Trade and Poverty Mainstreaming; Lessons from Southern Africa

Helena McLeod – Regional Trade and Integration Advisor, DFID SA[1]

Introduction

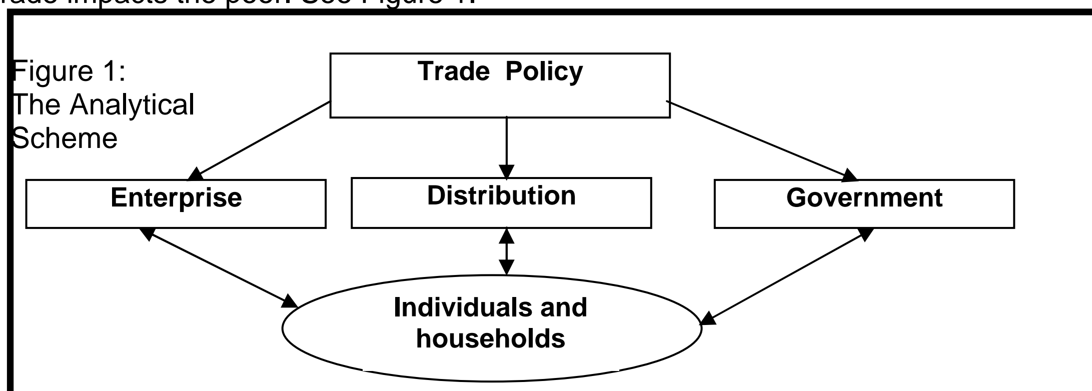
Although the almost comprehensive membership of the World Trade Organisation by countries would indicate that the benefits from trade are clearly understood, the empirical evidence on the relationship between trade and poverty is inconclusive. This paper looks at the links between trade and poverty but does not dwell on the pros and cons of trade liberalisation. Rather given the importance trade can play in reducing poverty it considers how trade can be mainstreamed into national strategies, how poverty can be mainstreamed into trade analysis and how donors can support the region's trade agenda through harmonising their policies and programmes.

Trade and Poverty

The Linkages

Trade liberalisation is meant to benefit the liberaliser's economy through allowing importation of goods that can be produced more efficiently abroad and enabling specialisation in the home country's products of comparative advantage (see Hecksher-Olin). Trade also benefits the economy by increasing competition, reducing prices and fuelling technological progress and efficiency. Yet it is competition that many governments and industries fear even from neighbouring countries. The reality is there are likely to be winners and losers, both within and between countries. Therefore whilst countries partake in a profusion of multilateral, regional and bilateral trade agreements liberalisation by many is viewed with fear.

McCulloch, Winters and Cicero (2002) in their excellent Trade Liberalisation and Poverty Handbook for policy makers summarise the main channels through which trade impacts the poor. See Figure 1.

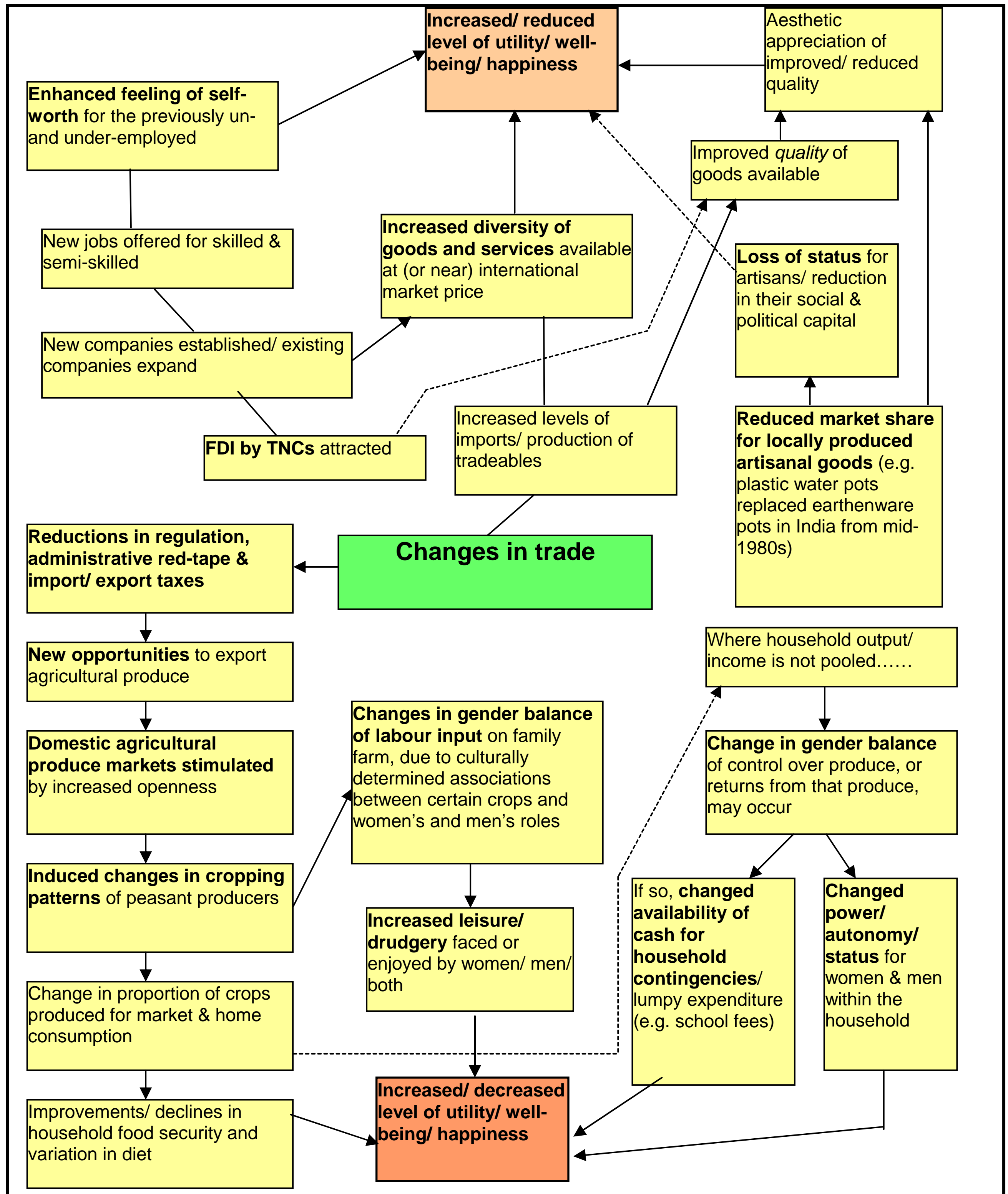


First, when tariff and non-tariff rates at the borders are changed there will be "enterprise" effects on company profits, wages and employment levels. For instance tariffs as a revenue tool are usually counter productive to enterprise efficiency, liberalisation may therefore create short-term job losses or increased competitiveness of firms and additional employment. Second, the prices of goods faced by the household will depend on the market structure of "distribution channels. If markets are not competitive or efficient price changes may not trickle through to the consumer, with the reduction in price at the border being transferred from

[1] The views are solely those of the author and not necessarily those of DFID. Many thanks to John McGrath for his valuable comments and assisting in the development of this paper.

government revenue to firms along the distribution channel. Third, there will be an impact on tariff revenues, the direction of which will depend on the change in domestic demand for an import due to its price change and whether the fall in tariff reduces the incentives to smuggle goods to avoid the tariff. For instance if a reduction in price increases demand, tariff revenues may actually increase. Most analyses on tariff cuts, however, predict revenue losses.

Figure 2: Examples of changes in trade's possible influence on the intangible components of wellbeing



Page's 2003 Trade and Poverty Linkages Study is also an important contribution for practical application. Taking into account the many different dimensions of poverty such as vulnerability to risks and shocks, physical weakness and morbidity, lack of social connectedness, lack of political empowerment, gender, physical security as well as income poverty Page presents a useful visual summary of trade's possible influence on the intangible components of well being (see Figure 2).

As well as the frequently referred to impacts of reduced red tape, changes in income and employment and increased diversity of goods, Page highlights the importance of intangible impacts such as;

- aesthetic appreciation of improved/reduced quality
- loss of status and reduction of social and political capital of producers whose goods become less preferred
- a change in the gender balance changing the power or status of women.

All these factors can lead to an increase or decrease in well-being or happiness.

The Importance of Trade to the Region – The Big and the Small

In the region the benefits and costs of trade can be clearly felt, and the links with poverty are evident. This section considers two major forms of trade which contribute to poverty reduction in Southern Africa; Global Value Chains – The Big; and Small Scale Cross Border Trade – the Small. We also consider the type of trade needed to reduce poverty, essentially the importance of labour intensive and agricultural trade.

The Importance of Global Value Chains (GVC)

In Lesotho whilst remittances decreased from South African, as the number of mine workers plummeted from 112,722 in 1994 to 59,000 in 2000, employment in the garment industry in Lesotho doubled in 2001 to 32,000 workers (Salm et al 2002). In 2004, there are now approximately 50,000 workers employed directly by the industry, almost all of those employed are women. The industry has overtaken the government as being the largest employer in the country.

There is also a significant financial transfer from the industrial estates in Maseru and Leribe districts to the rural areas. Sechaba (2002) found that factory workers are spending an average of M139.22 per month on remittances. Secondary employment benefits to the industry are also significant through informal sector entrepreneurship; 330 buses, coasters and taxis service the Thetsane industrial area alone and approximately 400 traders supply goods and services to the industrial workers (Sechaba 2002).

Although the industry was exporting competitively to the USA before the Africa Growth and Opportunities Act was introduced in 2000 it is the AGOA with its flexible rules of origin applied to Least Developed Countries that has fuelled the rapid expansion of the industry. The Act allows LDCs to source fabric from the cheapest international supplier and still be eligible for the tariff preference. This gives Lesotho and other LDCs an important advantage over other exporters to the US that have to either source their fabric locally, from the US, or, from a limited number of countries that do not necessarily supply competitively.

Taiwan is the head office location of 65% of the factories in Lesotho, followed by Hong Kong 13%, Lesotho 11%, South Africa 5% and Singapore and Israel 3% (Salm 2002). The cut, make and trim operations import almost solely from Asia where the

textiles can be sourced most cheaply. The finished garments are exported predominantly to multinational clothing buyers such as GAP. The industry is an example of a global value chain where due to price efficiency the manufacture of a product is distributed across the globe.

The Lesotho PRSP indicates a slight increase in poverty due largely to the reduction in relatively high wages paid to Basotho mine workers in South Africa and remitted. Although many criticise the level of wages in the garment industry, the standards in factories are relatively good and the training of the workers is increasing the attractiveness of Lesotho as a viable business destination. Without the success of the garment sector poverty in Lesotho would be much higher.

Nadvi, using Asian case studies also finds that "engagement in global markets through GVC can deliver significant employment and income gains." He cites various authors' results that in Bangladesh export in garment production generated 1.6 million new jobs, Vietnam's garment industry rose by 132% in the 1990s to nearly 320,000 in 1999 and in Kenya the export horticulture sector generated 100,000 jobs. Of the case studies "it was only in the textiles sector, where import liberalisation led to severe pressures on textile firms in both Vietnam and South Africa."

As with the Lesotho case, Nadvi finds that women stand to gain most from the GVCs especially in the garment sector where they form the majority of the workforce. Nadvi also finds that workers part of a GVC, tend to fare better than workers employed in the domestic non-traded economy with a similar background. For instance the standards in factories part of a GVC tend to be higher than alternative employment due to the demands of the international buyers that are scrutinised by the Western media. Unfortunately the findings also show that GVC workers are increasingly vulnerable to casualisation dynamics where suppliers responding to cost competition, resort to contract rather than permanent employment.

The Importance of Small Scale Trade

Small scale trade, commonly known as informal trade, dates back to the pre-colonial days where the absence of regulated national borders allowed a natural pattern of trading based on the utilisation of regional resources and production. Despite border controls today, analysis has shown that at some border posts this small scale trade sector contributes 50% of overall trade (Peberdy: 2000: 361). Peberdy (2004) describes a number of other characteristics of small scale cross border trade based on existing research;

- Makes a significant contribution to regional trade flows
- Mirrors formal sector trade patterns
- May add to congestion at major border posts
- Crosses boundaries between the informal and formal sectors as regards regulatory frameworks and sources of supply and outlets for goods traded
- Makes a contribution to the formal sector
- Provides a significant income earning opportunity for small entrepreneurs in the region
- Women constitute a significant proportion of informal sector traders, hence it has the potential to contribute to women's economic empowerment
- Provides employment
- Includes significant trade in agricultural and food products.

Given the volume of small scale trade and its contribution to poverty reduction and food security it is perhaps surprising how little information is known about this group of traders. It is important that this is rectified so regional policy makers can implement policy reforms to facilitate increasing the performance of this group.

Importance of the Type of Trade to Poverty Reduction

These examples also emphasise the importance of the type of trade if poverty is to be reduced through job creation. It is high employment sectors rather than high value sectors that will contribute most to this goal. In South Africa trade has been identified in the Integrated Manufacturing Strategy as a means to achieving job creation. Yet as Alves and Kaplan (2004) describe, although trade has increased by 4.4% significantly above GDP growth of 2.8%, exports in low technology labour intensive manufactures have underperformed and South Africa is losing ground to other developing countries such as Asia. South Africa has performed well in scale and capital-intensive medium technology products with low incremental output/labour ratios but jobs are not being created in the quantities necessary to reduce the high levels of unemployment. With an unemployment level of over 30% there is room to more effectively coordinate industrial, poverty and trade strategy in South Africa.

The agriculture sector dominates the economies and the lives of the poor in most African countries. In Mozambique the 2002-2003 household survey surprised many by showing a reduction in the national poverty rate of 69.4% of the population in 1996-97 to 54.1% in 2002-2003. Rural poverty also fell more than urban poverty, from 71.3% to 55.3% compared with 62% to 51.5%. Agriculture provides the primary source of livelihood for 93% of the rural population and 47% of the urban population. Agricultural exports both regional and international as well as utilisation of Mozambique's coastal location as a regional transport hub are seen as two central components to a successful poverty reduction strategy (DTIS 2004).

Malawi has a per capita income of $179 and is the 6th poorest country in the world and has a series of disadvantages. It has one growing season; is one of the most densely populated countries in the region, is landlocked; and most importantly the poor have been blocked from entering the economic mainstream. Agriculture is central to Malawi's economy and contributes 45% to GDP, 85% to employment and over 90% to export earnings. Over 70% of production comes from small-holder farmers, who have on average less than one hectare of Land. There are considerable challenges to the growth of the agriculture sector for smallholders:

1. Uncertainty in weather conditions, macro economic instability and uncertainty on revenues from cultivated crops (these include cotton , tobacco, tea, sugar and sunflowers.
2. Malawi has a weak market infrastructure which leads to high transaction costs.
3. Cost of transportation is high both internally and cross border. These high costs puts upward pressure on retail prices in rural areas and discourages household to border trade.
4. Poor farming methods are denigrating the soil

These factors reinforce subsistence farming with a decreasing yield. These issues coupled with Malawi's low income and productivity base mean that even during a good year, incomes are barley sufficient to meet the daily recommended calorie intakes. There are literally no savings in these sectors removing even the fall back reserves that should be available.

The five key causes of poverty identified by the World Bank and IMF in Malawi are :

- Limited access to land
- Low education
- Poor health status
- Limited off farm employment
- Lack of access to credit

The key to increasing trade therefore is to reform the agriculture sector and provide an enabling environment for the smallholder farmers to enter the formal trading markets. This goal has been embedded in the Malawi Economic Growth Strategy (MEGS) that has targeted the key agriculture sectors for growth. Tea, sugar and tobacco as core sectors and cotton and agro-processing as growth sectors.

The MEGS has also targeted the broader enabling environment issues that need to be reviewed and changed. The MEGS is now the key focus of Malawi's PRSP. Outside of agriculture the pro-poor growth and trade proposals target MSE's specialising in the production of goods for exports. It is envisaged that this will be done through the creation of industrial sites that will reduce some of the production and transaction costs, host international fairs and provide information on export procedures to promote the sale of those products.

Mainstreaming Poverty into Trade Analysis

Trade policy makers and negotiators in the region have a phenomenal task. Whilst in countries like Malawi, Zambia and Lesotho up to five staff may work full time on trade issues in richer countries like the UK the government may employ fifty full time trade staff across government departments. Lesotho is currently negotiating in the WTO, with the EC on Economic Partnership Agreements (as part of the SADC minus group), as part of SACU it is negotiating with the US, Mercosur and EFTA and it is part of regional negotiations under the SADC Trade Protocol. Like most other LDCs it is difficult enough for the trade ministry to keep pace with analysis to inform the plethora of negotiations, dogged by poor data and strained capacity. To expect a detailed analysis of the trade and poverty dimension of each policy decision is a tall order although the PRSP has made an important contribution.

There are a number of ways that poor resourced countries are and can reduce the burden;

1. Rationalise – Malawi, Zambia, Zimbabwe and Mauritius are all members of both COMESA and SADC. Whilst there are political motivations to staying in both groupings, the transaction costs placed on officials to keep pace with policy engagement and implementation of both agendas doubles. This year some rationalisation has occurred with Namibia leaving COMESA and the Seychelles leaving SADC.
2. Prioritise – PRSPs and the Integrated Framework summarise the priorities of a country but often further prioritisation is required between the most important trade negotiations or policy issues.
3. Share the Workload – sharing the load with like minded countries is a must given the weak capacity in Southern Africa. Under the Cotonou Agreement the COMESA and SADC Minus ACP countries have done just this, for instance Mozambique leads on textiles and clothing analysis and Lesotho on Rules of Origin. The Regional Integration Secretariats like COMESA and SADC also play an important role in general analysis and forums to develop policy positions even though they have no mandate to lead negotiations. Sharing the workload with other government

departments and non-state actors such as the private sector and universities is also essential, capacity is too scarce to have turf wars.

4. Dialogue – including the poorer groups and other interest groups e.g private sector is paramount to having a pro poor trade policy. Whilst government does not need to agree, listening is essential to getting a balanced input. Private sector or other groups can organise themselves around regular discussion forum and invite government if government isn't taking the initiative.
5. Focus on labour intensive sectors – by focusing on key sectors of importance to the poor and understanding how trade decisions can effect these trade policy can become an effective part of industrial policy. This should be both offensive and defensive interests to key sectors. As an example if the key focus is to develop a competitive garment export sector and domestically or locally available textiles are not competitive, pressing for flexible rules of origin may be of paramount importance.

McCulloch, Winters (2002) et al and Sheila Page (2003) both offer the best practical advise for policy makers seeking to mainstreaming poverty into day to day trade analysis. Page in her paper provides a table of questions policy makers should ask to assess the possible economic and social impact of trade reform. She identifies the relevant research method required to undertake the analysis. Figure 3 illustrates Page's format using her question on Economic Liberalisation.

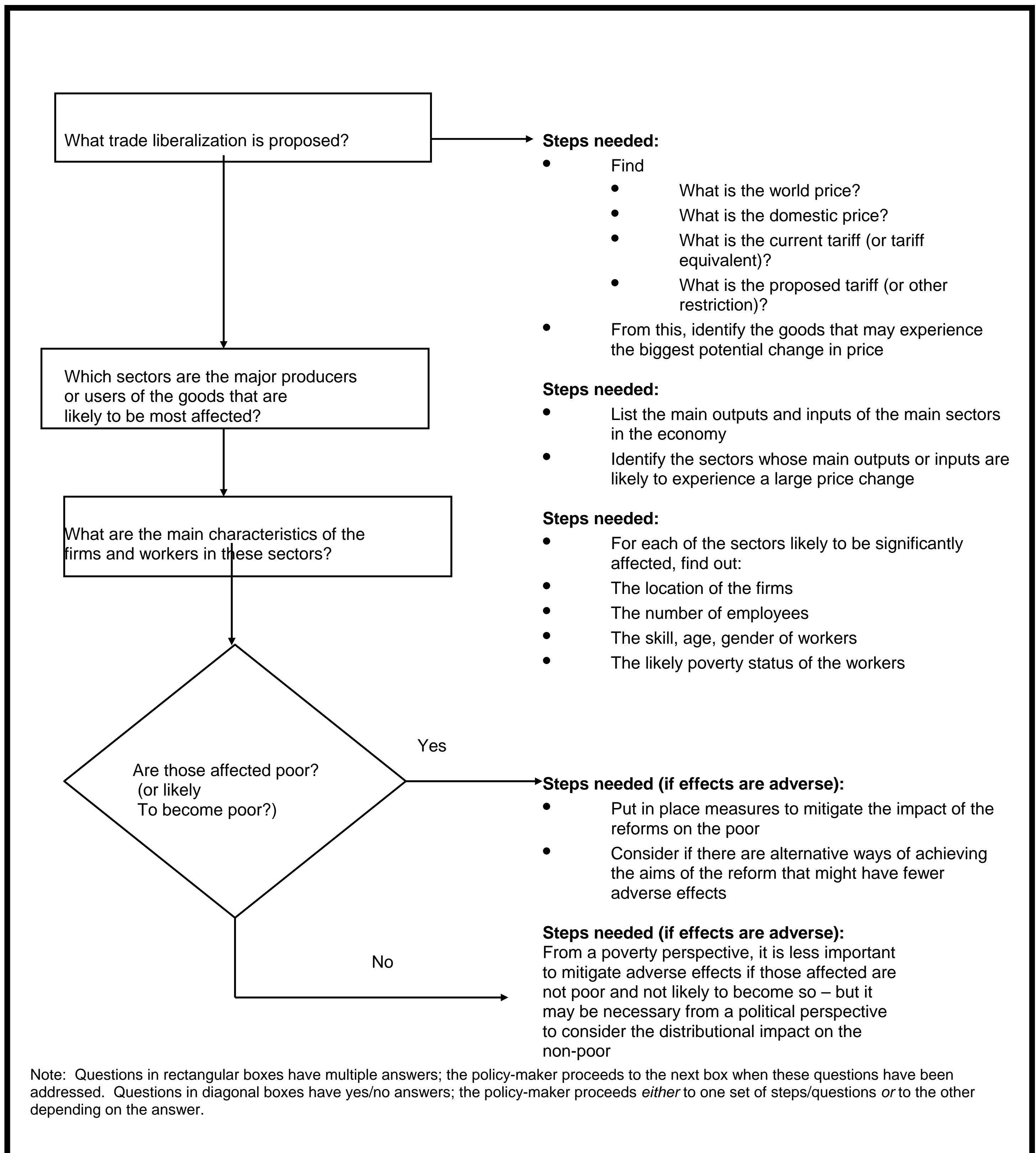
Figure 3 An example of a question to assess the impact of trade reform on the poor

Issue	Relevance to Poverty	Example	Research Method
Section 1: Economic Impact of Trade Liberalisation (Goods and Services)			

What are the implications for the welfare of individuals/households/ groups (e.g. ethnic) for whom **trade liberalisation** (a) leads to price and market effects which *increase resources* e.g. through higher income or the construction of markets or (b) leads to price and market effects that result in *decrease resources* or threaten their livelihoods, for example the destruction of markets through replacement.?	o Reducing taxes on imports or exports, reducing other formal barriers, and/or lowering other costs of trade, including administrative costs, can lower the price of imports and import substitutes and raise the price of exports and exportables.
	o Long run: greater specialisation may increase efficiency and therefore lower prices of exports, increase competitiveness and perhaps market share
	o Effects on incomes of the poor: depends on whether they are net consumers or producers of each class of good. This in turn can have effects on
	  o vulnerability and poverty
	  o ability to participate in social capital. Being included/excluded on (1) disposable income, (2) access to and quality of non-monetary goods and services, (3) livelihoods
		o Liberalisation of food markets may lower the cost to non-farmer consumers (unless liberalisation implies removal of food subsidies).
		o It may lower or raise the revenue received by farmers, depending on the structure of supply chains and the types of intervention previously in place
			o Analysis of consumption patterns and production conditions
			o Analysis of changes in relative prices
			o Analysis of existing national and local household surveys against timing of reforms
			o Case studies of sectors liberalised
			o Review qualitative work on social capital
			o New field studies: surveys, FGDs, PRA etc
			o Analysis of currently non-traded services

McCulloch et al (2002) summarise the three major channels with which trade impacts on the poor, through distribution, enterprise and revenue, into three flow diagrams. Policy suggestions are also made, for instance in figure 4, the flow diagram on the trade impact on enterprises it is suggested that if those likely to be impacted are poor, policy makers should either a) look at complementary policies to ameliorate the impacts on the poor or b) look at alternative policies for achieving the same aim with less negative affects on the poor.

Figure 4 Flowchart for Policy makers : Enterprises



Note: Questions in rectangular boxes have multiple answers; the policy-maker proceeds to the next box when these questions have been addressed. Questions in diagonal boxes have yes/no answers; the policy-maker proceeds *either* to one set of steps/questions *or* to the other depending on the answer.

PRSPs and Trade

Given the importance trade can be to job creation and poverty reduction in developing countries it is surprising how marginal trade and private sector growth have been in Poverty Reduction Strategies (PRSs). The PRS process was introduced in 1999 by the International Financial Institutions (IFIs - the World Bank and the IMF) and supported by bilateral donors. Tasked with improving upon the criticised record of the IFI Structural Adjustment Programmes of the 1980s and 1990s the PRSs aimed to mainstream poverty into the national strategies of poor countries and drive their spending priorities. Importantly the PRSs were meant to be country led, include multiple stakeholders and increase donor coordination.

Yet a survey across seventeen PRS countries (Hewitt and Gillson 2002) show "trade coverage in completed PRSPs is limited…Issues such as employment and wages are given more attention…but the important linkages between these with production and trade have been omitted." The authors also interviewed the World Bank's Chief Economist Nicholas Stern[2] on the subject agreed that;

a) *PRSPs and particularly interim PRSPs are weak on trade policy content*
b) *Early PRSPs were even weak on growth – which made it rather unlikely that they could be distributive at all, given they were for poor indebted countries.*

The Bank to address the absence of trade has created an International Trade Department "to help in the PRSP process." The Integrated Framework has also contributed in recent PRSs to mainstreaming trade.

The Bank and bilateral donors in general fell into a common perception that poverty reduction was about service delivery. It was not only IFI instigated PRSs that ignored trade and growth. The Botswana PRSP, a national initiative and outside the IFI remit given the middle income status Botswana holds, also ignores trade and private sector growth. In Malawi it took concerted effort by the National Action Group to come up with a joint Government /private sector Economic growth Strategy to design strategies to mainstream trade and Investment into the PRSP and other national economic agendas.

The reason this is so important an omission is that PRSs are meant to drive national budgetary allocations. In addition the conditionalities around IFI loan agreements (such as Poverty Reduction Credits and Poverty Reduction Growth Facilities) and budget support provided to national governments by bilateral donors are set against PRS priorities.

In Lesotho the PRS country wide consultations revealed job creation to be the number one issue that the population wanted to see addressed, HIV/AIDS was the number one cross cutting issue (2004). As donors we are still not clear what constitutes a pro-poor budget, however we must not fall into the trap of thinking pro poor budgets are those which simply focus on health, education and water especially where dialogue and conditionalities can have influence. Rather a pro-poor budget should be seen in a domestic context and should include consideration of issues raised in the PRS consultation process. In Lesotho the PRSP rightly has a strong trade and private sector focus given the identified priorities. Donors should respect this and focus on these priorities when providing support to back the PRSP.

We Must Put Donors Out Of Work!

---

[2] Since has left the Bank to join the UK Treasury

The importance of private sector growth to poverty reduction, and trade as part of the donor agenda, is increasing. In DFID until 1995 British aid (ODA) did not focus on trade except on the Aid and Trade Provision (ATP - tied aid). With the publication of the first and second White Paper on Globalisation the focus shifted towards making the international environment more development friendly rather than merely providing financial aid.

Then	***Now***
ATP (tied aid)	Aid untied
£30m export promotion projects	£174m TRCB commitments 1998 – 2008
Trade in 2 Country Plans.	Trade in most CAP/RAP analysis
2 people working on trade.	22 in ITD alone, 4 regionals full-time
Not at Singapore Ministerial	Active contribution at Doha in 2001

Without private sector growth countries will not be able to become self-sufficient and it must be the paramount objective of donors and governments to do donors out of a job! One of the most important dimensions IFIs and donors bring to the table is dialogue, if "budget support dialogue" omits discussions around the importance of the private sector weak capacity governments may divert attention towards the sectors and issues upon which donors dwell. It may not be the financial envelope that is the most significant contribution to the goal of improving the enabling environment and improving trade rather it is the prioritisation of the issues in debate that will facilitate change.

For the enabling environment and trade constraints to really be addressed it should be a government wide pursuit including all relevant government departments. For this to be realised the prime minister or president needs to embrace the agenda and ensure departments, often not comfortable working together, do so. In South Africa the importance of trade has not been left to an able Trade Minister alone, the President has elevated trade to a government wide priority and South Africa in multilateral trade forum has much greater influence than its relatively small size would predict. The President of Malawi in describing his "Vision for Malawi" said that the Government had four major priorities, the second being "to introduce deep rooted Private Sector Reforms aimed at developing and strengthening the business enterprises to contribute more positively to economic growth (2004)." Through Nepad a continent wide vision of "Trade Not Aid" has heralded a shift in focus within Africa. Domestic agricultural support in the EC and US is now recognised as a major impediment to growth and increased energies in Africa are being directed towards rectifying this through the multilateral trading system (see Page 2004).

The Integrated Framework – Useful or Just Another White Elephant?

The Integrated Framework process was initiated in 1997 and restructured in 2000. The restructured IF aims to rectify the absence of trade from PRSs and improving donor coordination in the trade sector in Least Developed Countries. Coordinated by a central working group in Geneva the IF is supported by six core agencies, the

World Bank, IMF, UNCTAD, UNDP, ITC and WTO, other development partners and bilateral donors.

Least developed countries are eligible to request to join the process which begins with preparations that bring together key stakeholders including the private sector, civil society and government ministries related to trade in its broadest sense (e.g. Trade and industry, foreign affairs, finance, planning, land, agriculture and other ministries). A team of international and local consultants will then conduct a Diagnostic Trade Integration Study (DTIS) in consultation with stakeholders. The most important output of the DTIS is an Action Matrix that lists the key priorities needing to be addressed to improve the national trading climate.

To support the process an IF Focal Point is identified in the partner government and a lead donor facilitator (DF) from the donor community. The latter should be based in country and reserve enough time to work with government on supporting the IF process and facilitating donor and core agency in-country coordination.

Two misnomers need correcting;

a) the IF process is not a project - although up to US$1Million can be accessed, through a Window II Fund, to help with fast track implementation of activities in the Action Matrix, the IF is essentially a framework of agreed priorities by stakeholders behind which government and donors collaborate to implement together. All bilateral donor programmes working in the trade/enabling environment sector and all multilateral donor programmes such as JITAP should be included in the IF Action Matrix. It is essentially a policy as well as a coordinating mechanism or management plan for countries, through which they may work with donor and other programmatic groups to develop bankable, trade related projects and activities on a priority bases.
b) The IF is not about trade in the narrowest sense – interventions around the macro-economy, land tenure, red tape, infrastructure, customs and border issues, small scale business, regional integration, visa and labour regulations as well as trade policy can be captured in the Action Matrix. The Action Matrix is therefore a comprehensive recommended set of priority interventions to increase internal and external trade and competitiveness.

In Southern Africa, Malawi, Mozambique and Lesotho have adopted their respective DTISs, in Zambia the first draft of the DTIS is due in November 2004. Experience has been mixed with many parallels across the four countries. Criticisms levelled at the process have been that it is externally driven, not locally owned and therefore results in yet another study that will sit on a shelf and collect dust. Also that it pays little heed to current processes underway and can result in confusion and additional transaction costs on weak governments that have a profusion of donor initiatives to deal with.

In Malawi in addition to the IF that has been viewed by some as being externally driven a Malawi Growth Strategy, more locally driven has also been developed. Both processes seem to be converging, the government has developed a Master Matrix which includes the priorities identified in each process and upon which the government, private sector and donors through the National Action Group will focus implementation efforts. Government has also identified the importance of revising the PRSP to include the trade and private sector dimension.

In Lesotho a similar challenge emerged. The IF process began after the PRSP process was underway and at one point it seemed that two parallel processes were taking place. Although the IF has now been specifically mentioned in the PRSP and

is embraced by government a Master Matrix for the sector absorbing the PRSP Trade and Industry Sector Matrix and the IF Action Matrix would aid coordination.

A greater challenge exists when the locally driven set of priority interventions differs in substance to the more externally driven DTIS of the IF. For instance the Malawi Growth Strategy presents a set of solutions which focus broadly on tax breaks to the private sector to offset the high transportation costs of being a landlocked nation. The DTIS approach is to say if transportation costs are high, the government can reduce costs through improved infrastructure, better trade facilitation and increased competition in the cartelised transport sector. The Malawi Master Matrix has resolved these potential conflicts, which are the result of a divergence of solutions rather than a difference in priorities.

The experience in Mozambique and Zambia is again similar with a number of forums, processes and matrices, which require integration.

Other problems have arisen, particularly worrying is the lack of ownership by the key agencies and donors at the national level. In Zambia the local World Bank office seems largely disengaged from the process which is still in the early stages of rollout. Bilateral donors in Zambia are confused by two different departments of the World Bank leading two different but overlapping processes, the IF and the Public Sector Dialogue. At the bilateral donor level more work needs to be done to disseminate the importance of supporting the IF process even if it is in terms of verbal rather than financial support. There needs to be better coordination between donor offices in the targeted IF countries and in the home countries and/or offices.

Having elaborated the downsides, the potential benefits of a successfully institutionalised IF process are enormous. With government, private sector and donors working behind a single set of priorities progress should be rapid. The key challenges that exist are as follows;

a) Implementation – in all four countries the priorities are well established but implementation is extremely slow.
b) Donor coordination – it is often not evident that multilateral and bilateral donors and IFIs really prioritise coordination
c) Processes must be integrated - it is not a battle for one to rise to the top, they must merge to meet the same goal
d) Dialogue between government, private sector and civil society should be institutionalised

Practical Steps for Improving the IF process

One of the major problems of the IF and other processes so far is the speed with which implementation takes place. This causes frustration in particular on the part of non-government stakeholders but also on the part of governments, who lose interest in further engagement when results aren't forthcoming. These stakeholders see it as yet another failed attempt by government and donors. Constraints are capacity in partner governments human, institutional and financial. There may also be constraints on the donor side in terms of size and timing of financial support and their commitment on the ground. In particular the core agencies tend not to have significant funds to implement work rather they have seed money to carry out scoping missions and will then seek funding from bilateral donors.

Donor coordination at a national and regional level requires improvement. All donors have signed up to the DAC guidelines on Donor Harmonisation pledging to harmonise their procedures. Although UNDP and World Bank local offices are tasked with facilitating donor coordination alongside the Donor Facilitator neither is solely dedicated to supporting implementation of the IF. With the revamped IF initiative still being relatively new it has not been integrated with the other development agendas. There is a need to review all donor support mechanisms and initiatives in the IF pilot countries to mainstream the IF process into them. Governments themselves are negotiating a plethora of trade agreements and industrial policy and in most of Southern Africa HIV/AIDS prevalence levels are between 10 and 35% in the adult population – capacity is too strained to effectively implement yet another donor initiated process even when the will is there. Donor and core agency head offices must do more work to ensure that country offices are fully aware of the IF process and that trade related assistance supports implementation of the IF matrix.

Capacity is also constrained in the core agencies that back the IF. For instance only one Washington based advisor in the World Bank is tasked with covering the IF in Southern Africa amongst other work commitments, it may be beneficial to increase the regional or national World Bank capacity to lead the IF process. Donors are tricky bodies to work with and often have rigid and lengthy planning cycles. The IF is only a framework behind which donor money is needed to work alongside governments on implementation. For instance in Zambia the EC, DFID and USAID have all been designing large 3-6 year trade programmes, the DTIS action matrix should have come first but due to delays in contracting the DTIS Action matrix will not be released until November, this may be too late for donors to integrate the activities identified into their programme design. The IF machinery must therefore be sensitive to donor planning cycles and to take advantage of opportunities such as in Zambia where all donors are designing trade related programmes. Donors should also be sensitive that the DTIS Action Matrix should be supported and develop programmes flexible enough to respond to the Action Matrix when it is finalised.

Given the importance of building capacity in the region a medium term vision should be to strengthen regional knowledge centres, these knowledge centres would increasingly become the main conduits for providing and servicing governments and non government in trade and trade-related analysis rather than fly in fly out visits from outside of Africa. Although supplementary expertise has an important place the absolute priority should be on building regional knowledge centres in knowledge hubs like South Africa, to supplement national level expertise. One way to facilitate speedier capacity building would be to decentralise the agencies such as UNCTAD, WTO and ITC by seconding experts to the regional centres and regional experts to international agencies as for instance is the practice between the Trade Law Centre in Stellenbosch and the WTO. The regional knowledge centres could become “IF Hubs” or “virtual IF knowledge networks” housing expertise on key IF areas such as trade facilitation, customs, trade policy and trade law.

Given experience in the region the following suggestions may strengthen implementation of the IF.

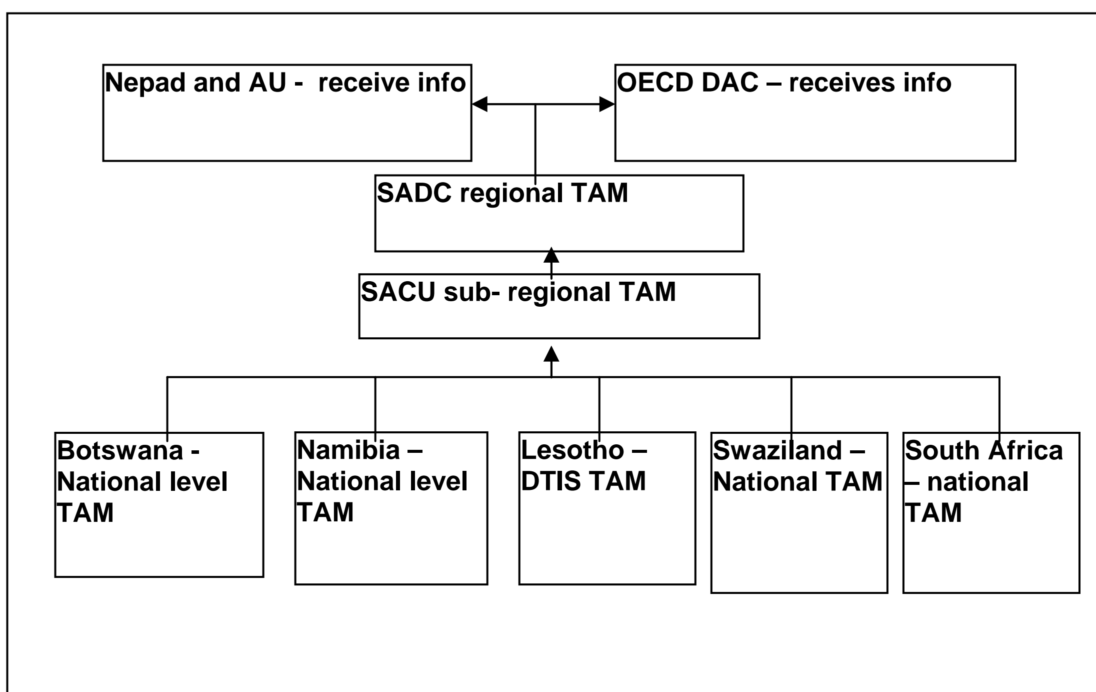
1. When a new country requests inclusion in the IF process an Advisor is seconded to the partner government for one year to support the process, ensuring integration and collaboration with existing processes and even supporting a name change where appropriate. The Advisor can be funded under Window II although currently Window II is only available post DTIS validation.

2. The Advisor should work closely with the IF Focal Point, the Donor Facilitator and UNDP.
3. The Advisor should oversee the setting up of an IF website, on the Government website or an appropriate website, linking the IF process to other processes to ensure consistency and clarity. Funded through Window II.
4. After the IF DTIS Action Matrix is modified and agreed by stakeholders the Advisor should work with the Government to access Window II funding and other bilateral funding and support implementation of these funds. The revised matrix should encompass all other trade related development processes to avoid duplicating matrices and competing agendas. The IF Matrix must become the overarching implementation and management tool for trade and trade related activities.
5. The Government should identify a handful of priority outputs to be implemented within a twelve month cycle, for instance “a one stop shop established the success measured by *set up and time to start a business cut by half*.” The outputs should be measurable.
6. All information including the priority outputs should be advertised and put on the website. These should be independently reviewed after six months and then evaluated after twelve months. The results should be publicised in the media.
7. Monitoring and evaluation of implementation of the IF Action Matrix activities should where possible be integrated with existing M&E vehicles e.g. PRSP. These vehicles need to be revisited to make sure they can deliver. They must be adequate and competently staffed with sufficient funding and management to allow them to be effective. There may be a need to form a totally new vehicle to manage the IF implementation.
8. All donor activities supporting the IF should be placed on the website with relevant documentation and weblinks.
9. Increased capacity in World Bank or other core IF agencies to support timely DTIS missions and followup.
10. Decentralisation of core agencies - staff from the core agencies should be seconded to regional knowledge centres and vice versa – aiding capacity building.
11. Regional Knowledge centres can be funded to becomed “IF hubs” staffed with IF required expertise and available for IF country call down – alongside non IF country access.

Donor Coordination in SADC

The IF model is transferable to non-IF countries. A donor facilitator (DF) can be appointed to coordinate trade donors. For instance in Namibia the EC has taken the lead and in South Africa six monthly trade donor meetings are hosted by DFID. Where governments host regular trade donor meetings then a DF may be unnecessary. The DF should be responsible for summarising the trade donor activities of that country both at the government and non-government level into a Trade Assistance Matrix (TAM) which should be publicly available and placed on the web. This national level profile should be supplemented by a regional trade DF that works with the regional integration secretariats to gather information on donor activity at the regional level. This should also be publicly available. The TAMs should be made available to Nepad and the Africa Union. Finally the OECD DAC Secretariat requires annual updates of trade related support undertaken by donors to put into a central database and they should also receive the TAMs. This network of DFs and TAMs is outlined in Figure 3.

Figure 5: Example of Donor Coordination Network for Trade Assistance (TAM) Matrices in SACU countries



Although it is the objective for governments to coordinate donors the reality is that governments in the region are capacity constrained. Donors can contribute greatly to lowering transaction costs by coordinating themselves. Donors themselves are also capacity constrained and face their own budget cuts. Whilst DFID's budget globally by 2007-8 will have increased by 140% since 1997 check, the UK Treasury is requiring administration cost savings of 10%. This means less people to oversee more money. Whilst increasing support to countries through budget support and by channelling funds through the IFIs and the EC is part of the strategy, DFID will also seek to harmonise more with other donors through seconding and pooling staff. Tanzania is an example where donors are pooling trade resources, the donor community has agreed that given the EC have a resident trade advisor, the other donors will leave the EC to lead on trade for the donor community. In Rwanda the Dutch and DFID share an economic advisor. In South Africa trade donors pool expertise and divide responsibilities, e.g. the EC lead on competition policy and DFID currently leads on donor coordination. However these fledgling initiatives have a long way to go before procedures will be harmonised.

Key Challenges For Donors

Coordination and harmonisation is one of the key challenges facing donors in the region. However on the policy side challenges are equally great. The region is facing a tumultuous period over the next few years and donors and donor governments must do all they can to give Africa and the region a fighting chance.

Trade, Poverty and Preferential Free Trade Agreements

Most OECD countries offer preferential trade agreements to developing countries. The AGOA is the main PTA offered to Africa by the USA. Although preferences are only offered on a limited number of tariff lines the Act as the Lesotho example has shown, has fuelled garment exports in a number of African countries. Kenya,

Botswana and to a lesser extent Mauritius and South Africa have all benefited significantly from the Act. However, PTAs tend not just to benefit the developing country. In most cases preferences will be offered on goods that the domestic market is not producing, or where the preference giving country's economy would prosper from cheaper imports. It is not coincidence that the majority of imports into the US under the AGOA are in oil. The preference giving country can benefit in other ways. Under the AGOA for instance, Olarreaga and Ozden 2003 in a study of seven beneficiary countries, shows that it is the US monopsony buyers who capture two thirds of the rents available from the tariff preferences, the African countries benefit through increased contracts but not by the full amount as if markets were competitive.

Still the AGOA is an example of a PTA that is significantly contributing to job creation in Africa. The EC's Everything But Arms could be improved significantly if the agreement was modified to allow for flexible rules of origin like those given to LDCs under the AGOA. At present utilisation of the preferences under the EBA is less than 50% (Brenton 2003), the strict rules of origin are cited as the main reason why take-up is so low. They do allow for the new type of international trade characterised by global value chains.

Preferences have made a huge difference to a number of poor countries in the world. The Protocols of the Lome Agreement have created jobs and foreign exchange for a number of countries who otherwise would not have been competitive internationally. As liberalisation proceeds many countries are faced with severe adjustment challenges. After phaseout of the Sugar Protocol and in the face of global competition, a number of current ACP producers are unlikely to maintain sugar industries at their current levels. Having received a fixed market in the form of quotas into the EC where the sugar price was artificially kept above the world market price countries like Fiji and Mauritius developed sugar industries over and above the levels their comparative advantage would predict. However the preferences have worked like the infant industry argument defines; ACP countries have had their entry into the market subsidised have had a "leg up", some like Malawi and Swaziland now have relatively efficient production and will be able to compete, given the first mover advantage the preference has allowed them.

Therefore whilst preferences can and do benefit the preference giving country and can disguise comparative advantage, LDCs and Africa should justifiably be given a helping hand, this includes making the PTAs have value.

Lesotho and other countries success under the AGOA may be short lived given the phaseout of the Multifibre Agreement. "In the EU and USA where [China] faces quota constraints, China is the largest and second largest supplier with market shares of 10 and 13 % respectively. In Japan, the world's third largest market for clothing and the most unregulated in terms of MFA quota constraints, China as the leading supplier has a market share of 75% (Nadvi and Thoburn 2003)." To give PTAs value rules of origin need to be relaxed. As Stevens 2004 says "the imminent demise of the MFA makes the need for the onerous Cotonou and (standard) AGOA origin rules increasingly questionable. In order to maximise the chances of the regional industry surviving, it is strongly recommended that all AGOA suppliers receive the benefit of the current derogation for the lesser developed ones … and that the EU adopt a similar rule in the Cotonou Agreement."

The Cotonou Agreement is a major challenge and an opportunity for the region but the EC must ensure it is a development focused trade negotiation. This shouldn't mean that the negotiations will be hard fought but an aid package will be given as

compensation. The EC should actively seek a negotiating agreement which will be in the best interests of the ACP. This may include lengthy phaseouts of ACP tariffs and should definitely include rules of origin which allow cumulation across all ACP, all countries in regional organisations with ACP, such as Egypt and South Africa and ideally allow cumulation with all third parties, as allowed under the AGOA for LDC. If this is the case the Cotonou EPAs may well be truly developmental trade agreements.

Conclusion

This paper has sought to draw together practical approaches to trade and poverty mainstreaming and analysis in the region. It has also tried to offer practical approaches to improving the Integrated Framework process, a trade mainstreaming and coordination vehicle which has huge potential to facilitate a better enabling environment in the Africa. Finally it has outlined a number of challenges for donors both in terms of coordination, harmonisation and policy around preferential trade agreements. These are exciting times for Africa. If governments, private sector, civil society, regional integration secretariats and donors work together on the trade and enabling environment agenda the Africa vision of Trade not Aid will be realised.

References:

Alves, P. and Kaplan, D.E., June 2000, “SA's Declining Export Shares: The Developing Country Challenge, Newsletter of Trade Industrial Strategies, The TIPS Monitor, South Africa.

Brenton, P. 2003, “Integrating the Least Developed Countries into the World Trading System: The Current Impact of EU Preference under Everything But Arms,” International Trade Department, The World Bank. Washington.

Hewitt, A and Gillson, I., “A Review of the Trade and Poverty Content in PRSPs and Loan Related Documents,” Christian Aid and ODI, March 2003.

McCulloch, N., Winters L.A., and Cirera X., “Trade Liberalisation and Poverty: A Handbook,” Centre for Economic Policy Research 2002, Email cepr@cepr.org Website: http://www.cepr.org

“Mozambique Diagnostic Trade Integration Study (DTIS),” 2004, Available for download at www.tcb-project.com

Nadvi, K and Thoburn, J., 2004, “Vietnam in the global garment and textile value chain: impacts on firms and workers,” Journal of International Development, Vol 16 No1.

Nadvi, Khalid., “Globalisation and Poverty: How can Global Value Chain Research Inform the Policy Debate?” IDS Bulletin Vol.35, No.1 January 2004, Globalisation and Poverty.

Page, Sheila, “Developing Countries in International Negotiations: How they Influence Trade and Climate Change Negotiations,” IDS Bulletin Vol.35, No.1 January 2004, Globalisation and Poverty.

Page, Sheila., "Trade and Poverty Linkages Study," DFID funded research paper available on SARPN website; www.sarpn.org.za/

Peberdy, Sally., "Border Crossings: Small Entrepreneurs and Cross-Border Trade Between South Africa and Mozambique," Tijdschrift voor Economische en Sociale Geografie – 2000, Vol. 91, no.4, pp 361-378

Peberdy, Sally., "Small Scale Cross Border Trade in Southern Africa: A Five-Part Proposal to the Regional Trade Facilitation Programme," 2004, submitted under SAMP. Unpublished.

Salm, A., Grant, W.J., Green, T.J., Haycock, J.R., Raimondo. J., "Lesotho Garment Industry Subsector Study for the Government of Lesotho," 2002. Available SARPN website; www.sarpn.org.za/

Stevens, C and Kennan, J, "G8 Preferences for Africa: What the Country Experience Tells Us – Report on Phase II of a DFID-commissioned study," February 2004, IDS.