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“Aid For Trade” Facility: Lessons From The Tanzanian Experience On Trade Related Assistance

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Related ILEAP papers

ILEAP (2006a). “Aid for Trade: How We Got Here, Where We Might Go”. Prepared by Michael J. Finger.

ILEAP (2006b) “The Financial Architecture of Aid for Trade”. ILEAP. Massimiliano Cali, Sven Grimm, Sheila Page, Lauren Phillips and Dirk Willem te Velde.

ILEAP (2006c). “Operational Modalities for the Aid for Trade Initiative”. Prepared by Ademola Oyejide.

ILEAP and German Marshall Fund (2006d). “Aid for Trade After the Hong Kong Ministerial – An Introductory Text”. Prepared by Claire Healey, Dominique Njinkeu and Hugo Cameron.

These papers can be accessed on the ILEAP website, www.ileap-jeicp.org. A comprehensive database of resources on Aid for Trade can be accessed at www.odi.org.uk/iedg/aid4trade.html.

1. INTRODUCTION

This paper reviews the implementation of the Integrated Framework for Trade-related Technical Assistance for Least-developed Countries (IF) and the Joint Integrated Technical Assistance Programme (JITAP) in Tanzania, with a view to assessing the lessons thereof and how to ensure beneficiary leadership and ownership of the Aid for Trade Agenda.

A review of the lessons from implementation of the IF and JITAP in Tanzania has to be based on the objectives and premises on which the two programmes were designed and are being implemented. At the outset, it is noted that whereas JITAP was created to focus on capacity building on the multilateral trading system (MTS) for low-income African countries, the mandate of the IF programme is confined to addressing the concerns of Least Developed Countries (LDCs).

JITAP was designed as a generic programme to be implemented through a multiplicity of agencies at the international, regional and national levels. Its implementation (JITAP Phase I) started in 1998 with a group of eight African low-income countries. JITAP Phase II, launched in 2003, brought in a group of eight more countries to implement a set of activities around five modules.¹

The main objectives of JITAP include building understanding of the MTS based on knowledge of WTO agreements; participation in negotiations; implementation of the agreements; and effective utilization of market access opportunities resulting from the negotiations. Initially, management and control of the implementation process was vested in three international agencies operating from Geneva: the World Trade Organization (WTO), International Trade Centre (ITC) and the UN Conference on Trade and Development (UNCTAD), with national governments and private sector stakeholders as co-implementers and beneficiaries. Eventually, increasing elements of ownership shifted partially first to the regional level and eventually to national stakeholders. This was based on decentralization of resources to local UN Development Programme (UNDP) offices and increased flexibility in implementation.

The IF was launched in 1998/1999 in most of the twelve pilot scheme LDCs. Each country designed its own programme, reflecting national needs based on an approach of tripartite consultations between the public and the private sectors as well as development partners. The process was primarily left in the hands of actors at the national level, with the Geneva agencies playing a largely marginal role, thereby avoiding problems of ownership that were initially prevalent under JITAP. A revamped programme with more generic features was introduced in 2000. It was based on a diagnostic review of the economy that in turn served as the basis for agreeing on priority intervention measures. The cornerstone of the revamped scheme is the Diagnostic Trade Integration Study and the Action Matrix that is the blueprint for measures to address constraints identified as impeding trade.

¹ The eight initial JITAP Phase I implementing countries were Benin, Burkina Faso, Ghana, Ivory Coast, Kenya, Tunisia, United Republic of Tanzania and Uganda. Countries involved in the second phase of JITAP comprise those under the first phase as well as the following additional eight countries: Botswana, Cameroon, Malawi, Mali, Mauritania, Mozambique, Senegal and Zambia. The modules include: MTS Institutional support, Compliance, Policies and negotiations; Strengthening MTS Reference Centre, and NEPs on TBT and SPS; Enhancing MTS knowledge and Networks; Product and Services Sector Strategies; and Networking and Programme Synergy.

2. THE CONCEPTUAL FRAMEWORK FOR TRADE RELATED ASSISTANCE

Consensus building on the role, nature and structure of an Aid-for-Trade facility has to start with a common understanding of the nature and coverage of “Trade-related Assistance” as reflected in three concepts that underpin the recent literature on trade development. The three concepts are: Trade-not-Aid; Trade Related Technical Assistance; and Trade Related Assistance. The usefulness of the lessons of JITAP and the IF in influencing such a facility also depends on a common understanding of the role and place assigned to the JITAP and IF programmes in meeting the demands for Trade Related Assistance in target countries. Apart from JITAP and the IF, Tanzania has also been implementing bilateral trade capacity building programmes that have provided much needed complementarity to the multilateral programmes.

- (a) **From “Trade-Not-Aid” to “Aid-for-Trade”:** Recent literature on economic growth and development has highlighted a shift in thinking from increasing aid flows to provide the momentum for growth and development towards highlighting the expansion of trade flows as an engine of growth. According to the school of “trade rather than aid” for development, the transmission mechanism between trade and development is preferences. Preferential trade arrangements can stimulate transfer of technology, new investments that lead to creation of employment and income generation and higher levels of productivity and competitiveness.

The empirical evidence confirms that preferences can lead to growth for developing countries that are able to produce competitively for the global market and that such growth can lead to poverty reduction if it is broad-based and inclusive of the majority. However, the empirical evidence also shows that many countries that have received unilateral preferences have not been able to utilize them because of a number of supply side constraints whose resolution requires enhanced aid inflow as the stimulant of expanding trade. Ideally, the genesis of Aid-for-Trade should be seen in the context of the need to break a vicious cycle whereby developing countries are expected to take increasing recourse to expanding trade as the engine of growth, but where such expansion cannot materialize without increasing the competitiveness of the private sector to make effective use of preferences. In practice, for most developing countries, more so sub-Saharan African countries, the transmission mechanism does not work unless there is a catalyst in the form of increased aid to build the capacity to trade. The need for special attention in terms of addressing the factors that link trade with poverty reduction is also important.

The salient message is that there are a number of other factors that have to be addressed for preferences to become an effective tool for trade development. Often this has been identified as a package of appropriate complimentary policies to be implemented in unison with trade liberalization measures. In the course of identifying the critical minimum resources necessary for building the requisite capacity, the role for aid targeting capacity building for trade has inevitably come back into the broad picture.

- (b) **The Trade Policy Process and Trade Related Technical Assistance (TRTA):** One aspect of Aid for Trade focuses on addressing only countries’ capacity for handling the process around trade policy formulation. The trade policy process itself is comprised of two main elements: trade policy formulation and implementation, and integration into the MTS. The first includes economic and trade policy analysis; trade policy and trade strategy formulation and implementation; and mainstreaming trade into the national

development agenda. The second includes enhancing understanding of the MTS, effective participation in negotiations, and implementing WTO agreements.

To a large extent, JITAP is a TRTA programme that primarily seeks to address issues relating to the “Trade Policy Process”. Although the programme includes a component on export readiness, this takes the form of building technical capacity to design and implement “export development strategies”. In the Tanzanian case for JITAP I, lack of counterpart resources to implement such strategies reduced this aspect to an academic exercise. Phase II has met with more practical success in this area in view of allocation of considerable resources from the poverty reduction budget as well as the availability of bilateral donor support. A pilot scheme project on horticulture is under implementation in the Morogoro region.

- (c) **Trade Development, Supply Side Issues and the Concept of Trade Related Assistance (TRA):** The definition of TRA adopted by the WTO/OECD² includes two categories of interventions: “Trade Policy Process” and “Trade Development and Supply-side Issues”. This means that TRA is broader in scope and coverage than TRTA. Whereas TRTA focuses solely on technical capacity building on issues under the trade policy process, TRA brings in other issues related to production and delivery capacity. For its part, supply side capacity can be very broad and includes economic and social infrastructure.

The “trade development and supply side issues” perspective seeks to address the broad range of issues affecting the direction of trade divided into three categories: (i) inside-the-border (border-in measures); border level measures; and outside-the-border measures. Border-in measures include a wide range of national level measures on the supply side such as those that negatively affect investment climate, productive sectors, and delivery networks.

- (d) **Trade Development Index (TDI):** UNCTAD has just published work introducing a single figure index outlining major factors that influence the process of trade and development. The TDI identifies three ‘dimensions’ that influence trade: structural and institutional; trade policies and processes; and the level of development. The TDI places emphasis on the reality that although openness to trade remains the major factor in export performance, there are other equally important factors that have to be addressed through appropriate complementary policies.

- i. The structural and institutional dimension includes:
 - Human capital (education and health);
 - Physical infrastructure (transportation and ICT);
 - Financial environment (access to finance);
 - Institutional quality (public administration quality and government effectiveness as well as good governance);
 - Environmental sustainability (based on access to water and access to improved sanitation facilities);
 - Economic structure (as an indicator of level of development based for instance on contribution of agriculture to GDP); and
 - Market access.

² WTO-OECD, July 2003

- ii. The trade policies and processes dimension includes:
 - Openness to trade (trade liberalization in terms of tariff barriers and NTBs); and
 - Effective access to foreign markets defined in terms of low trade barriers in destination markets as well as the structure of the export sector of the receiving country.

- iii. Components of the level of development dimension include:
 - Level of economic development as reflected in GDP per capita;
 - Social development reflected by a combination of adult literacy, gross school enrolment, and life expectancy at birth;
 - Education and health improvements; and
 - Gender development as measured by the UNDP gender development index.

The power and potential of the TDI lies in highlighting and sensitizing stakeholders in the MTS and in developing countries on the essential factors that must be addressed in strategies for export led growth and growth driven by trade expansion. By implication, the TDI is a useful tool for generating lasting support for the wider concept of Trade Related Assistance that includes supply side constraints.

3. THE PROBLEM

Prior to the launching of the Doha Development Round, developing countries and LDCs consistently called for capacity building support in three areas to assist them benefit from market access opportunities emerging in the MTS. In response, capacity building has tended to focus on both institutional and human capacities for two broad categories: the trade policy process, and supply side constraints. While the first has received some attention, there has been limited support for addressing supply problems.

The launching of the Doha Round of Multilateral Trade Negotiations as a development oriented round in a context where many developing countries and LDCs have not been able to make effective use of preferences further consolidated the increasing call for measures to assist developing countries address the supply side constraints. LDCs' difficulties in fulfilling quotas under the EU's Everything but Arms (EBA) and the United States' AGOA schemes has driven home the message that there are supply constraints that mitigate against low-income countries' capacity to trade and that for such countries, preferences will not work unless the binding constraints are addressed.

Further, preferences have become a temporary tool that is being phased out. Many countries that have in the past benefited from this instrument are experiencing the prospect of painful adjustment as preferences are being phased out. This highlights the need for a dramatic shift towards building capacities on the trade development agenda in terms of raising productivity and competitiveness in producing and delivering higher quality goods and services. In short, the clarion call is for capacity building based on the broad concept of Trade Related Assistance, targeting the wide range of factors that impede trade. Intuitively, the Aid for Trade facility should respond to this call, apart from addressing other specific issues relating to adjustment.

4. TANZANIA'S EXPERIENCE FROM JITAP, THE IF AND THE NATIONAL GROWTH AND POVERTY REDUCTION STRATEGY

As seen earlier, JITAP seeks to build capacity for low-income African countries to better understand the MTS and engage more effectively in its operations, including participation in negotiations and compliance with obligations thereof. It further seeks to build the capacity to benefit from the rights of WTO membership through designing strategies for export development. However, implementation of such strategies was left to national resources or bilateral programmes that have not necessarily been forthcoming.

The IF, although targeting LDCs only, seeks to address the wider range of constraints that impede competitive production and delivery of goods and services into the global market. Tanzania's experience with both programmes gives rise to two broad issues: the need to channel more support for capacity building towards the broader trade development agenda, particularly in tackling supply side constraints. The experience emerging from other bilateral programmes that have been implemented simultaneously with JITAP and the IF reinforces the arguments for the need for an effective Aid-for-Trade facility to address the binding constraints by taking the broad coverage inherent in "Trade Related Assistance".

4.1 Joint Integrated Technical Assistance Programme (JITAP)

The JITAP programme, launched in Tanzania and seven other African countries in 1998, primarily sought to raise awareness of the issues involved in the MTS, to implement the WTO agreements, and to take part in negotiations initially based on the mandate inbuilt into the Uruguay Round Agreements and later the Doha Development Round. To a large extent it addressed issues under the trade policy process, focusing on the narrow concept of tariff policy and its implications. In this regard, emphasis was on issues relating to "integration in regional trading schemes and the MTS," with a focus on tariff reforms, negotiation of trade agreements, implementation of such agreements, and obligations to comply with rules and recourse to dispute settlement.

The formal review of the performance of the first phase of the Tanzanian JITAP Programme highlighted mixed results. While seen as generally successful in raising the knowledge of the MTS among trade professionals, problems emerged due to the concentration of management power in Geneva and the regional coordinating office for East Africa (then located in Kampala, Uganda), and due to slippages based on poor response at the national level. For instance, the total lack of provision of counterpart funding by Tanzanian implementing agencies meant that only activities with adequate funding from the Common Facility Fund administered in Geneva could be implemented. Consequently there was greater success on activities relating to the trade policy process (i.e. integration in the multilateral trading system through raising awareness of the MTS and participation in negotiations), rather than those relating to trade development. Even in this area, the focus of training on short-term delivery instruments such as the two or three day workshops and seminars had its limitations in terms of putting in place effective capacity for economic and trade policy analysis and implementation of the agreements.

Towards the end of JITAP Phase I, Tanzania allocated resources received from the old IF programme, amounting to USD300,000 to bridge the short-fall in counterpart funding and managed to reverse the negative trend that had prevailed across the implementation of the whole programme as revealed during a mid-term review undertaken in 2002/2003. This enabled the national implementing agencies responsible for the Export Development Strategies to initiate implementation of the EDS for horticulture development.

Implementation of JITAP Phase II has met with some success, but its impact has not been as far-reaching as one would have anticipated after the hard lessons emerging from the Phase I programme. Delays in programme take-off meant that actual implementation for countries that had to exit the programme in December 2005 was effectively reduced to one year. The effective implementation period of one year (January to December, 2005) and differences with the Tanzanian fiscal calendar meant that substantial counterpart resources have become available for use after exit from the international programme.

Nevertheless, Tanzania is implementing an exit strategy that includes placement of most of the programmes initiated under JITAP on continued implementation under its Diagnostic Trade Integration Study (DTIS), combined with the National Growth and Poverty Reduction Strategy (NGPRS) process and bilateral donor programmes. Measures undertaken under JITAP on their own have not been sufficiently comprehensive to ensure success. Even on measures targeting the trade policy process, there is evidence that a training approach based largely on workshops and seminars – while useful in providing an “academic” portrayal of the WTO agreements and their implications – provides very limited capacity for handling the practical aspects involved in implementation. Experience emerging from the bilateral programmes highlights the benefits of longer duration training schemes as well as highly specialized postgraduate programmes that cover the full range of trade development issues in building effective technical capacity for economic and trade analysis.

4.2 Integrated Framework for Trade-Related Technical Assistance (IF)

The Integrated Framework programme focuses largely on the trade development and supply side issues in TRA. Under the old IF, Tanzania designed and began implementation of a large programme addressing the totality of issues involved in the investment climate. The result is the Programme for the Strengthening of the Business Environment of Tanzania (BEST). BEST is a basket funded programme with initial contributions coming from the Danish International Development Agency (DANIDA), the UK Department for International Development (DFID), the Swedish International Development Agency (SIDA) and the Government of the Netherlands. The World Bank is also joining the basket through its Micro Small and Medium Enterprises (MSME) Project for private sector development.

BEST seeks to undertake a wide range of legal and regulatory reforms, including: putting in place the institutional framework and mechanisms for transformation of the labour laws; implementation of market oriented land policies based on establishment of the appropriate legislation and regulations; updating the business licensing and registration systems; and taxation reforms for MSMEs. The size of the interventions is reflected in a budget of more than USD40 million. The objective is transformation of the legal and regulatory framework inherited from the planned economy into a business friendly investment climate.

The DTIS as a tool for implementing the revamped IF has identified interventions for addressing the issues behind the development of a competitive private sector based on two core factors or attributes: (i) ability to comply with quality standards and competitiveness based on higher productivity, and (ii) more efficient delivery systems. Hence, the IF seeks to tackle the constraints that impede private sector productivity and competitiveness in a global environment, and takes on a wider perspective than JITAP.

4.3 Other Bilateral Programmes and National Initiatives

The process of mainstreaming trade that is now in place – based on the National Growth and Poverty Reduction Strategy – seeks to raise greater awareness on trade development within the lead public institutions that are responsible for the productive and services sectors. These include programmes by SIDA, DANIDA, DFID and the European Union.

(a) SIDA Bilateral Support: From 2000, Tanzania, with support from SIDA, implemented a capacity building project that included, among other things, a component on “Trade Policy/Strategy Formulation and Implementation”. A major outcome of this activity is the adoption and publication of a National Trade Policy document and the National Trade Policy Background Papers, which detail the major elements of a trade development strategy for Tanzania. The output of SIDA’s support is two documents that have become the blueprint for a comprehensive set of measures that have to be addressed in tackling the totality of Tanzania’s trade development agenda. The documents look at a range of factors included in a conceptual approach introduced in the Trade Development Index published by UNCTAD in 2005 (see pp. 5-6, above).

(b) DANIDA Market Access Programme: The capacity for effective integration into regional and multilateral trading systems initiated under JITAP is being supported by DANIDA. The “Market Access” module is a component of Tanzania’s Business Sector Development, which is being implemented over a period of five years starting from July 2003. The DANIDA programme includes the establishment of a Master’s degree programme at the University of Dar es Salaam as an instrument of entrenching capacity in the public and private sector on both the trade policy process and on trade development and supply side issues. It is eventually envisaged to broaden the coverage of the degree programme to include options on “International Business Management” as a way of catering for private sector needs in international trade.

(c) EU Support for EPA Negotiations: The EU is also supporting major initiatives on capacity building for the trade policy process based on capacity for analysis of trade issues and participation in negotiations. This includes economic analyses of the impact of changes in major trade policy variables such as tariff reduction and its impact on revenue generation.

(d) Other Programmes: Other bilateral programmes include DFID support under the African Trade and Poverty Programme (ATPP) and support by the Swiss Ministry of Economic Cooperation (SECO) for a six-week training programme on the WTO agreements. SECO is also providing support addressing supply side capacity issues in the areas of infrastructure for quality standards. At first glance it would appear that there has been duplication in programme implementation. However, the magnitude of the required interventions, an intervention time-frame spanning more than six years and a large turn-over in core stakeholder institutions accounts for the need for repeated undertaking of similar capacity building activities to a certain extent. The DFID programme financed two detailed studies on the trade policy institutional set up in Tanzania as well as the links between poverty and trade. The reports from these studies underscore the magnitude of interventions required in addressing supply side constraints.

5. THE TANZANIAN EXPERIENCE AND LESSONS FOR AN AID-FOR-TRADE FACILITY

Delivery of the ultimate objective of an effective trade development strategy that involves well-coordinated Aid for Trade is a medium to long-term objective. Indeed, the totality of multilateral (IF and JITAP) and bilateral programmes by a number of donors currently supporting trade development activities highlight the importance of programmes that complement each other.

The Tanzanian experience with Aid for Trade confirms that none of the programmes implemented so far have successfully targeted the major supply side impediments. However, there has been some success in working with existing programmes to ensure their complementarity; the BEST programme, for instance, highlights the benefits of a basket funded approach in terms of broader programme coverage and coordination.

Findings emerging from the Tanzanian experience also confirm the need for adoption of a broad-based perspective in any Aid for Trade facility and the importance of ensuring that resulting interventions address the full spectrum of issues involved. These fall broadly into the following groups: trade policy formulation and implementation; technical capacity for analysis of economic and trade issues; training for technical capacity building and institutional reforms; addressing supply side constraints; addressing adjustment problems; and ownership, transaction costs & basket funding.

- (a) **Trade policy and strategy formulation:** Tanzania started its initiatives on trade development with the formulation of a trade policy and strategy that was adopted by the Government in 2003 and is now providing the guidance for implementation of trade development programmes and measures. Implementation of some of the more important measures, such as legal and regulatory reforms, was initiated even before formal approval of the policy and strategy had been accomplished. It is important for countries that seek to embark on the road of growth through trade to have a concrete strategy that clearly portrays a comprehensive picture of the actions required on each of the major underpinning factors as identified in the Trade Development Index. Countries must also be realistic about the status of each of their TDI factors and about the measures required to change that status. The process of developing a trade policy and strategy does require considerable resources and can take time if it is to be accomplished in a manner that responds to the needs for ownership by stakeholders from the beginning.
- (b) **Technical Capacity for Analysis of Economic and Trade Issues:** This is the most important element after putting in place the capacity to formulate and implement a trade policy and strategy. Indeed, capacity for analysis is critical in coming up with programmes for implementing the trade strategy. The typical strategy would cover the issues of shifting from trade based on comparative advantages to trade based on competitive advantages through higher productivity through innovation and technology. Such economic analysis must also take into consideration the social issues of poverty, where the poor are located and how to include them in a trade strategy. Clear understanding and responses to the linkages between poverty and trade, how the poor tend to lose out from trade liberalization, and how to mitigate against such effects is critical for a poverty-reducing process of growth through trade. Measures for addressing this capacity remain in the offing in Tanzania, and are set to be implemented as part of a new initiative on crafting a “Private Sector Development Strategy” that is supported by the World Bank. Such processes tend to be outside the remit of JITAP.
- (c) **Training for Technical Capacity Building and Institutional Reforms:** Capacity building has to address both the human factor as well as the organizational aspects of the institutional framework for trade. In this regard, the need for reorienting institutions such as the conventional trade promotion agency to focus more on trade development while continuing their promotional role is critical. Simultaneous with institutional reforms, it is necessary to develop a new cadre of technical experts capable of undertaking rigorous analysis of the wide range of specific issues involved in the trade and development agenda. Tanzania has not been able to address these through JITAP or the IF. However,

the bilateral programme supported by DANIDA has bridged the gap by financing a postgraduate degree programme on International Trade at the University of Dar es Salaam. The intention is to broaden the curriculum to include coverage of international business management to provide for more relevant needs of the private sector. There is a provision under the IF to look into the institutional framework for the trade policy process.

- (d) **Addressing Supply Side Constraints:** JITAP does not cover supply side constraints per se, though the IF is geared more towards addressing such issues. However, due to a dearth of resources, such involvement has not taken place in many countries. Further, interventions under the IF are limited to LDCs. There is, clearly, need for an instrument to accommodate the needs of developing countries other than LDCs and to supplement the inadequate resources that LDCs get under the IF. For the majority of African countries, supply side constraints remain the critical issue and an Aid for Trade facility should address this element first and foremost.
- (e) **Addressing Adjustment Problems:** Apart from supply side constraints African countries also experience problems of adjustment to revenue losses due to trade liberalization as well as adjustment due to preference erosion. These are issues that should be considered under the AFT facility, although care should be taken to ensure that AFT support for adjustment to revenue losses should not be a temporary carrot to stimulate abandonment of longer term policy flexibility.
- (f) **Ownership, Transaction Costs & Basket Funding:** One of the experiences emerging from Tanzania is the volume of work and costs involved in the administrative and programme management issues related to a multiplicity of donor programmes targeting essentially the same issue. Adoption of a basket funding approach to bilateral and multilateral resources would reduce transaction costs and time as well as ensure ownership in programme implementation by the Government and the private sector. Available information shows that probably it is only Ghana which has a basket funded trade development programme (closely linked with a private sector development programme) and lessons from Ghana are bound to be useful in this regard.

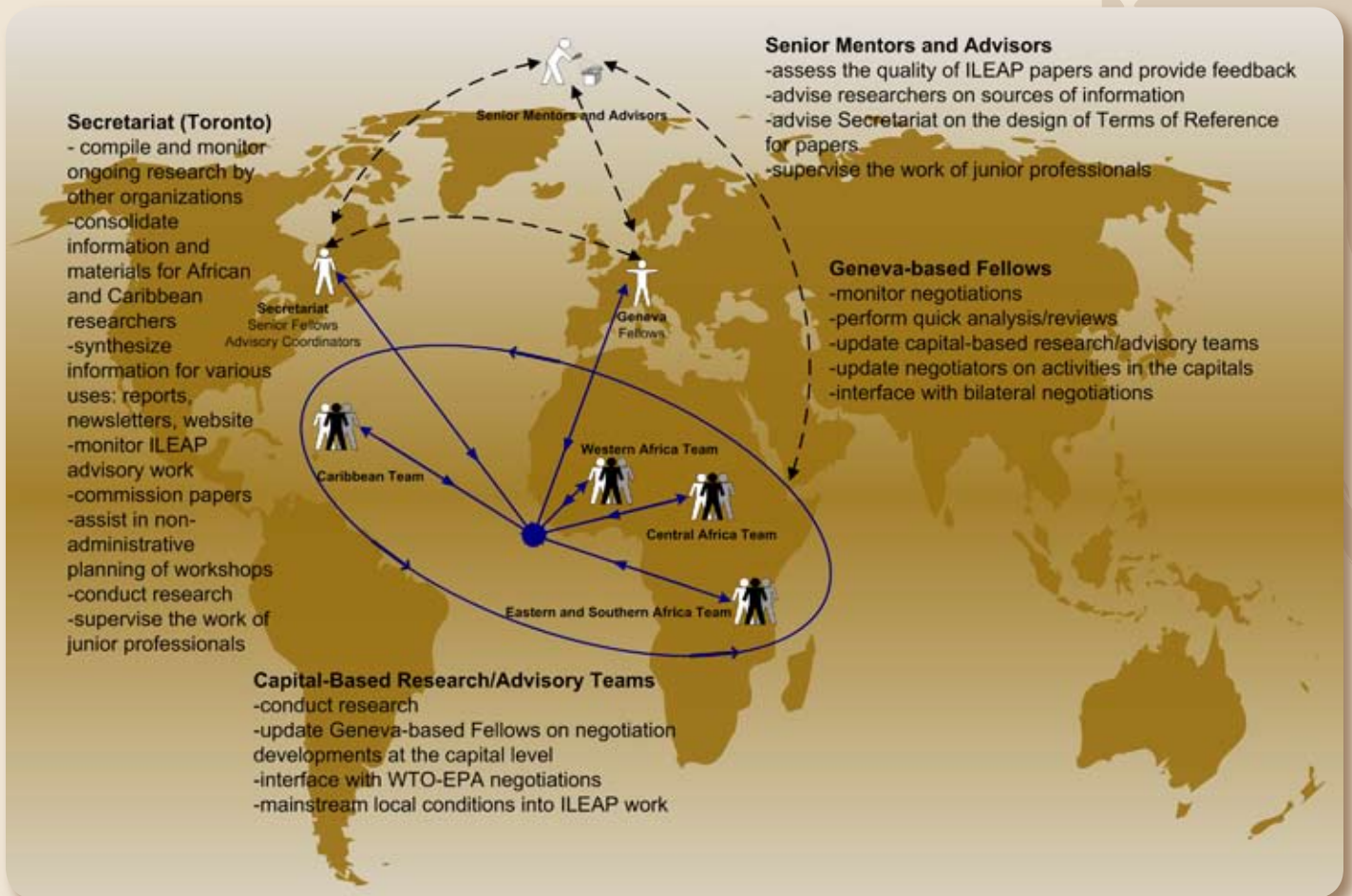
6. CONCLUSION AND RECOMMENDATIONS

In the final analysis, the structure and objectives of an Aid for Trade facility should channel support for developing and least developed countries to address impediments inherent in the most critical factors that have been identified in the Trade Development Index. The key is to give a name to the complimentary policy package that should be put in place in tandem with trade liberalization measures and to channel resources into the areas concerned. Of particular importance to Africa remains the issue of increasing support to the establishment of wider social and economic infrastructure. Social infrastructure is critical for development of the human capital which fuels the process of trade development.

Economic and physical infrastructure is critical for enhancing the productivity and competitiveness of economic agents. These are areas which, as identified in the Commission for Africa report and other reports, are absolutely central to releasing the energies and potential of African economies through more effective linkages with the multilateral trading system.

An Aid for Trade facility should be bold enough to target this wide array of factors and extend substantial resources necessary to make the difference between the status quo and the minimum critical mass for shifting economies to higher trajectories of growth. The lessons emerging from Tanzania in terms of ongoing interventions, first under JITAP, and now envisaged under the enhanced IF and the National Growth and Poverty Reduction Strategy confirm this approach and augurs well for the future.

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