC's experience of trade-related projects in Ethiopia, the rationale for earmarking funds for capacity building could be questioned. Trade development is not a priority for the EC in Ethiopia and the Delegation is not adequately staffed to conduct such projects on its own. Therefore, support to capacity building activities in this sector may be best pursued by contributing to the projects of other donors, such as the Integrated Framework. This raises the difficult question of donor coordination. While the EC pursues coordination with other donors in priority sectors such as education, it has so far remained uninvolved in other multilateral agencies' trade-related projects. By contrast, the new emphasis on partnership with the private sector in the next Lomé Convention could signal an area where the EC may develop a comparative advantage.

EU Member States

In Ethiopia, *Sweden* has also made intervention in social sectors its priority. Trade-related projects are one-off projects designed to improve relations between Swedish and Ethiopian operators. The main activity was a fair in 1998 that combined commercial contacts between delegations of Swedish firms and Ethiopian businessmen with cultural exhibitions.

With regard to trade development, the *Netherlands* considers that barriers between promoting commercial activities with Ethiopia on the one hand and projects designed for purely aid purposes – between 'aid and trade' – ought to be abolished. Its objectives are to promote contacts between Dutch and Ethiopian operators, raise awareness of commercial opportunities in Ethiopia and help attract Netherlands investment in Ethiopia (Royal Netherlands Embassy, 1998a). Its 'cooperation fair' associated private companies which co-sponsored the event. It also funds studies to explore export opportunities in non-traditional sectors, in collaboration with the Chambers of Commerce. Furthermore, the ORET-MILIEV programme – managed by the Development and Private Sector Department of the Netherlands Ministry of Foreign Affairs, and active in several developing countries — 'provides assistance to trade and industry in response to proposals from Dutch companies' and is presented by the donor as 'a form of tied aid' subject to the relevant OECD agreements (Royal Netherlands Embassy, 1998b).

French agencies (Agence Française de Développement, PROPARCO) concentrate their activities on big investment projects involving French companies, e.g. in public infrastructure, and credit to small local enterprises via commercial banks. They aim to 'promote economic development through French exports'.

Germany's GTZ has a Pro-Trade project to assist Ethiopian companies sell their goods to the EU, i.e. (i) to help them participate in trade fairs and regional workshops and (ii) to provide technical assistance to improve the quality of exported goods. As the EC was active in the leather sector, GTZ targeted other sectors such as textile and jewellery. In fair trade activities, classic problems of pervasive intervention of government authorities and lack of capacity of exporters to follow up on their contacts were experienced. Technical assistance consists in training courses by foreign consultants. In the case of jewellery, tools and raw materials from Germany were provided. Beneficiaries are selected either on an ad hoc basis or jointly with the Ministry of Trade. Consultancy and administration costs are matched by the donor but participants pay for their own expenses. A project to assist the Ministry of Trade was also under preparation at the time of the study, which included training, studies, supply of equipment and study tours.

Multilateral Agencies

The Integrated Framework. It is too early to make even preliminary observations on the IF, because the process had barely started in Ethiopia. The World Bank is the local coordinator of the initiative. The EU delegation and the UNDP — which represents UNCTAD in Ethiopia — seemed to have little knowledge of the process. A key aspect of the Integrated Initiative is that it should hinge around developing countries' "own assessment of their needs". The Ethiopian context nevertheless highlights a major limitation, as the process of identifying needs was left in the hands of the government. As a major target of projects, and the main driving force for improving trade performance, private entrepreneurs should have been directly invited to present their perceived needs. This shortcoming had been identified earlier in the process as a "necessary evil", and it was hoped that governments would invite businessmen to share their own views. This may have been the case in other countries, but it wasn't in Ethiopia. Another risk is that this may send the wrong signal to both the government and the private sector. Not that the latter is excluded, but that it is subordinated to the former, which eventually represents its interests vis-à-vis donors.

This may constitute an institutional precedent likely to matter particularly in the Ethiopian context. The key requirements of comprehensiveness, coherence, coordination and local ownership may miss a crucial aspect, participation.

ITC/UNCTAD trade-related activities focus on improving the capacities of government agencies to implement new, more liberal economic and trade policies, i.e. through restructuring Ethiopian customs (ASYCUDA). These activities rely mostly on foreign expertise and the supply of equipment, e.g. computers.

Support has also been provided to prepare Ethiopia for its accession to the WTO. Support to the private sector consists in supplying services, such as the setting up of an information system, the publication of investment guides and videos, and support to participation in trade fairs and training abroad.

Similarly, the *World Bank* does not fund specific activities targeted to exporters. It focuses its support on preparing the accession of Ethiopia to the WTO within the Integrated Framework, and on the formulation by the government of an export development strategy, to which it contributed by its own paper.

Challenges Ahead

After several years and several projects, aid for trade in Ethiopia, either from the EC or other donors, has few success-stories to tell, because of (i) wrong environment, (ii) repressed private sector and (iii) wrong design of projects. Today, the global environment has slightly improved, private sector representation is slowly making progress – though problems remain – and some donors, including the EC, are considering new approaches, unimplemented yet. This is therefore a transition period, where few trade-related projects are running. The publication of the Ethiopian government's export strategy could trigger new opportunities of cooperation between donors, the government and exporters

Working Better With the Private Sector

A key problem is how to reach private exporters, and how they are represented. In Ethiopia, the private sector is weak, with few enterprises in each sector. Donors and government need to find ways to work with the private sector. First, whom should they cooperate with? As we have seen above, in Ethiopia, institutional representation needs strengthening and the accountability of institutions remains an issue. Devising institutions that will allow all partners to work fruitfully together, in a way that will allow each of them to reach their own objectives will necessarily be a gradual process of adjustments, with trials and errors, not least because this may entail a gradual modification of individual objectives.

Currently, donors are not allowed to deal directly with the private sector, for the government wants to retain a leading role in coordinating activities and defining priority sectors. Multilateral donors in particular, because of their nature find it difficult, and most of their activities are focused on strengthening the administration and the Chamber of Commerce. Bilateral donors have a greater margin of manoeuvre and more experience of working on commercial terms. However, their trade promotion activities are primarily aimed at improving access for their own nationals' trade and investment, rather than identifying and matching Ethiopia's needs to develop its export capacity.

The EC could be a halfway house. There is scope for establishing tripartite fora bringing together donors, the government and private exporters. The key challenge is to keep a balance between each party. If the donor plays too great a role, then the risk is that the agenda be supply-driven; if the government is explicitly or implicitly dominant, then it might be detrimental to correctly identifying and matching the needs of exporters. If individual private interests overshadow those of other operators, e.g. because of collusion with government, then the credibility of the institution will be considerably weakened. The Lomé framework — with its increasing emphasis on partnership encompassing non-governmental actors — could provide a forum to develop adapted institutional solutions. However, for the time being, the EC delegation in Ethiopia does not have the adequate capacity, and in the framework of the new trade development strategy of DGVIII, it may not consider trade development a priority. This is especially if the Trade Health Check screens Ethiopia out. Should, by contrast, future EDF funds be allocated to trade development, another issue would relate to the interpretation of the principle in the new EC strategy that donors would support the emergence of local private (trade-related) service providers, and not intervene themselves by targeting specific exporters or sectors. In Ethiopia, exporting firms are very few (except in the coffee sector), and the government will probably be tempted to take an interventionist approach in the next years. Therefore market mechanisms alone may not allow for a "hands-off" strategy to be successfully implemented. There may be a need to allow for case-by-case adaptation to the realities of the field.

Improving Donor Coordination

On the whole, exchange of information between donors on these issues is relatively scarce and there is little evidence of synergy or deliberate complementarity in their past experience of trade development projects. Since the mid-nineties, there are efforts at better coordination between the EC and EU Member states. Ethiopia is a pilot country targeted by the EU to achieve better coordination, in a first stage, between EC and its Member States, and in a second stage between the EU and other donors. The current initiative aims to harmonise procedures in education. Total harmonisation is not envisaged, because each agency needs to report according to its own objectives, but the main headers can be common. On trade-related activities, however, no donor coordination has been attempted. Member State delegations say they are open to do more in that direction, including in groups larger than the EU, but at the same time cast doubt on the willingness of their counterparts to do so. Some also stress that multiplying meetings among donors might not be realistic. One reason is the relative scarcity of trade development projects at the end of the nineties.

It may also be argued that this is a sector where the scope for coordination is particularly narrow. When it comes to trade, bilateral agencies have their own objectives. In particular, the border between representation of national economic and commercial interests on the one hand and donor support to trade development is sometimes blurred. Compared to multilaterals, most bilateral donors have an approach to trade development that aims at promoting trade and exchanges with local entrepreneurs primarily for the benefit of their own national operators, or as part of their overall diplomacy. Exceptions are those bilateral agencies with a strategy primarily geared towards development objectives, and which are not directly affiliated to the diplomatic agenda of the Embassy (e.g. GTZ). Some argue that this can be positive, as support for trade development must be seen in the perspective of a market-led process, where the mutual interests of the donor and the beneficiary have to be met. However, there is a risk that such an approach should result in forms of tied-aid, which is known to be counter-productive. Here again the EC may be in a position to be the missing link, which would tap the skills of Member States but stick to a development-driven agenda.

Annex III: Summary of Some Recent Evaluations

Project	*Evaluation*	*Main conclusions and recommendations*
COLEACP *Supply information, technical and commercial support, training and interbranch consultation to "harmonise the production and distribution of [fruits and vegetables]"*	Queyrane & Govinden, 1992	Conclusions - Overall pragmatic and efficient structure - Interventions match needs of members in terms of trade promotion, information and training, as well as international meetings, but less so for TA - Good cost/benefit ratio, but auto-financing capacity can not exceed 25 to 30% of needs Recommendations - Need to clarify objectives and adopt a long-term vision - Streamline the Board and make it more representative and accountable - design a real policy framework to avoid dispersion in ad hoc activities - focus on capacity building for private operators rather than public sector actors - diversify sources of financing, streamline procedures, exclude members not paying their fees
COLEACP *Ecus 2.5 million p.a. in 1996* *Supply information, technical and commercial support, training and interbranch consultation to help ACP countries diversify exports and enhance export earnings by developing competitive horticulture sectors*	David Jones & Associates, 1997	Conclusions - Not achieved the objectives set out in the 1994-96 financing proposal - Since it has lost a degree of relevance in terms of the present structure of horticultural trade, there is little likelihood of it achieving objectives in the near future - Low and fluctuating exports growth resulting in low returns on EU "investment" and no possibility of achieving stated objectives. - Much of the existing service package has lost its relevance to the changing dynamics of trade in the sector, is relatively ineffective in achieving results, is organised relatively inefficiently in terms of client satisfaction and manpower input, has little if any developmental impact and is totally non sustainable. - A new overall package of support for ACP horticultural traders needs to be designed which could contain within it, inter alia, a role for COLEACP. Recommendations - Re-position COLEACP within a broader, revised EU sectoral strategy; its continuation should depend on its ability to find a role therein. - The most successful donor-supported operations are those targeting exporters within the framework of a sector-integrated programme, only firms had adequate resources and were prepared to operate at a the required "scale" - The key to a future strategy is support that (i) aims at exporting organisations, (ii) is integrated, i.e. it fills the gaps of a more general programme supporting a whole sector, and (iii) is market oriented, i.e. only aims at firms that can deliver on the market; firms must be selected according to potential, existing resources, readiness for cost-sharing and realistic commercial expansion plans.

EU Regional Integrated Programmes *Help ACP promote agricultural, industrial and handicrafts export, as well as tourism*	DFA, 1995	- The Programme focused exclusively on capacity to promote products/services, without checking enough on the actual availability of products/services suitable for markets. - There does not exist, within DGVIII, a permanent mechanism to ensure the coherence or integration of RIP activities with other actions by the Commission - Numerous [bilateral] donors also conduct their own programmes autonomously, without any coordination with one another, although there are some exceptions. - Where a country or sub-region already has a trade and/or tourism development programme, it generally includes elements of vertical integration better suited to the specific objectives of the NIP or RIP than the Regional Integrated Programme - Seminars (between 17 and 20 per cent of the budget on average) aimed to facilitate meetings between buyers and sellers, and be a source of information for ACP economic operators. Actually, government staff accounted for over 90% of participation. - The programme has not experienced any significant innovation since 1991, while the situation of many ACP countries and their economic environment had considerably evolved over the period.
Project	*Evaluation*	*Main conclusions and recommendations*
The Foreign Trade Development Programme of Ethiopia *Assist efforts made by the Ethiopian authorities and the private sector to improve the country's trade performance and diversify its export structure*	David Jones & associates, 1995	- The programme was designed in 1989 under a centrally-control system —with assistance aimed mainly at state corporations. Although objectives were "somewhat altered" to fit the new conditions, the programme itself was not fundamentally revamped. What was needed was "a specially tailored and comprehensive programme of assistance that went well beyond the normal package of export development assistance […]". - If a follow-on project is to be justified, its basis must lay beyond the methodology for this evaluation and the EU life cycle approach to project formulation and justification. - The major conclusion is that the FTDP of Ethiopia — although it attained most of its operational targets — has not attained its overall objectives to any significant or sustainable extent. By the end of the third year, a total of Ecus 2 million was spent to generate non-sustainable export earnings of circa Ecus 200,000, against a targeted export-increment of Ecus 28 million. - Its positive contribution was to raise awareness of some individuals in the public and private sectors about the requirements for operating in the international market and the latter's opportunities - Whilst this has brought parts of the export sector closer to the point of continuous exporting, the remaining obstacles make such an outcome unsafe. There is nothing within the programme that addresses these obstacles except for assumptions that they do not exist or will be dealt with by someone else.
EDF Support to SIAO, Burkina-Faso (Salon International de l'Artisanat de Ouagadougou) *Setting up a favourable framework for the presentation of products; facilitate business contacts; improve financial position of SIAO through investment.*	Expand, 1997	- Few exporters, few professional buyers visiting. SIAO is a popular fair rather than a business forum. - The "tools" (Business Centre, catalogue) that should have reinforced the efficiency of the particular Pavilion for which the EU provided support have not played their role. - The fair reaches mainly national and regional operators. - The deficit increased in 1996, and SIAO is viable only with considerable subsidies from the EDF and the Burkinabé state. - European business people say SIAO is not directly relevant; meeting exporters of African handicrafts in European trade fairs is more profitable. Supply in SIAO is not reliable enough and does not match quantitative and qualitative requirements. - More generally, SIAO is not a valid contribution to reaching the objectives of the EACH programme.

Project	*Evaluation*	*Main conclusions and recommendations*
ACP-EEC Industrial Fora (with CDI and UNIDO) *Promote the multiplication of contacts between European entrepreneurs and promoters of African projects.*	Ouroumoff International, 1994	- Objective unchanged for 20 years ("making promoters from the ACP and the EU meet") - A very small percentage of projects presented in the fora are realised (3.5% for the 1991 edition). - Main conclusions: inadequate preparation (too heavy a financial structure for DGVIII B4 to manage, targets not defined precisely enough), overall objective too vague, lack of political commitment to private sector development in some countries must lead to their exclusion, enterprises need complementary support activities. - Main recommendations: clarify nature of, and contractualise, collaboration with partners (regional institutions, host government, CDI, UNIDO), apply logical framework more rigorously, clearer terms of reference for TA, inform all private sector organisations and institutions aiming to promote private sector development, better assessment tools, […] use recommendations made by private sector to set up programmes supporting its development. -
Stabex 90 and 91 Operations in Uganda[29] *Eight projects or programmes, of which :* - *Support to liberalisation of the coffee market* - *Support to export diversification*	Maxwell Stamp, 1995	Conclusions - Transfers progressed towards the achievements of the objectives, but drawing up / agreeing programmes, and implementing some of the programmes agreed, have taken longer than planned. - Both shortcomings are attributable to the availability of Stabex funding, and in particular to its unpredictability (large projects exceeding management capacity of donor and recipients) and conditionality (too stringent). - A critique of the Stabex programmes in Uganda is that some of them, while ostensibly promoting the private sector, have in fact usurped it. […] Given the right policy environment, an adequate infrastructure and the ready availability of credit on commercial terms, it is the private sector and not the civil servants which should be making the investment decisions. (Selected) recommendations - Set up a revolving fund to finance a new or enlarged export scheme - Inject capital to facilitate financial sector restructuring - Co-financing of export promotion with individual private firms - A reason for the slow movement of Stabex funds is the administrative effort required to ensure that the impact of risk of inefficient and corrupt practices is minimised and that funds are generally spent in accordance with the procedures and regulations laid down by the EC. The problem could be addressed by designing projects for execution by the private sector

[29] Here we take into consideration the parts of the Stabex operations that relate to our definition of "Aid for Trade". It therefore excludes direct compensation payments and debt relief operations, but includes other forms of export promotion.

EDF support to Handicraft Development Project in Mauritius *Objectives include training, market promotion, identify export demand, improve image of products, and import substitution. These were to be achieved mainly through support to the state-owned National Handicrafts Centre (NHC)*	David Holbourne, 1994	- The objectives are still relevant and the general project design was correct, but there was a lack of realistic commercial orientation - The project design seems to imply that government should and could manage the development of the handicraft sector. But this is very doubtful […]. It can provide the adequate environment and some services, but direct involvement in production and marketing is usually an inefficient use of government resources, with the possible exception of some pilot activities. Even in these cases, support for a private sector initiative, or involvement of a private sector partner is usually more effective. - The National Handicrafts Centre (NHC) needs to be more autonomous, with private sector representatives and organisations closely associated with its policy making and management.
Foreign Trade Statistics of Member states of the IOC : setting up a computerised system *To set up a national and regional system of foreign trade statistics and an import-export guide*	Plani-Stats, 1995	Main conclusions : - Objectives were partially met: improved comparability of nomenclatures of foreign trade statistics; computerisation of national foreign trade statistics (Comoros, Madagascar, Mauritius); setting up of a regional databank on IOC countries' foreign trade; import-export guide software was developed and published in Member States; national officers were trained in using the new tools. - Limitations : under-utilisation of foreign trade statistics, discrepancies between regional and national statistics, software did not fully match the needs and capacity of recipients, weak dissemination of import-export guide - Main factors explaining mixed results: lack of coordination within national administrations and at the regional level; delays caused by slow implementation of procedures stemming from political instability in some member states; slow implementation and inadequate knowledge of EC administrative procedures; import-export guide had inadequate promotion because edition and publication were handed over to non-competent private firm. Main recommendations : - Donors: funds for further investment in hardware and software, further training of civil servants and within chambers of commerce and the IOC secretariat, additional promotional actions, a seminar on procedures - Governments: better coordination customs / statistical departments, quicker dissemination of statistics - Shift the responsibility of managing the import-export guide back to the chambers of commerce (except in one country where it is not well organised enough) - Create an extension to the current guide in the form of a databank for private firms in the region, administered from chambers of commerce.

Annex IV: Lomé IV-bis Provisions

TITLE X - TRADE DEVELOPMENT

ARTICLE 135

With a view to attaining the objectives set out in Article 15a, the Contracting Parties shall implement measures for the development of trade at all stages up to final distribution of the product.

The object is to ensure that the ACP States derive the maximum benefit from the provisions of this Convention and may participate under the most favourable conditions in the Community, domestic, sub-regional, regional and international markets by diversifying the range and increasing the value and the volume of ACP States' trade in goods and services.

To this end the ACP States and the Community undertake to ensure that high priority is given to trade development programmes in the context of establishing national and regional programmes as provided for in Article 281 and other relevant provisions of this Convention.

ARTICLE 136

1. In addition to developing trade between the ACP States and the Community, particular attention shall be given to operations designed to increase the ACP States' self-reliance, develop intra-ACP and international trade and improve regional cooperation in trade and services.

2. Within the instruments provided for in this Convention and in accordance with the provisions set out in relation thereto, operations shall be undertaken at the request of the ACP States and ACP regions, particularly in the following areas:

- support for the definition of appropriate macro-economic policies necessary for trade development;
- support for the creation or reform of appropriate legal and regulatory frameworks as well as for the reform of administrative procedures;
- the establishment of coherent trade strategies;
- support for ACP States in developing their internal capacities, information systems and awareness of the role and importance of trade in economic development;
- support for strengthening the infrastructure related to trade and in particular support for the ACP States' efforts to develop and improve supportive service infrastructure, including transport and storage facilities, in order to ensure their effective participation in the distribution of goods and services and in order to enhance the flow of exports from the ACP States;
- development of human resources and professional skills in the field of trade and services, in particular in the processing, marketing, distribution and transport sectors for the Community, regional and international markets;
- support to private sector development and, in particular, to small and medium-sized enterprises for product identification and development, market outlets and export-oriented joint ventures;
- support for ACP actions aimed at encouraging and attracting private investment and joint venture operations;
- the establishment, adaptation and strengthening of organisations in the ACP States dealing with the development of trade and services, particular attention being paid to the special needs of organisations in the least-developed, landlocked and island ACP States;
- support for the ACP States' efforts to develop and improve the quality of their products, adapt them to market requirements and diversify their outlets;
- support for the ACP States' efforts to penetrate third country markets more effectively;
- market development measures including increasing contacts and exchange of information between economic operators in ACP States, the Member States of the Community and in third countries;
- support for ACP States in the application of modern marketing techniques in production-oriented sectors and programmes, in particular in areas such as rural development and agriculture.

3. With a view to expediting the procedures, financing decisions may deal with multi-annual programmes in accordance with the provisions of Article 290 on implementation procedures.

4. Support for ACP States' participation in trade fairs, exhibitions and trade missions may be carried out only where such events form an integral part of overall trade and market development programmes.

5. Participation of the least-developed, landlocked and island ACP States in various trade activities shall be encouraged by special provisions, inter alia, the payment of travel expenses of personnel and costs of transporting exhibits, on the occasion of their participation in national, regional and third country fairs, exhibitions or trade missions, including the cost of the temporary construction and/or renting of exhibition booths and stalls. Special assistance shall be provided to least-developed, landlocked and island ACP States for the preparation and/or purchase of promotional material.

ARTICLE 137

Within the framework of the instruments provided for in this Convention and in accordance with the provisions for development finance cooperation, assistance for the development of trade and services shall include technical assistance for the establishment and development of insurance and credit institutions in connection with trade development.

ARTICLE 138

In addition to the appropriations which, within the framework of the national indicative programmes referred to in Article 281, may be allocated by each ACP State to the financing of operations to develop the fields referred to in Titles IX and X, Part Two, the contribution of the Community to the financing of such operations, where they are of a regional nature, may amount, within the framework of the regional cooperation programmes referred to in Article 156, to the amount provided for in the Financial Protocol annexed to this Convention.

Source: the Courier n° 155, January-February 1996.

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