

**Trade, Poverty Reduction and
the Integrated Framework**
Are we asking the right people the right questions?

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Abstract

This paper reviews the trade diagnostic studies carried out in 11 LDCs through the donor-funded Integrated Framework for Trade Related Technical Assistance (IF), to assess how effectively they have assessed trade related needs and put the objective of promoting poverty reduction at the centre of this analysis. It finds that although these studies present much of use to these countries in promoting export development they neglect key areas of significance to poverty reduction efforts. Food crop trade receives minimal attention; there is limited attention to the constraints facing small-scale producers in agriculture and elsewhere; there is a limited focus on and ambition for services and industrial development; and analysis of the impact of trade reforms on poverty is weak and poorly linked to the discussion on trade capacity building needs. Although the IF has contributed to efforts to diagnose trade needs in the least developed countries (LDCs), it is clear that diagnostic studies need to be kept under review so that future generations of these studies better address poverty-related trade constraints and are developed through a more open and participatory dialogue in these countries.

Introduction

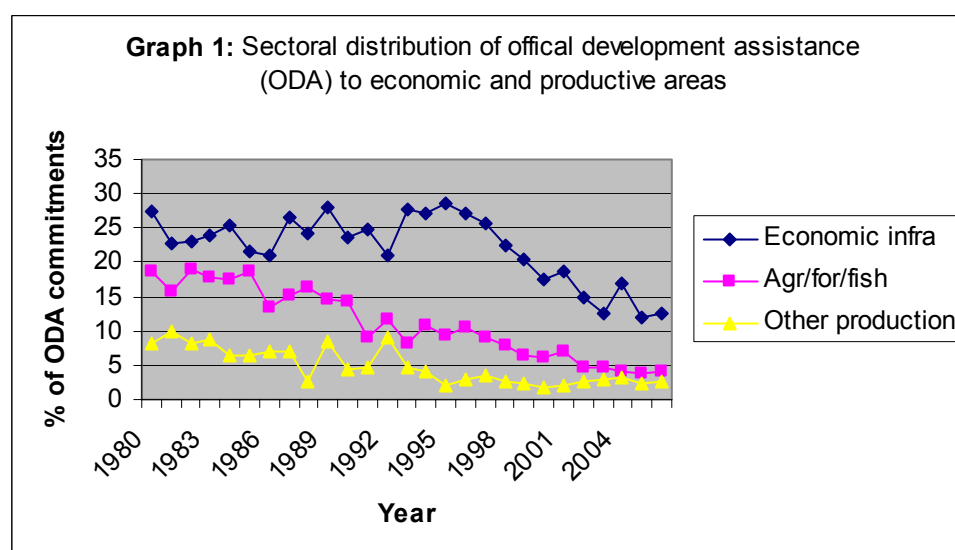
One of the most significant approaches being utilised to promote social and economic development in the world's poorest countries is the Poverty Reduction/national development strategy process which emerged under the tutelage of the IMF/World Bank in the late 1990s. Such processes attempt to assess the development needs of the country and lay out a strategy for tackling them and promoting development.

Since their emergence these strategies have focused significant attention on social development issues, such as health, education and other basic needs, driven by the need to direct debt relief savings towards development priorities and in response to growing support to meet the Millennium Development Goals (MDGs), which focus predominantly on social development issues.

In contrast, there is a consensus that development planning in the poorest countries has to date paid only limited attention to needs relating to trade and productive development. A recent review of second generation Poverty Reduction Strategy Papers (Cali *et al* 2007) has highlighted how trade is still only weakly addressed in these development plans, with the following characteristics highlighted:

- An emphasis on social sectors such as health and education;
- An emphasis on export promotion, with limited analysis of constraints in the domestic sector;
- An emphasis on the agricultural sector, with limited focus on industrial and service sectors;
- Little analysis of trade policy issues, such as regulatory matters, tariff policies and behind the border support measures;
- Little emphasis on the linkages between production and trade and poverty; and
- Few clear and prioritised actions to promote production and trade (characteristic of most policy issues in PRSs).

This neglect of production and trade issues in development planning efforts is also reflected in trends in the share of official development assistance (ODA) going to these priorities over the last 20 years.



Source: OECD Creditor Reporting System database

As can be seen in the graph above, the share of total ODA going towards economic infrastructure (transport and storage, communications, energy, banking and financial services and other business services) fell from a high of around 29 percent in 1995 to below 15 percent in recent years. Similarly, the share of total ODA going towards agriculture/forestry/fisheries has fallen from just below 20 percent in the mid 1980s to below 5 percent today.

With the poorest countries still marginalised in world markets after over a decade of market liberalisation and development planning and with increased awareness that social development needs to be underpinned by sustained economic growth, developing country governments and donors are now becoming increasingly focused on trying to address issues of trade and production.

However, the way forward is not a simple one, as it is far from clear what trade and productive policies are best suited to the twin goals of achieving sustainable economic growth and also ensuring that the most marginalised and impoverished also benefit.

Faith that the market can achieve this on its own seems to have withered in the face of experiences in regions such as sub-Saharan Africa over the last decade. At the same time a return to controlled and overly bureaucratic economic systems is seen by few as the solution. The way forward seems to a more nuanced and mixed approach towards developing trade and productive capacity, i.e. one which promotes both the role of the market in promoting efficiency and private enterprise, but also that of the state in helping to deliver basic trade facilitating infrastructure, tackling market failure and promoting equitable outcomes.

In response to this problem, efforts are underway to generate more comprehensive analysis of the trade and production challenges faced by developing countries, to integrate this analysis into national development strategies and identify priority actions which can be funded through national development programmes.

The Integrated Framework for Trade Related Technical Assistance

One donor funded initiative that has featured centrally in discussions about supporting the Least Developed Countries (LDCs) to better identify their trade development priorities is the Integrated Framework for Trade Related Technical Assistance (IF).

The IF was established by the main multilateral agencies working on Trade Related Technical Assistance (TRTA; the IMF, ITC, UNCTAD, UNDP, World Bank and WTO) in 1997, to provide better coordinated and more effective TRTA to assist LDCs to integrate into the multilateral trading system in order to reduce poverty and benefit from increased market access. Its role is generally thought to be that of promoting LDC exports, but it is not clear this vision is shared by all participants (as can be seen from their diagnostic studies) and such a focus does also limit the role the IF can play in comprehensively integrating trade into PRSPs (as addressed in the conclusion).

The IF aims to deliver TRTA to participating LDCs by first identifying priority needs through diagnostic studies (called Diagnostic Trade Integration Studies, DTISs), with needs then prioritised in action matrices. The aim is then for the priorities identified in

the action matrices to (ideally) be integrated into national development strategies such as PRSPs and funded by donors through these strategies.

To date 25 LDCs have completed their diagnostic studies and identified priority actions; and 10 LDCs have started or will soon start their DTIS process.

Since its establishment the IF has faced significant problems, including weaknesses in country ownership, participation and management, and it has failed to leverage significant funding from the donor community for actions it has recommended (IEG/World Bank 2004).

Box 1: IF timeline

- 1996 – Singapore WTO Ministerial mandates the establishment of the IF.
- 1997 – IF established by 6 agencies.
- 1997-2000 – Needs assessments carried out in 40 LDCs, but donor roundtable fail to generate support.
- 2000 – Official evaluation highlights a range of weaknesses, including ownership, more comprehensive process recommended.
- 2001 – Pilot scheme for revamped IF launched and then extended.
- 2004 – A further evaluation highlights ongoing weaknesses in relation to ownership, management and donor support.
- 2006 – WTO agrees to form an IF Task Force to review the way forward for the IF; a range of recommendations proposed for the Enhanced -IF.
- 2007 – Donors commit an additional \$170m to the IF and agree to launch the Enhanced-IF.

In responses to these problems, a range of reforms have recently been proposed for this facility (which will contribute to its emergence as the Enhanced-IF) and donors have backed these reforms by committing to provide over \$170 million in funding to the facility over the next 3 years.

In addition, donors have been giving this facility high-level political backing by promoting it as the key tool for leading the WTO's Aid for Trade process and for integrating trade policies into Poverty Reduction Strategies (PRS) (WTO 2006b). The link to PRS process has been so extensively emphasised that the latest guidelines for the E-IF list this first amongst the objectives for the facility (E-IF 2008).

However, with high-level support for the Enhanced-IF growing, its implementation soon to begin and its role in contributing to poverty reduction efforts being emphasised more and more strongly it is a concern that limited work has been done to assess *how effectively it is functioning in identifying the most pressing trade capacity constraints facing LDCs and those which will best promote poverty reduction; and how suited the IF is to fulfilling its proposed role of integrating trade into PRSs?*

The How, Where and What of the IF

This paper therefore aims to present such an analysis by assessing the DTISs and Action Matrices of 11 LDCs,¹ addressing the following questions in particular:

- How effectively were domestic stakeholders (including cross-government, private sector and NSAs) involved in the preparation of these IF outputs?
- How effectively do these IF outputs address the constraints facing the most economically marginalised (especially in agriculture) to trade more effectively?
- How effectively do these IF outputs identify constraints relating to industrial and service sectors?
- How effectively do these IF outputs explore trade policies and their impacts on poverty?
- How effectively do these IF outputs identify specific interventions to promote trade, growth and poverty reduction?
- How suited is the IF to fulfilling its proposed role of integrating trade into PRSPs?

Ownership and Participation

The limited level of ownership and participation in the IF process amongst domestic stakeholders is an issue which has been given significant attention. However, this issue is of critical importance and therefore a brief overview of the dynamics of this issue, illustrated through country examples, is therefore presented below.

IF outputs are generally produced through the following process:

- A team of donor experts (supported in most cases by a team of local experts) develop a framework for the diagnostic study during a short mission to the country.
- A Steering Committee of government officials and (often, limited number of) non-state actors is formed to review IF outputs.
- The donor experts (supported in most cases by a team of local experts) take a lead in producing draft outputs which are reviewed by the steering committee and at some consultative meetings.
- A public workshop is held to discuss and validate the study.

The short missions for developing the study framework (even sometimes as short as two to three weeks) and the fact that donor experts take a lead in producing the studies, provides limited room for promoting leadership on the IF amongst domestic stakeholders, including government.

In theory the IF Steering Committee is supposed to play an important role in promoting domestic ownership. However, in practice it seems it has done so in a limited way in these countries.

In most cases the IF Steering Committee consisted of government officials with some representation from formal private sector bodies. However, in the significant majority of countries, civil society organisations, especially those representing grass-roots

¹ Burundi, Cambodia, Ethiopia, Guinea, Lao, Lesotho, Malawi, Sierra Leone, Tanzania, Uganda and Zambia: Although randomly chosen, this group of countries is not thought to be untypical of the IF countries as a whole, and includes some of the most active IF participants.

producers, are not actively involved, and even when they are given access face significant capacity constraints in playing an influential role.

The public workshops provide perhaps the most significant opportunity for domestic stakeholders to input their perspectives into the IF process. However, in most countries (Ethiopia, Lesotho and Malawi being good examples) such workshops were only held to validate the study, providing participants with a limited frame of reference around which to provide feedback.

One exception to this common experience may be Lao, where the DTIS was developed through a consultative process that took in 8 consultative workshops with producers, two awareness-raising workshops with a wider group of stakeholders and then a final validation workshop. However, it is outside the scope of this paper to assess how critical these workshops were to integrating poverty sensitive elements into Lao's DTIS.

In contrast to the PRSP process, where despite ongoing concerns of excessive donor influence, significant efforts have been made in some countries to improve domestic ownership and participation, the IF outputs have been developed with insufficient engagement of domestic stakeholders and limited dialogue on the policies and strategies required to promote inclusive trade development.

Given that the DTISs/ Action Matrices discuss issues of significant national interest and consequence (for example privatisation of state operations, selection of strategic sectors and even utilisation of GM technology) this is a major concern and highlights the need to keep these documents under constant review through a more open and participatory process of consultation.

Addressing the Constraints faced by the Most Marginalised (especially in agriculture)

With the poorest producers gaining their livelihoods in agriculture and only weakly linked to markets (either because they produce for subsistence or only a limited range of markets are accessible), one of the challenges facing the E-IF is finding ways to bring these people into the commercial sector.

Whilst in many countries the production of cash crops such as cocoa, coffee, cotton and sisal for export are important, so too are production of food crops, which are produced for own consumption and local trade, but also for export. This is a fact clearly illustrated by the PRSPs of many of the countries featured in this paper, which place significant emphasis on supporting producers in food crop sectors as well as those of cash crops.

It is therefore of significant concern that perhaps one of the most glaring commonalities in the IF outputs of these countries is how little food crop sectors are given attention in the diagnostic studies reviewed for this paper.

In only three countries were food crop sectors selected for specific analysis; Cambodia (rice), Ethiopia (cereals) and Sierra Leone (milled rice and gari). For the majority of countries reviewed in this paper the focus of the diagnostic work in agriculture was entirely on cash crops without any attention given to food crops.

Not only is this lack of focus on food crops troubling because of their obvious importance to import substitution efforts, but also because significant export opportunities exist for these food crops. In 2006, the 11 LDCs covered by this paper collectively imported almost \$600mn of cereals (the 40 IF countries imported \$2.5bn of cereals in 2006), much of it from developed or emerging countries (ITC 2006). In the future, such demand and that of rapidly increasing populations could be satisfied by greater production and export of food crops by LDCs.

Table 1: Cereals Imports of Selected IF Countries in 2006 (in \$mn)

Country	Value
Burundi	6
Cambodia	5
Ethiopia	96
Guinea	67
Lao	-10*
Lesotho	3
Malawi	42
Sierra Leone	28
Tanzania	185
Uganda	120
Zambia	56

*Note: * Net exporter*

Source: ITC 2006

Another weakness of the DTISs is that for the agricultural sectors they do focus analysis on they fail to focus on many of the behind the border constraints that are of significance for the most marginalised producers (such as smallholders) and their prospects of being brought more effectively into export production.

The diagnostic work in agriculture rightly highlights the challenges smallholders face in gaining access to assets and inputs to support their production (although notably these factors were neglected in the DTISs of Lesotho, Uganda and Zambia). There is emphasis on the importance of supporting the emergence of farmers groups to assist farmers to collectively tackle the constraints they face, generate economies of scale in production and marketing and bolster their market power. The diagnostic studies also rightly highlight factors such as weak transport and electricity infrastructure and financial sector weaknesses, all important to smallholders.

However, the actions recommended in relation to infrastructure and financial issues mainly focus on formal trade sectors and cross-national/regional infrastructure, at the expense of focussing on the needs of more informal sectors and localised infrastructure constraints.

For example, there is only limited attention given to micro-credit and other credit innovations targeted at smallholders; and rural road, transport and electricity infrastructure. In contrast export credit schemes (targeted at larger formal sector exporters) and upstream major infrastructure priorities such as ports, transport corridors linking major urban and regional markets and customs infrastructure, all receive significant attention. These larger upstream priorities are obviously important in facilitating trade, but may not serve to bring more marginalised producers most effectively into the exporting process.

Another factor that is vital to the ability of smallholders to benefit from producing for exports markets and which receives limited or no attention in the DTISs reviewed for

this paper is the weakness of smallholders in markets and the steps that can be taken to strengthen their market power. Because small-holders often have access to little information on prices, are far from markets and often have to deal with an oligopolistic private sector, small-holders are relatively weak compared to other agents in the supply chain, which results in them receiving low prices for their goods and being exploited in other ways. Tackling such problems involves interventions such as developing market information systems, regulatory measures to discipline the private sector and assisted marketing schemes. However, there is little discussion of such interventions in the DTISs reviewed for this paper.

Finally another weakness of the DTISs reviewed for this paper is their failure to deal with rural taxation issues, which can be very relevant to the ability of the rural poor to gain from production for export. Recent studies of the rural sectors in Kenya, Malawi, Tanzania, and Uganda found that small-holders / petty traders were being negatively impacted by a range of official and non-official taxes that were extracting much of their profits and discouraging their engagement in commercial activity (Ellis/Mdoe 2002; Ellis/Kutengule *et al* 2002). These issues are a vital piece of the picture when it comes to exploring the engagement of the most marginalised economic agents with markets. However, such issues were only touched upon in two of the 11 DTISs reviewed for this paper (Malawi and Tanzania).

It is clear that if the IF is to become a tool for participating LDCs to explore the full range of factors that are constraining smallholders to engage in and benefit from export production, then the next generation of DTISs needs to take a more comprehensive look at food crop trade and more of the constraints facing small-scale producers particular.

Addressing Constraints facing Services Sectors

In many of the poorest countries the services sector is one of largest and most diverse sectors and is hugely important for livelihoods.

For example, in Burundi the services sector makes up 45% of the economy, in Cambodia 39 percent of the economy (more than the internationally lauded industrial sector); and in Zambia 59 percent of the economy (more than the agriculture and industrial sectors combined).

Table 2: Contribution of Industrial and Services Sectors to an Economy in 2006

Country	Industrial Value Added as % of GDP	Services Value Added as % of GDP
Burundi	20	45*
Cambodia	27*	39*
Ethiopia	13	39
Guinea	37	50
Lao	30*	26*
Lesotho	41	42
Malawi	20	45
Sierra Leone	25	28
Tanzania	17	37
Uganda	25	44
Zambia	25	59

Note: * In 2005

Source: World Bank World Development Indicators

Services are major facilitators of domestic economic growth world over. In 2003, the contribution of services to economic growth was 45 percent for LDCs, 57 percent for developing countries, and 71 percent for developed countries. Services activities have also become primary creators of new jobs, accounting for over 90 percent of new jobs globally since mid-1990s (Mittaritona 2007).

The countries covered by this paper currently export only a limited volume of services and a limited range of services. Although services exports from each of Cambodia, Ethiopia and Tanzania were over \$1bn in 2006, most of this was accounted for by the tourism sector (through traditional tourist services and travel), a sector that does receive significant attention in the DTISs reviewed for this paper.

The other services sectors (categorised according to 12 core sectors used in international classifications) in which these countries current export include: other business service, exports of which were above \$30mn in Tanzania (\$110mn), Ethiopia (\$56mn), Cambodia (\$55mn) and Uganda (\$33mn) in 2006; telecommunications, exports of which were above \$30m in Ethiopia (\$56mn), Cambodia (\$40mn) and Tanzania (\$32mn) in 2006; and computers/information, of which Uganda exported \$32mn in 2006.

Although only a limited range of services are currently being exported from these countries, the dynamic growth of services export markets and the opportunities provided by developments in information communication technology (ICT) mean that such exports could expand and new areas of services exports could emerge. The outsourcing boom in countries like India is illustrative of the opportunities available, and although the countries covered in this study are not seen to have the same potential as a country like India in this respect, there is still some potential for these countries to benefit, especially if they implement the right facilitating measures.

Given the (mostly potential) importance of services exports from these countries it is some concern that in only one DTIS reviewed did analysis focus specifically on a service sector other than tourism and transport, and that was for Uganda, where the ICT sector was reviewed in some detail.

It is therefore clear that services trade still remains invisible to the types of diagnostic studies that have been carried out through the IF process to date. However, if the IF is to help LDCs take advantage of new developments in the global economy then sectors like services need more attention.

Addressing the Constraints facing Industrial Sectors

In the case of the industrial sector, its importance to the poorest country lies in its potential for adding value to raw materials, thereby supporting the production of goods for which there is greater global demand, higher profit margins, significant demand for labour and potentially more significant backward (i.e. through supplying raw materials) and forward (i.e. through technological requirements) linkages with the rest of the economy. For these reasons and given that 90 percent of global merchandise trade is in manufactures it is generally accepted that developing an industrial sector is vital to export development and growth.

As can be seen from Table 2, the industrial sector is already a reasonably significant contributor to GDP in the countries covered by this paper (contributed 25 percent or

more to GDP in seven out of the 11 countries). However, it also true to say that the industrial sectors of the countries (especially those in Sub-Saharan Africa) are characterised by low levels of productivity, value added, employment and exports, with most production sold in domestic markets.

The exceptions to this picture are Cambodia and (to a much lesser extent) Lao, whose industrial sectors are larger, more efficient, employ larger numbers of people and are already producing significant volumes of exports. The industrial exports of Cambodia and Laos are predominantly clothing, textiles and footwear, which totalled \$3.5bn and \$0.2bn from these countries respectively in 2006 (ITC 2006). However, these two countries still export quite a limited range of products and value added and productivity are still low compared to more advanced industrial exporters.

In the Sub-Saharan African countries reviewed in this paper the main industrial sectors are those involved in basic food processing (milling, processing of fruit vegetables and meat and beverages) but also textiles, clothing, chemicals, paper and engineering products. In terms of value added the most significant industrial sectors are in Ethiopia (\$613mn in 2004), Tanzania (\$220mn in 1999), Malawi (\$128mn in 2001) and Lesotho (exported \$420mn of clothing in 2006) (ITC 2006).

Table 3: Value Added by Industry, Ethiopia, 2004 (in \$mn)

Industry (ISIS Revision 3)	Value Added
Processed meat, fish, fruit, vegetables and fats (151)	8
Grain mill products; starches; animal feeds (152)	15
Other food products (154)	131
Beverages (155)	118
Spinning, weaving, finishing of textiles (171)	31
Leather products (191)	17
Footwear (192)	10
Printing and related service activities (222)	25
Other chemicals (242)	32
Rubber products (251)	13
Plastic products (252)	18
Non-metallic mineral products (269)	69
Basic iron and steel (271)	26

Note: * In current prices in 2004

Source: UNIDO Statistics Database

Despite the fact that the industrial sectors of many of these countries are quite small and export a limited share of production, this does not preclude these countries from taking the opportunity in the future to transform existing industrial sectors into exporting sectors and to develop new industrial sectors for export. Admittedly this is a significant challenge and may require significant resources, but given the importance of industrial development to these countries such goals and strategies for implementing them should be fully explored in the IF process.

It is therefore of some concern that the sectoral analysis carried out in the DTISs reviewed for this paper fails to focus on the full range of industrial opportunities available to these countries. Although most of the DTISs reviewed focussed on at least one industrial sector, a range of potential industrial sectors were neglected including those identified in PRSPs as strategic priorities.

The only industrial sectors referred to in Tanzania's DTIS/Action Matrix relates to the processing of cashews and fish products. However, a wide range of other existing industrial sectors that are given little or no attention. These sectors include beverages, food products, paper, chemicals, rubber and metallic products.

Uganda's DTIS does not cover any industrial sectors at all, instead focussing on primary sectors such as coffee, cotton, tea, horticulture, fisheries and floriculture. This is despite the fact that Uganda's processed food and beverages sector has been growing in recent years, with production of sugar, beer, soft drinks, edible oils, wheat flour, biscuits and soya foods showing the most potential. These are industries that employ over 20,000 people and utilise a large amount of locally produced primary products as inputs.²

Zambia's recently completed Fifth National Development Plan (the home-grown successor to its PRSP) states Zambia's ambitions to push industrial development forward by promoting production of electrical goods, wood products, paper and chemicals, as well as more traditional industrial goods such as textiles and processed food. However, Zambia's DTIS only presents analysis of the textiles and processed food sectors, and its action Matrix fails to identify any specific interventions even in these sectors.

Burundi's DTIS gave limited attention to the processing of agricultural products; Guinea's DTIS restricted its industrial focus to handicrafts and mining; and Malawi's DTIS said little on any manufacturing industries outside of textiles and clothing.

Although the DTISs of Cambodia, Ethiopia and Lao gave significant attention to industrial sectors such as clothing, leather, meat processing, sugar and handicrafts, they fail to focus attention on a wider array of industrial sectors included in their PRSPs, including agro-processing, meat processing, wood products, chemicals, fertiliser, paper, beverages, tools, construction and sugar processing.

The analysis presented in these DTISs suggests that the industrial sectors selected for analysis were chosen because they already produce for export markets (mainly extra-regional) or for the tourist trade and they are sectors in which the country has existing global comparative advantage. This means that industrial sectors which are not currently exporting or in which the country does not currently have comparative advantage globally (but may do so regionally), are not considered by the IF process.

This analysis above does not mean to ignore the significant challenges that are posed by developing industrial sectors in some of the poorest countries, but merely to highlight the limited ambition for industrial production and exports shown in the IF outputs of these countries.

Important opportunities exist for these countries in a range of industrial sectors (especially labour intensive ones) in global markets, including emerging and regional markets. These countries therefore need to look to the future and design interventions for pushing comparative advantage towards higher value industrial sectors. This will support them to move up the value chain and move away from dependence on primary products and (in some cases) a narrow range of semi-processed goods.

² "The Foods and Beverages Industry", Uganda Invest

However, the IF outputs of these countries fail to assess these opportunities or present a blue print for implementing such a vision. This poses the question as to what economic future these economies face in following such a trajectory and whether production of primary products and some basic processing can promote development and poverty reduction over the long term. If a higher level of ambition is called for, then the IF process needs to respond by taking a more comprehensive and ambitious approach to assessing industrial prospects and promoting action.

Trade Policy and Poverty

As well as identifying physical and institutional interventions to be undertaken by LDCs, the IF diagnostic outputs also attempt to provide analysis and guidance on trade policy issues, such as those relating to regional and global liberalisation and market regulation.

The general approach of the IF diagnostic outputs of the countries reviewed for this paper, is to recommend increased liberalisation both regionally and internationally. This is justified on the grounds that this will reduce the cost of inputs for domestic producers, reduce any existing anti-export bias and reduce the cost of goods and services to consumers, which will in turn contribute to reductions in poverty.

However, in the majority of DTISs reviewed for this paper the analysis presented to identify these impacts and their contribution to poverty reduction is deficient. As a result the trade policy options recommended in the DTISs/Action Matrices are not fully assessed within a comprehensive trade-poverty framework, and further analysis is required to identify the trade policies (and complimentary reforms) required to contribute to poverty reduction in these countries.

In only five out of the 11 DTISs reviewed for this paper (Cambodia, Ethiopia, Lao, Tanzania and Uganda) was there an attempt to model the impacts of the proposed tariff reductions on poverty levels. For the rest of the countries, it was simply assumed that such measures would contribute favourably to poverty reduction.

However, even for those countries where the DTISs attempted to model the impact of tariff reductions on poverty levels, the statistical models utilised for this analysis display some significant limitations.

These models assume that the price changes resulting from liberalisation are fully transmitted to those in most need, i.e. the poorest producers and consumers. In addition, these models only look at the short term impacts on price levels and fail to explore the impacts on production and in the long term.

In reality, due to an array of market failures in these countries, the price changes resulting from liberalisation are far from certain to reach the poor. For example, in the absence of competition amongst importers falls in import prices may be absorbed by importers without being passed on to consumers. This highlights the need to identify accompanying measures to ensure that trade policy reforms actually have positive impacts on the poorest producers and consumers.

In addition, as increasingly recognised by policymakers, trade liberalisation creates losers as well as winners. The losers are mainly those producing import competing products, who may be forced out of employment if they cannot cope with increased

import competition. These groups may then find it difficult to find alternative employment opportunities, and if they fail to do so might find themselves worse off after liberalisation. This highlights the need to identify measures to support import competing sectors in dealing with competition, develop strategies for effectively sequencing any reforms, identify groups that may lose out from liberalisation and provide them with support to access new opportunities. However, the DTISs reviewed for this paper did not identify such sectors where support is required for adjustment and analysis ends at identifying macro impacts.

Finally, there is also the possibility that infant sectors need to be protected from excessive competition (especially from developed countries and those with subsidised production) and can benefit from being nurtured behind tariffs before being exposed to regional and international competition. This highlights the need to identify sectors which have the potential to increase production and become efficient with the help of strategic protection and a range of support measures. Once again, the DTISs reviewed for this paper did not present analysis that would support such policy discussions and there were few qualifications expressed in relation to liberalisation policies.

One aspect of the DTIS process that has hindered efforts to analyse trade-poverty linkages more comprehensively is the failure to integrate trade-poverty perspectives into the diagnostic study. Trade-poverty issues are usually explored in a chapter at the end of the study, i.e. these issues are not explored as trade policy issues and options are discussed throughout the study. This therefore does little to encourage an integrated approach to exploring the interrelationship between trade policies and poverty.

It is clear that if the IF process is to become an important tool for participating LDCs to fully explore their trade policy options and understand the consequences for poverty reduction, then subsequent generations of DTISs need to take a more in depth and integrated approach to assessing the impact of trade policy reforms on poverty.

Identifying Priority Actions

The role of the Action Matrices that emanate from the IF process is to summarise all the actions recommended by the diagnostic study and to be considered by policy-makers.

What is common to virtually all the Action Matrices is that they recommend a large number of very general actions to be taken to promote trade development in the LDCs. It is not uncommon for an Action Matrix to recommend “increase access to credit” (as in the case of Cambodia’s) or “establish an inland dry port” (as in the case of Ethiopia’s), and most include 50-100 recommended actions, with no prioritisation amongst them. These are problems facing even the most comprehensive and well developed Action Matrix.

Although such recommendations do give some guidance to policy-makers, on their own they are far from actionable and leave a great deal of policy issues to be determined. Utilising the credit example above, the following questions (amongst others) still need to be answered:

- What strategies should be utilised for increasing credit?
- Which groups are the main targets for credit?

- Should expanding credit be prioritised above other interventions in agriculture?
- What complimentary reforms are needed to promote credit expansion?

This all means that for the IF process to actually influence national development strategies or attract funding directly to implement priority actions a significant amount of work still needs to be done to determine the precise parameters of these actions. This will in turn require long term, open and participatory dialogue amongst relevant stake-holders in-country, in order to ensure that these issues are tackled in a comprehensive manner and one which reflects the needs of all sectors of society.

The extent and nature of the challenge that is involved in putting the IF process into action merely serves to highlight the importance of the recommendation put forward by the IF Task Force to establish National Implementation Units (NIU) in-country. These will bring together relevant ministries, the private sector, academia and civil society to manage the IF mainstreaming and implementation process day to day.

Conclusion: What role for the IF in poverty reduction?

The DTISs/Action Matrices reviewed for this paper contain much of significance and use for promoting trade and poverty reduction in the countries in question, although it could be argued that much of analysis and recommendations weren't that new to country policy-makers.

Despite this, the outputs from the IF process in these countries seem to neglect a number of sectors and policy issues that are of key interest to poor producers and their ability to be brought into and benefit from export production.

This paper highlights how DTISs fail to cover trade in food crops in eight of the 11 countries reviewed here, with only limited attention dedicated to food crops in the other three countries. With the importance of food crop trade to livelihoods and food security and opportunities available for increasing food crop trade in the coming years (because of increasing demand for food globally and opportunities for substituting imports from developed and/or middle income countries) this seems to be a major omission.

The DTISs reviewed in this paper focussed only a limited amount of attention on behind the border constraints that face small-scale producers in engaging in and benefiting more substantially from export production. Analysis on infrastructure, financial and regulatory issues focussed mainly on larger more upstream priorities such as ports, major transport corridors, export credit schemes and tariff rates. In contrast, there was little analysis of issues related to rural infrastructure, the access of small-scale producers to credit, market structures and rural taxation.

DTISs also seem to express quite limited ambitions for LDCs in terms of industrial and services exports. There is little attention given to industrial sectors currently producing for domestic or regional markets and few interventions proposed to drive comparative advantage towards higher value added goods. In addition, in only DTIS (Uganda, with regard to ICT) was a services sector other than transport or travel selected for analysis

Finally, DTISs seem to display significant deficiencies with regard to assessing the potential impact of recommended trade policies on poverty. The DTISs reviewed for this paper generally promoted further liberalisation by either assuming positive impacts or justifying such an approach with static and narrow analysis that fails to capture the reality of the hugely complex socio-economic environment in these countries. The trade-poverty analysis that was carried out was also linked very poorly to analysis of trade constraints, thereby limiting the utility of such analysis in identifying accompanying measures to ensure the benefits of trade reforms are spread most widely.

In part the weaknesses of the DTISs in responding to the poverty reduction imperative are down to the fact there has so far been only limited ownership of the IF process by participating governments and other national stakeholders. Much of the diagnostic work has been led by donor consultants with only limited opportunity for open debate on trade priorities within these countries. This is a situation that clearly needs to be resolved, especially given the fact that there is still much work to be done to further elaborate on IF outputs and implement the policies proposed.

In response to the critique presented in this paper some may respond that the frame of assessment for this paper is too substantive and that IF outputs should be judged on the basis of a more modest objective: to focus trade / export capacity building efforts on a limited number of strategic sectors and areas.

However, such a response merely amplifies the questions as to how these strategic sectors and policy areas were chosen; and the suitability of the IF process to play a leading role in integrating trade into PRSPs, which are supposed to be comprehensive plans for promoting development and poverty reduction.

One final point to make about the IF and its response to poverty issues is that the role of the IF is generally seen (maybe by donors more than client countries) as that of supporting LDCs to develop their exports, with domestic trade dynamics not formally on its agenda. However, in reality, domestic trade dynamics are an important part of the picture when looking at how trade can contribute to poverty reduction. The poorest producers can use domestic markets as a stepping stone to producing for wider markets and intra-sector trade dynamics are an important characteristic of economic development processes. These are factors highlighted in UNCTAD's 2006 LDC report, as illustrated in the box below.

Box 2: Quotes from the 2006 UNCTAD LDC Report

“[o]n the whole, at least two-thirds to three-quarters of the incremental growth in the 1990s [in Bangladesh] originated from the non-tradeable sectors — mainly services, construction and small scale industry” p 268

[in Vietnam] high rates of economic growth were led by increasing exports of labour-intensive manufacturing goods, poverty reduction mainly occurred through rising agricultural incomes and the expansion of demand for non-tradeables” p269

It should therefore be recognised that by definition the analysis carried out by the IF presents is only part of the picture in relation to trade and poverty dynamics. This means that as well as drawing on the outputs of the IF process any effort to integrate trade into national development strategies needs to be supplemented and informed by continued efforts to explore the micro and domestic trade dynamics that are vital to the ability of the poorest producers to gain from trade.

Recommendations

As this paper was finalised, the Enhanced-IF was in the later stages of being launched, with a fund manager (UNOPS) having been selected and countries in the process of developing proposals for establishing their national implementation units. As a contribution to the current dialogue on launching and implementing the Enhanced-IF and enhancing its poverty focus this paper highlights the following recommendations:

- That DTISs/Action Matrices should be treated as living documents that can be reviewed and refined in response to further dialogue between relevant stakeholders.
- That measures should be taken to promote deep and wide ownership of the IF process in-country, including: *hand over management to in-country institutions (possibly NIUs); ensure these are resourced and represent all groups of stakeholders; improve the utilisation of national and regional policy expertise in diagnostic work; and ensure that participating countries can choose which agencies to work with.*
- That coverage of diagnostic work in agriculture should be expanded to include food crop trade and the full range of constraints facing small-holders.
- That services sectors need to be better covered by diagnostic work.
- That a more ambitious approach to diagnosing needs in relation to industrial development (i.e. one that recognises the full range of opportunities available to LDCs) needs to be taken into account.
- That trade-poverty analysis in DTISs needs to be expanded, integrated more effectively into DTISs and better utilised in considering trade and complementary reforms more fully.
- That, in order to comprehensively integrate trade into national development strategies, the IF outputs need to be supplemented by continued efforts to explore the micro and domestic trade dynamics that are vital to the ability of the poorest producers to gain from trade.

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