AID-FOR-TRADE CASE STORIES

PRIVATE SECTOR DEVELOPMENT

LEVERAGING THE PRIVATE SECTOR TO PROMOTE EXPORTS:

FINANCE, EXPORT PROMOTION AND SKILL UP-GRADING

Aid for trade can support government efforts to promote exports in ways other than activity-specific industrial policies. This theme is intended to capture government efforts to mobilise the private sector – and particular constituencies -- for exporting and efficient import substitution. The case stories generally fell into three broad categories: efforts to provide *trade finance*; cross-sectoral efforts to develop *new sources of exports*; specific programmes, *including SMEs*; and efforts to promote *women in trade*. Taken together, stories in these areas constituted 20% of the case stories submitted, and entailed a wide range of projects.

Trade finance is the lubricant of trade. It became more important in the wake of the 2008 slowdown as financial markets seized up, risk premia rose, and banks centred in rich countries recalled funds to recapitalise (see Chauffour and Farole, 2009; Haddad, 2009; and Chauffour and Malouche, 2011). At the urging of the WTO and others, the World Bank, the EBRD, the ADB, the Islamic Development Bank and others expanded their support to banks providing credit to traders in developing countries.

Lederman, *et al.* (2010) find that increasing the budget of export promotion agencies at the mean by 10% leads to total national exports increasing by 0.6-1%. The activities of export promotion agencies vary from exporter training and technical assistance (including regulatory compliance and information on customs), country and product marketing abroad, market research studies and marketing (i.e. participating in trade fairs). Because of such broad definition of export promotion agency in Lederman, *et al*. (2010) it is possible to generalize their results[1]. Volpe Martincus and Carballo (2008) more specifically find that export promotion activities increase exports mainly on the extensive margin and in terms of markets and products alike for firms in Peru. Examples of export promotion in the case stories include activities such as streamlining business processes, technical training to improve quality, market research as well as training in supply chain management.

In the year 2000 the OECD hosted its first Conference of Ministers responsible for SMEs in Bologna, Italy. This initiative gave way to extensive research and subsequent policy recommendations for SME prosperity which included continuous private-public dialogue, the existence of reliable and accessible financial lending for SMEs, strengthening the business support system by building public and private capacities, developing a national export strategy to launch SMEs into the globalize markets[2]. It seems therefore natural that governments would want to facilitate the creation of SMEs as well as improve their abilities to grow and compete.

SMEs are an important channel for economic development. The same can be said about women entrepreneurs and the female workforce in general.[3] “Enhancing women’s ability to

[1] with a pinch of salt since the cross-country estimates are quite general and might not fully account for the for individual policy environment and policy structures)

[2] for the full list of background reports visit *http://www.oecd.org/document/23/0,3746,en_2649_34197_31919319_1_1_1_1,00.html*

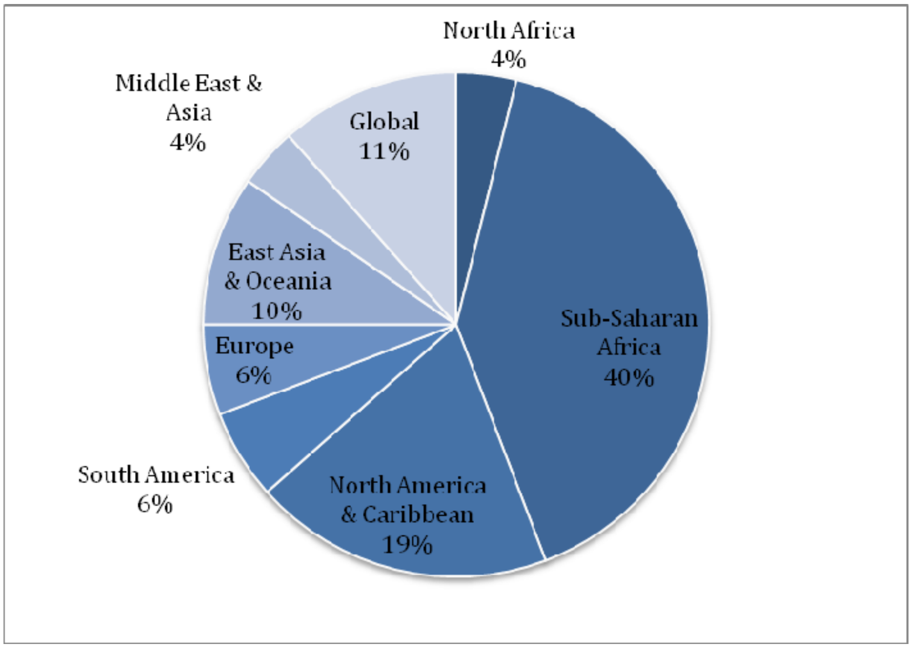
[3] The literature on women and their importance for economic development this claim is vast, for a well-round summary of literature as well as some interesting examples, see Boserut *et al*. (2007)

participate in SME development should be taken into account at every level, as women account for an important share of private sector activity and contribute most to poverty reduction" (OECD, 2004a). In another report, the OECD finds that women entepreneurs are job creators (for themselves and others), they are underrepresented still in self-employed positions and their socio-cultural surrounding is crucial.

What do the case stories tell us?

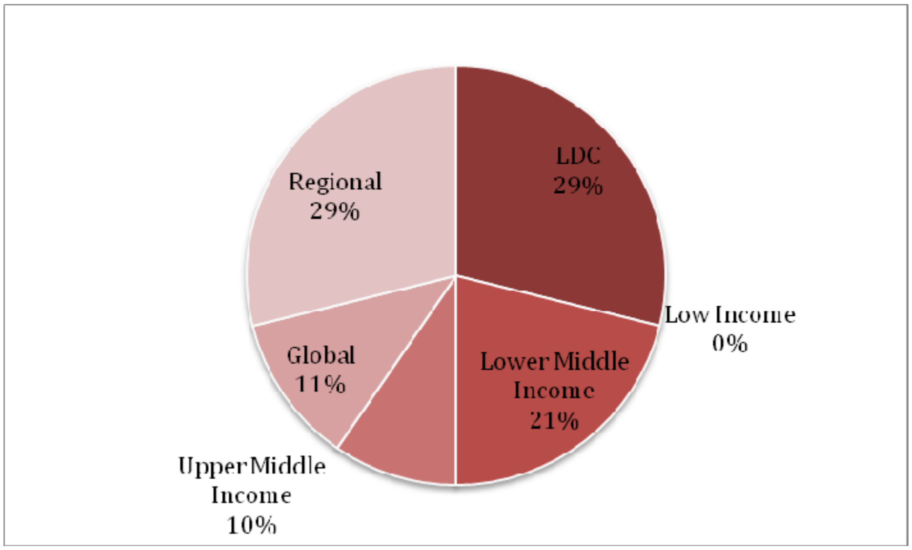
A total of 52 of the 269 stories fell into this category, of which 40% dealt with programmes in Sub-Saharan Africa (Figure 1), nonetheless all regions are represented with 2 case stories at least.

Figure 1 Private Sector by Region of Implementation



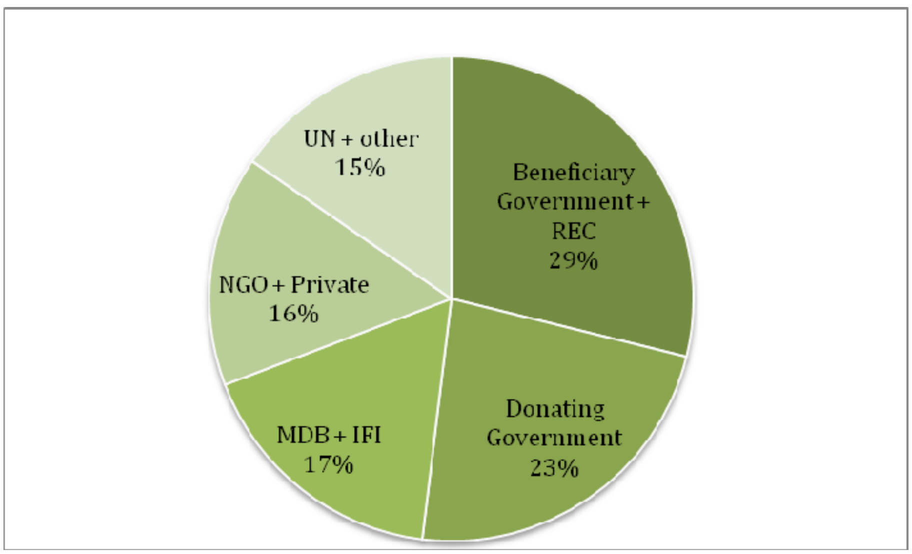
In terms of distribution according to income groups, Figure 2 depicts the case stories under the private sector theme, in which we see that LDCs and Lower Middle Income together make up for more than half of the countries of implementation.

Figure 2 Private Sector by Income Group



Finally, in Figure 3, the distribution of the sub-set of case stories is shown according to the type of authors/submitters:

Figure 3 Private Sector by Author



Trade Finance

This effort to support banks providing credit to traders in developing countries was portrayed in the ADB's Trade Finance Programme case story. The ADB provided finance for some USD 2.8 billion of trade in 2010. It attracted some USD 1.5 billion in co-financing, and worked with over 200 banks in 14 countries of East and South Asia. It also supported some 500 SMEs. Almost half of the trade that was supported through the programme in 2010 was South-South trade [Asia and Pacific, 8]. The EBRD reported on a similar programme based upon counter-guarantees to private finance. By 2008, the programme was active in 18 countries, with 56 participating banks, and 119 confirming banks and a total volume of business of more than USD 900 million. The programme also provided technical assistance to participating banks that helped them improve the accuracy of operations – two thirds reported significant reductions in processing time, and half reported improvements in risk management [Eastern Europe, 39]. The IADB also augmented its trade finance activities with its Trade Finance Reactivation Programme. By the end of 2010, the TFRP had approved over USD 1.2 billion in credit lines, had issued guarantees of over USD 800 million, and had built a network of 72 issuing banks in 19 countries. Nearly three quarters of these banks count SMEs as their main business focus. As with the ADB, a large portion of the financed trade was South-South intra-regional trade (Latin America, 117]. In Central Asia, for example, the Islamic Development Bank, has played a catalytic role, providing trade finance assistance and developing a Road Map for aid for trade within the region [Central Asia, 192]. The World Bank through its private sector arm, the IFC, doubled its Global Trade Finance Programme – a programme of trade finance counter-guarantees - to USD 3 billion and established a Global Trade Liquidity Programme that will provide USD 50 billion in trade liquidity support in public-private partnership.[4]

Access to credit generally, not only trade finance, is crucial for the whole private sector. Econometric results by Hallaert *et al.* (2011) show that limited access to credit is a significant barrier to trade. They report that a 10% increase in credit-to-GDP ratio boosts economic growth through its trade impact by 1.8%. This result is consistent with the finding of many developing countries; and according to the *Enterprise Surveys* (World Bank, 2010), access to credit is reported as a major business constraint.

Export promotion programmes

Efforts to promote exports were common to many case stories. In the Caribbean, for example, the Caribbean Export Development Agency received assistance from the EU to provide support services to expand trade. The two and one-half year project, which ended in 2010, involved EUR 6.8 million. Assistance was provided to companies to address shortfalls in efforts to up-grade product and service quality, increase productivity and reduce transport costs. Grants were made to some 197 companies throughout the region [Caribbean, 207], and Trinidad and Tobago were among successful users of this facility [Caribbean, 188]. Uganda also invested in export promotion for firms, working with the ITC to undertake a firm survey that would lay the basis for assistance and policy revision [Uganda, 77]. Tunisia's export-promotion programme, Famex, has recently been subjected to a series of rigorous impact evaluations [Tunisia, 130], and these show that the programme significantly raised "treated" export performance.[5] At the global level, the ITC has focused considerable energy on export promotion, including the development of a modular learning system for supply chain management for exporters. The programme is

[4] These programmes are not the subject of a case story, but are described in World Bank, (2009). *Unlocking Global Opportunities: the Aid for Trade Programme of the World Bank,* Washington: World Bank.

[5] Using data collected in an *ex post* survey, Gourdon, Marchat, Sharma and Vishwanat (2011) find that the programme significantly raised the treated firms' export performance, in particular in the case of service firms. However, in the case of manufacturing firms, Cadot, Fernandes, Gourdon and Mattoo (2011) find evidence over-diversification of beneficiary firms and lack of persistence of the effects.

now offered in more than 120 licensed partner institutions in 61 countries. More than 25,000 people have taken the 18-module course [Global, 193].

Programmes aimed at SMEs

More than a score of the case stories recounted government efforts to develop and promote exports through a variety of different mechanisms. Some of these programmes entailed training of entrepreneurs, such as the EU-sponsored programme in Azerbaijan to help firms access the benefits of GSP [Azerbaijan, 12], or the “Coaching Exportador” programme in Chile [123]. Malawi provided training in business economics for SMEs [Malawi, 160], and the Belgium government has provided grants and training to increase the professionalism of small-scale producers and their associations in 18 developing countries, with a particular focus on sustainable trade and accessing markets [Global, 218]. Others were linked to efforts to promote the private sector more generally; such was the situation described in the stories of Kenya’s Private Sector Strategy [Kenya, 17] or Ghana’s Private Sector Strategy [Ghana, 65]. Still others involved more ambitious efforts at the sub-regional level, such as the Caribbean Export Development Agency’s efforts to provide an array of trade and investment services to firms, including SMEs, within the region, with financial and technical support from the EU, DFID, GIZ, CIDA, ITC, the IDB, OAS, and World Bank, among others [Caribbean, 20]. The Inter-American Investment Corporation of the IDB has a similar programme, launched in Guatemala but now expanded to all Central America and the Caribbean, to enable SMEs to access export markets by providing help in researching potential markets, gathering data on company operations, and providing technical assistance to select groups of applicants [Central America, 121].

Other stories focused on ways aid for trade could be used to help SMEs develop environmentally sustainable technologies. The Swiss government, in collaboration with UNIDO and UNEP, developed a programme in Colombia to help companies deploy environmentally sustainable technologies along with other SME-support programmes, such as marketing advice, meeting international norms and standards, and improving management [Colombia, 183]. Likewise the Netherlands’ Sustainable Trade Initiative (IDH) provides matching grants designed to help SMEs export to the EU market based on sustainable technologies and fair labour practices [Global, 256]. UNCTAD and UNEP have helped establish organic production programmes in several countries of East Africa [East Africa, 102].

Programmes benefiting women entrepreneurs

Besides trade finance and export development, many stories recount public and private efforts to raise incomes of women through trade. These take different forms. One story that combines efforts to improve women's incomes with the protection of indigenous knowledge through the patent system emerged in Namibia. The Marula tree produces a plum-size, yellow fruit with seeds that are rich in oil that was used for centuries in skin moisturizing and cooking. In 1999, an NGO had the idea of producing Marula oil in higher quality so it could be sold to the pharmaceutical industry. It formed a women’s cooperative, the Eudanfan Women’s Cooperative (EWC), to set up an export activity. By 2008, the EWC had over 5000 women in 22 groups producing Marula oil from wild trees. These products are sold to The

Body Shop, Marula Natural Products of South Africa, and Distell, among others. This laid the basis for a French company, Aldivia, to launch an R&D effort in partnership with PhytoTrade, a fair-trading sponsor of EWC, and Natural Products of South Africa to launch an R&D effort that led to the "Ubuntu" proprietary process to manufacture solvent-free cosmetics. In 2006, Aldivia and South African partners took out a patent on the process, and today, sales of the Marula-based products command a price four times other cosmetics. The EWC has branched out into other export product lines as well. In 2010, they began to market "ondjove" cooking oil and other food oils at the Windhoek Tourism Expo in June 2010. As a consequence, incomes of women producing the Marula were reported to have risen dramatically [Namibia, 134].

Several stories recounted government and donor efforts to use trade to raise female incomes. The Canadian government and the ITC sponsored a "Programme for Building African Capacity to Trade (PACT)" that is active in Ethiopia, Ghana, Mali, Mozambique, Senegal, South Africa and Tanzania. This programme has a sub-programme focused exclusively on women, *Access! African Businesswomen in International Trade.* The programme was designed to provide several trade-related services in an integrated way: training in exports; training in information technology to gain market information; expert advice on market readiness; and market access missions. These efforts resulted in 600 small farmers in Ghana exporting 210 tons of fresh fruit and vegetables a week to Europe. Two South African cosmetic companies now export to Canada. The *Design Africa* brand, developed with the South African Textile Industries export Council, was also successfully introduced into the North America market. The *Access! Programme* involved 22 training modules for African businesswomen with 46 trainers in five languages, and certified more than 770 women in 11 countries [Africa, 46; Africa 119].

Similarly, Enterprise Uganda, set up with Norwegian help in 2001, was designed to provide integrated business support services to SMEs; and in a second phase, focused almost exclusively on women. The project entailed training for some 3,832 women entrepreneurs in business management, many of whom were located in rural sectors and had low levels of literacy. This training was often coupled with health education to deal with HIV/AIDs. As a consequence, sales associated with women in the programme rose more than 50% in two years, employment rose by 500 people, and investment increase – as did payment of taxes. In general, women in cities improved their outcomes more than those in the countryside. Even so, the activities of Enterprise Uganda are unlikely to be sustained without continued public sector support [Uganda, 116].

Involving women in the policy process can improve regulations for everyone. In Cambodia, the Ministry of Women's Affairs and the World Bank's IFC organised a forum to bring women's organisations into the policy making process, and where concerns about taxation, corruption, lack of transparency in laws and regulations could be addressed. The IFC's project manager put to use some of the ideas in the World Bank's *Gender Dimension of Investment Climate Reform*, a guide to helping design programmes that more adequately account for gender-based concerns. These ideas, according to the IFC project leader, led to increasing women's participation, and to more effective lobbying for women's interests. One outcome has been to make it easier to obtain certificates of origin, which are needed for exporting – including a lowering of the cost of the certificate from more than USD 100 to about USD 1.25. The Executive Director of the Cambodian Craft Cooperative, with some 2,000 members, has found the forum helpful in expanding exports [Cambodia, 125].

Policy research that links trade and gender can also play a positive role. UNCTAD teamed up with DFID to undertake studies of the gender impacts of trade with a view to shaping policy in India. The analysis reported in the case story found, among other things, that “export intensity has a positive and significant impact on women employment. But imports have not led to any displacement of women employment” [India, 56]. The authors propose gender-sensitive trade policies that would favour sectors with female employment, enhanced opportunities for women’s education, and further studies of the gender impact of trade in India.

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