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## African Trade Policy Centre

# Economic and Statistical Analyses of Trade Capacity Building in Sub-Saharan Africa

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## Abstract

At the fourth WTO Ministerial Conference held in Doha in 2001, trade Ministers made a decision to provide more trade-related technical assistance and capacity building programmes to developing countries. This paper focuses on the Doha decision as it relates to countries in the Sub-Saharan African region. It identifies the capacity problems faced by Sub-Saharan African countries in the multilateral trading system and suggests a simple statistical approach to test the impact of trade capacity building programmes in the region. The statistical test exploits the idea that for donor-financed capacity building programmes to have a sustainable impact in recipient countries, there must be an enabling environment as well as complementary domestic investments. The test is applied to the Sub-Saharan African region using a new database on trade capacity building created by the OECD and the WTO. The results indicate that the main beneficiaries of trade capacity building programmes in the region tend to have more effective government, better regulatory framework, and more exports. However, they also tend to have a less diversified export structure, more political instability, and a higher number of people living with HIV/AIDS. Consequently, the results suggest that political instability and the HIV/AIDS epidemic pose serious risks to the sustainability of trade capacity development in the region.

JEL classification: F10 ; F13 ; I20

Keywords: Trade; Capacity-Building; Africa; Pragmatic Approach



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## Economic and Statistical Analyses of Trade Capacity Building in Sub-Saharan Africa\*

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## I. Background

Trade negotiations and agreements have become regular features of the world economy and are slowly encompassing aspects of economic and social activities that were previously not considered part of the responsibilities of the multilateral trading system. In the early years of the GATT, market access was considered the prime objective of the multilateral trading system. Today, the scope has been broadened to include issues such as intellectual property rights, development concerns, sanitary and phytosanitary regulations as well as other technical barriers to trade. Clearly, the fact that the negotiations have increased in scope has serious implications for the ability of developing countries to adapt to the trading system. It has also increased the challenges developing countries face in a bid to cope with the enormous resource demands of the negotiations. This issue has emerged as an important concern in the trading system given the unprecedented increase in the number of poor countries involved in the negotiations. Currently, more than two-thirds of WTO members are developing countries (WTO 2004). This contrasts with the situation in 1947 when there was hardly any developing nation involved in the negotiations under GATT.

During the Uruguay Round (1986-1994), African countries made several commitments to the multilateral trading system without fully realizing the implications and consequences for their development efforts. These commitments imposed high implementation costs on their economies and diverted resources away from important development projects, with dire consequences for poverty reduction (see Stiglitz and Charlton 2004).<sup>1</sup> It is therefore not surprising that these countries have increased their calls for trade-related technical assistance and capacity building to enable them understand the consequences of trade proposals and agreements for their economies before making any binding commitments.

The international community has recognized the fact that poor countries need assistance in trade capacity building if they are to participate effectively in multilateral trade negotiations and derive significant gains from the trading system.<sup>2</sup> As part of efforts to capture this reality, the current round of multilateral trade negotiations was declared a Development Round. Under the Doha Development Agenda (DDA), several promises were made to developing countries. The key promises include:

- Ensuring that significant progress is made on improving market access for developing countries' exports of agricultural and non-agricultural goods as well as the reduction of agricultural subsidies

1 At the end of the Uruguay Round, African countries expressed concerns about the unbalanced outcome of the Round as well as the unfair process of decision making in the multilateral trade negotiation system. In particular, they were concerned that decisions on key issues of interest to them in the negotiations were made in "Green Room" meetings to which they were not invited.

2 The recent increase in donor support for trade-related capacity building programmes in developing countries is due in part to the collapse of the 1999 WTO Ministerial Conference in Seattle. There were concerns by developed countries that if they did not address the grievances and discontent of developing countries with the multilateral trading system, they may feel alienated and disinterested in the global trading system. The enormous attention devoted to capacity building in the DDA was aimed at addressing these concerns.

and domestic support in member countries of the Organization for Economic Cooperation and Development (OECD);

- Finding appropriate solutions to implementation concerns and addressing outstanding issues as a matter of priority;
- Making special and differential treatment provisions (S&D) more effective and operational;
- Accelerating the accession of least developed countries; and
- Providing more technical assistance and capacity building programmes for developing countries.

This paper focuses on the Doha promise regarding the provision of technical assistance and capacity building programmes for poor countries.<sup>3</sup> It is one in a series of recent studies on trade capacity building in developing countries (see for example Solignac-Lecomte 2003; Prowse 2002; Luke 2002; Tandon 2002; Powell 2002; OECD 2001; Land and Ndorukwigira 2001; and Whalley 1999). The present paper differs from existing studies in three significant respects. First, it is the only attempt that has been made to provide an econometric test of the likely long run impact of donor-funded trade capacity building efforts in Sub-Saharan Africa. Second, it identifies the challenges facing Sub-Saharan African countries, donors, and executing agencies in the quest for capacity development and offers solutions to the region's trade capacity problems that recognize the risks posed by political instability, brain drain, and the HIV/AIDS epidemic. Third, it presents policy coherence issues that should be addressed by Sub-Saharan African countries to enhance efforts aimed at mainstreaming trade into national development strategies.

The paper is organized as follows. Section 2 identifies the key trade-related capacity constraints facing Sub-Saharan African countries with a view to providing an understanding of the nature and scope of these constraints. Section 3 presents recent developments in trade capacity building and examines two key trade capacity building initiatives as well as their shortcomings. Section 4 provides an econometric assessment of the long-run impact of trade capacity building programmes in Sub-Saharan Africa, using both parametric and nonparametric correlation tests. Section 5 offers suggestions on how to build trade capacity in the region. It also discusses the challenges facing recipient countries, donors, and executing agencies in trade capacity building. Section 6 focuses on the link between trade capacity building and national development strategies and identifies pertinent issues that should be addressed by Sub-Saharan African countries if they are to be successful in mainstreaming trade into national development strategies. The final section of the paper contains concluding remarks.

<sup>3</sup> The decisions on technical assistance and capacity building made at the fourth WTO Ministerial Conference held in 2001 are contained in paragraphs 38 to 41 of the Doha Declaration (WTO 2002). In it, trade Ministers emphasized their commitment to assist developing countries to integrate fully into the multilateral trading system. They also reaffirmed the importance of trade capacity building as a core element of the development dimension of the multilateral trading system.

## II. Identifying Capacity Constraints in Africa

Since the Doha Declaration there has been an enormous increase in discussions as well as writings on trade capacity building for poor countries. Until recently, however, the literature provided very little practical guidance on how to develop trade capacity, reflecting largely the fact that there was no clear understanding amongst donors and recipients of the objectives as well as the scope of trade capacity building. It is also a reflection of the fact that there has generally been no systematic attempt to distinguish between the various types and causes of capacity problems facing different regions and how to solve them. For a long-lasting solution to the problem, this is quite important because the nature, causes, and solutions to trade-related capacity constraints are not necessarily the same across countries and regions.<sup>4</sup> Addressing the capacity building constraints of African countries requires a clear understanding of their nature, scope and causes. In our view, these constraints fall into six categories:

- Lack of the capacity to negotiate effectively on trade issues of interest to the region. Several of the issues discussed in the negotiations are not familiar to African trade officials thereby making it very difficult for them to be effective participants in the process. Added to this general lack of awareness, or understanding of trade negotiation, is the lack of timely access to information and resources on trade issues. This is compounded by the fact that libraries, research institutes, and government departments in these countries are not properly financed and equipped to provide resources on trade issues. Another factor that makes it difficult for African countries to be active in the negotiations is the general lack of analytical and research skills necessary to assess the impact of different proposals and agreements on their economies. For negotiating proposals to be effective and maximize the interest of any given country, they must be based on research findings taking into account the structural specificities and interests of the country concerned vis-à-vis its development goals.
- Lack of the capacity to influence and set the agenda or pace of negotiations. African countries are small both in economic size and political power. They account for less than 2 percent of global trade and output. Consequently, they are typically not in a position to determine which issues should or should not be on the negotiation agenda. This is clearly a very important constraint because trade negotiation is a bargaining game and so countries with political and economic clout are able to determine which issues will be part of the agenda. The fact that developed countries were able to put the Singapore Issues into the negotiating agenda of the original Doha Work Programme despite serious complaints by developing countries, who comprise more than two-thirds of the membership

<sup>4</sup> For example, relative to other regions of the world, the HIV/AIDS epidemic is a serious constraint to human capital formation in several African countries and so must be given more weight in any framework designed to provide long-term solutions to Africa's trade capacity building problems. To appreciate the magnitude of the problem, note that although Sub-Saharan Africa accounts for 10 percent of the world's population, it is home to about 70 percent (25 million) of the people with HIV (UNAIDS, 2004).

of the WTO, underscores the importance of economic and political power in trade negotiations.<sup>5</sup>

- Lack of the capacity to fulfil commitments to the multilateral trading system, and to exercise the rights of WTO membership, without jeopardizing important development goals. The implementation of multilateral and regional trade agreements often requires substantial investments in infrastructure and human resources.<sup>6</sup> It also requires institutional changes and the establishment of systems of checks and balances. With very limited domestic resources, African countries need external assistance to be able to implement these agreements without creating other development problems. In the absence of external resources, the funds will have to be diverted from other pressing domestic projects thereby putting the key development priorities of African governments at risk. Another related issue is the inability of African countries to fully exercise their rights of membership of the WTO because of limited resources and, more often than not, lack of understanding as well as information on the rights and privileges they have as members of the multilateral trading system.
- Lack of the capacity to formulate effective trade policies. The use of international trade as an effective instrument for development in any economy requires the adoption of an efficient trade policy process. This requires the identification of a country's trade interests and making sure that they are consistent with its key development priorities. The trade policy process in several African countries does not allow the formulation of effective trade policies. Key trade policy decisions are made without proper analysis of the implications for the economy. The paucity or absence of trade officials with relevant analytical skills coupled with the fact that senior government officials do not take economic research seriously have created a culture where trade decisions are made without serious economic analysis.
- Lack of the capacity to deal with external shocks. Trade liberalization exposes countries to trade shocks thereby increasing their vulnerability to the external environment. This vulnerability stems largely from the fact that several African countries do not have a diversified production and export structure. Consequently, they rely on the export of a few commodities for foreign exchange. The problem is exacerbated by market imperfections that make it impossible for agents to insure against risk.
- Lack of the capacity to exploit trading opportunities. Taking advantage of the opportunities created

5 The Singapore Issues are: trade facilitation; investment; competition policy; and transparency in government procurement. In the Doha Round negotiations, these issues generated heated controversies between developed and developing countries and contributed to the collapse of the WTO Ministerial Conference in Cancun. In an attempt to revive the stalled talks and save the Doha Round, WTO members agreed on July 31, 2004, to take investment, competition policy, and transparency in government procurement, out of the DDA.

6 For example, an agreement on trade facilitation would require African countries to engage in customs reform, which would necessitate computerization of customs procedures, staff training, and changes in customs laws. Finger and Schuler (2002) show that between 1996 and 2000, the World Bank had a customs reform project in Tanzania and the estimated cost was 10 million U.S. dollars. Clearly, this is a lot of money for a very poor country.

by the international trading system requires capacity-enhancing investments in infrastructure, education, and health. It also requires changes in trade policies to ensure that they provide an incentive for the private sector to respond to market signals. In several African countries, poor domestic economic and social policies, especially those affecting transaction costs, have reduced the degree of competitiveness of African exports. Supply constraints in several countries have also made it difficult for the region to increase its share of global trade and reap the benefits from increased trading opportunities. There is therefore the need for technical assistance to help these countries lift supply constraints and position themselves to be able to take advantage of new trading opportunities.

It should be noted that the classification of Africa's capacity building constraints into six categories does not imply that they are independent of each other.<sup>7</sup> In fact, some are causes or consequences of other constraints. For example, the lack of ability to formulate effective trade policies could affect a country's ability to diversify exports and hence deal with external shocks. Furthermore, the lack of capacity to negotiate can affect the ability to influence the agenda and pace of the negotiations. Figure 1 illustrates some of the possible relationships between the various constraints.

### III. Recent Initiatives and Developments in Trade Capacity Building

In this section, we analyse recent developments in trade capacity building as well as identify countries and types of activities that receive the bulk of trade-related capacity building assistance in Africa. We also provide an overview of the objectives, scope, and features of two key trade-related capacity building programmes: the Joint Integrated Technical Assistance Programme and the Integrated Framework.

Although several donors have bilateral initiatives, the bulk of trade-related capacity building is carried out through multilateral agencies and programmes. In the literature, a distinction is often made between technical assistance and trade capacity building. We do not follow this approach here. Rather we use the phrase "trade capacity building" to capture both technical assistance and capacity building programmes on trade.

Recently, the WTO and the OECD developed a database on trade-related technical assistance and capacity building. In the database, activities on trade capacity building are classified under two main categories: Trade Policy and Regulations (TPR) and Trade Development (TD).<sup>8</sup> Available data show that on an annual average basis, expenditure on trade capacity building in 2001 and 2002 was US\$ 2.1

<sup>7</sup> These interdependencies suggest that finding a solution to the constraints is not an easy task. It is clear, however, that some would require short-term actions while others would be better addressed through longer-term measures.

billion. Of this amount, 1.4 billion was for TD while 719 million went to TPR activities. Geographically, Africa is the largest recipient with 678 million (32 percent) followed by Asia (see Figure 2). Between 2001 and 2002, expenditure on trade capacity building in Africa increased by 10.7 percent compared to a slight decrease in the value for the world due largely to the periodicity of the programming cycle of the European Commission and the World Bank (the two largest multilateral providers of trade capacity building).

Figure 3 shows the main beneficiaries of trade capacity building in Africa. About 35 percent of expenditure on trade capacity building in Africa goes to North Africa, with Egypt as the main beneficiary. Sub-Saharan Africa accounts for 65 percent of expenditure on trade capacity building on the continent. The main beneficiaries in Sub-Saharan Africa are South Africa, Ethiopia, and Rwanda.

Within Africa, TD accounts for 74 percent of the total expenditure on trade capacity building while TPR accounts for 26 percent. This is close to the world shares for TPR of 34 percent and 66 percent for TD. The distribution of expenditures on trade development in Africa is presented in Figure 4. Clearly, a large part of the expenditure goes to business support services and institutions (41 percent) and trade finance (31 percent). Turning to expenditures on TPR, Figure 5 shows that 42 percent goes to trade facilitation programmes. Other activities that receive a substantial amount are: regional trade agreements (14 percent) and trade mainstreaming in Poverty Reduction Strategy Papers (PRSPs), which accounts for 13 percent.

## **Joint Integrated Technical Assistance Programme**

The Joint Integrated Technical Assistance Programme (JITAP) is a response to calls by African countries to strengthen their capacity to negotiate and reap the benefits of the multilateral trading system. Consequently, the programme was designed primarily to provide trade-related technical assistance and capacity building to these countries. It was launched in 1996 at the 9<sup>th</sup> Session of the United Nations Conference on Trade and Development (UNCTAD) held in Midrand, South Africa. The programme became operational in 1998. Funding for the programme comes from several donors, but its implementation rests with three international organizations: the International Trade Centre (ITC), the World Trade Organisation (WTO), and UNCTAD.

JITAP has three key objectives: (i) to build national capacity to understand the multilateral trading system; (ii) to adapt the domestic trading system of recipient countries to the obligations and disciplines of the

<sup>8</sup> Trade Policy and Regulations covers support to aid recipients' effective participation in multilateral negotiations, analysis and implementation of multilateral trade agreements, trade-related legislation and regulatory reforms, trade facilitation, support to regional trade agreements, and human resource development in trade. Trade Development covers business development and activities aimed at improving the business climate, access to trade finance, and trade promotion and market development in the productive and service sectors, including at institutional and enterprise level (OECD 2004).

multilateral trading system; and (iii) to increase the ability of recipient countries to take advantage of new trade opportunities by enhancing the readiness of exporters. The first phase of the programme (JITAP I) covered the period 1998-2002 and had eight beneficiaries: Benin, Burkina Faso, Cote d'Ivoire, Ghana, Kenya, Tunisia, Uganda, and the United Republic of Tanzania. While it was widely acknowledged that the programme has contributed to greater awareness of trade negotiations by the participating countries, there were concerns that eligibility was limited to a few countries and that the programme did not make any significant contribution to enhancing export competitiveness and lifting supply constraints (Luke 2002; UNDP 2003).

A mid-term evaluation of the programme was undertaken in August-September 2000 and led to the launching of a second phase of the programme (JITAP II) in February 2003. The second phase covers the period 2003-2006 and includes eight new African countries as beneficiaries. These are: Botswana, Cameroon, Malawi, Mali, Mauritania, Mozambique, Senegal, and Zambia. The objective of JITAP II is to build and strengthen national capacity in three areas: (i) trade negotiations, implementation of WTO agreements, and related trade policy formulation; (ii) national knowledge base on the multilateral trading system; and (iii) supply capacity and market knowledge of exporting and export-ready enterprises to derive benefit from business opportunities presented by trade liberalization under the multilateral trading system.

## **Integrated Framework**

The Integrated Framework (IF) is a technical assistance and capacity building programme designed to respond to the trade-related problems of Least Developed Countries (LDCs). It was inaugurated in October 1997 and is jointly managed by the World Bank, the IMF, UNCTAD, the WTO, the ITC, and the UNDP. It has two main objectives: (i) to mainstream trade into national development plans of LDCs; and (ii) to assist in the coordinated delivery of trade-related technical assistance in response to the needs identified by the LDCs.

The IF process involves:

- Creating awareness domestically on the importance of trade for development;
- Carrying out a Diagnostic Trade Integration Study (DTIS) to identify constraints to trade and technical assistance needs of countries as well as a programme of action for integrating the country into the global trading system;
- Integrating the programme of action into national development plans through the PRSPs; and
- Implementation of the programme of action in partnership with the development partners.

Although the IF has succeeded in sensitising donors, agencies, and recipient countries about the need to integrate trade into development strategies and programmes, several problems have been identified with

the programme. The first is that it had a slow start. It was launched in 1997 but did not really get off the ground until 2000. Consequently, very little was achieved in the first three years of the programme. Second, it did not pay attention to issues related to intra-regional trade and regional integration in general even though there are several African initiatives in these areas aimed at boosting trade in the region. Third, the programme failed to achieve its key objective of putting trade issues at the centre of national, donor, and agency priorities. The key reason why the first phase of the IF failed is that there were unrealistic expectations by donors, recipients, and the executing agencies. Recipient countries were asked to take on the complex task of identifying their trade capacity building needs and so were expecting additional resources but it was difficult to obtain the required funds from donors. Furthermore, executing agencies with diverse mandates and governance structures were expected to coordinate the delivery of technical assistance with no specific plan on how to achieve this objective.

Following a review of the IF process in 2000, a decision was made to revamp the programme to enhance its effectiveness. The revamped IF takes more seriously the issue of integrating trade and trade-related activities into the development plans of LDCs using the PRSPs as the main instrument. The second phase of the IF was initially implemented on a pilot basis in Cambodia, Madagascar, and Mauritania. In 2003, it was extended to eleven new countries, namely: Burundi, Djibouti, Eritrea, Ethiopia, Guinea, Lesotho, Malawi, Mali, Nepal, Senegal, and Yemen.

Despite the changes that have been made to the programme in the second phase and the fact that it is too early to observe its developmental impact in recipient countries, it is becoming clear that the programme faces serious challenges in realizing its objective of mainstreaming trade into national development strategies.

#### IV. Econometric Assessment of Trade Capacity Building Programmes

It is difficult to conduct a rigorous assessment of the impact of trade related capacity building programmes in recipient countries for a variety of reasons. The first is that the outcomes of some of the projects are intangible in the short run. For example, the impact of an investment in institutional capacity in a country is likely to be realized in the medium-to-long term and so it is difficult to conduct an assessment in the short run. The second is that donor support on trade capacity building is not the only factor that affects capacity development in poor countries. Domestic government policies are also important. But it is often impossible to determine the proportion of a change in capacity development that is due to donor financed capacity building relative to changes in domestic policy. The third is that until recently it was very difficult to find aggregate data on trade capacity building by country and donor. The OECD and the WTO have addressed this issue by providing a database on trade capacity building. However, the data

are available for 2001 and 2002 only and so do not allow for statistical tests of trade capacity building in Africa using time series analysis. Consequently, the statistical tests carried out in this paper are based on a cross-section approach.

The question we attempt to answer here is “how likely is it that the increase in donor support on trade-related capacity building would result in long-term capacity development in African countries?” The methodology we adopt to answer this question relies on the idea that complementary domestic policies and investments are needed for trade capacity building to have a sustainable impact on capacity development. In other words, an enabling domestic environment is needed for capacity development to flourish. Whether or not a country has an enabling environment is determined by the degree of political stability, the extent of governance, and the nature of domestic economic and social policies on education and epidemics such as HIV/AIDS.

Given that an enabling environment is necessary for sustainable trade capacity development, we construct a statistical test of the likely long-run impact of trade capacity development by looking at correlations of expenditure on trade capacity building with key economic and social variables for which we have data. Although correlations do not imply causality, one can certainly draw useful inferences on the likely impact of trade capacity building in the long run by looking at co-movements of trade capacity building with economic and social variables capturing whether or not there is an enabling policy environment. For example, if there is a strong positive correlation between expenditure on trade capacity building and the HIV infection rate in a given country, this clearly indicates that there is a low probability that the capacity building effort will lead to sustainable capacity development. Similarly, a positive correlation between expenditure on trade capacity building and the degree of political instability also suggests that there is a high likelihood that the capacity building effort will not lead to sustainable capacity development. Political instability affects the sustainability of capacity development because it could lead to brain drain and hence loss of human capital in an economy.

The economic and social variables used in the analysis are: expenditure on trade capacity building; the degree of government effectiveness; the quality of government regulation; the degree of political instability; the number of people with HIV/AIDS; school enrolment ratios; the volume of exports; and the degree of export diversification. It should be noted that the data on trade capacity building used in the analysis is the sum of expenditures on Trade Policy and Regulations and Trade Development. As indicated earlier, the tests are based on cross-country data because the data on trade capacity building are available for only two years (2001 and 2002). Depending on data availability, we used averages of each variable over the 2001 and 2002 period. In general, 46 Sub-Saharan African countries were included in the sample. However, for some of the variables data limitations resulted in a smaller sample size. The sources and definition of the variables can be found in the Data Appendix.

There are various methods for measuring the degree of association between variables. The most common of these is the correlation coefficient (also known as Pearson correlation). Despite its popularity, the Pearson correlation is very sensitive to outliers and assumes that the statistical distribution of variables is normal. However, for small samples the assumption of a normal distribution may be inappropriate. Because of these deficiencies, we also use nonparametric correlation measures that are distribution-free and not sensitive to outliers. These measures are the Spearman and the Kendall rank correlation tests (Leach 1979; Kruskal 1958).

Table 1 presents results of the statistical analysis. For the purpose of comparison we report results based on the three correlation tests, although our analysis will focus on the Spearman and Kendall tests because, as indicated earlier, they are more reliable than the Pearson test. One observation that is evident from the results is that the sign or direction of the relationships is the same across all the correlation measures. The Spearman and Kendall correlation tests yield similar results for all the variables considered. More specifically, they show that across countries, there is a positive and statistically significant relationship between expenditure on trade capacity building and domestic regulatory quality. The Spearman and Kendall correlation coefficients are 0.29 and 0.19 and are statistically significant at conventional levels. In other words, countries that are main beneficiaries of trade capacity building tend to have better regulatory policies in the sense that the burden imposed by domestic regulation in areas such as foreign trade and business development is relatively small.

For the government effectiveness variable, the Spearman and Kendall correlation coefficients are 0.27 and 0.19 respectively and are also statistically significant at conventional levels. This means that the main beneficiaries of trade capacity building tend to have more effective governments. In other words, governments of key recipient countries are able to implement good policies and deliver public goods. The results however indicate that the main beneficiaries of trade capacity building tend to have more political instability. The correlation coefficients are statistically significant and are 0.43 and 0.31 for the Spearman and Kendall tests respectively. Turning to the HIV/AIDS variable, the tests indicate that it has a positive relationship with trade capacity building. In other words, countries that are main beneficiaries of trade capacity building tend to have more people living with HIV/AIDS. The last two results are worrisome because they suggest that political instability and the HIV/AIDS epidemic pose serious risks to the sustainability of trade capacity building programmes in recipient countries. In contrast, the correlation between education (school enrolment ratios) and trade capacity building is almost zero and statistically insignificant. We experimented with other measures of education such as total public expenditure on education and expenditure on primary and secondary education. However, there was no significant difference in the results.

With respect to exports, the results suggest that there is a positive relationship between trade capacity building and export volumes across countries. This means that the main beneficiaries of trade capacity

building tend to export more and so are more likely to achieve their export promotion objectives. That said, the results also suggest that there is a negative relationship between trade capacity building and export diversification. In other words, the main beneficiaries of trade capacity building tend to have a less diversified export structure. This is interesting because it suggests that if current trends continue, the diversification objectives of trade capacity building will be difficult to achieve in recipient countries.

In summary, the results provide mixed evidence on the sustainability of trade capacity building in Sub-Saharan Africa. On the one hand, the tests based on the effectiveness of government, the quality of regulation, and volume of exports suggest that trade capacity building is likely to have a sustainable impact in recipient countries. On the other hand, the tests based on political instability, export diversification, and the number of people living with HIV/AIDS, suggest that there are serious risks to the sustainability of trade capacity building in the region.

## V. A Pragmatic Approach to Trade Capacity Building

There is no doubt that some progress, albeit modest, has been made in trade capacity building in developing countries, and Africa in particular. Relative to the situation during the Uruguay Round, the region is more active in negotiations and several countries are beginning to make informed proposals on some of the issues under negotiation in the Doha Round. That notwithstanding, there is growing recognition that more needs to be done by both the international community and Sub-Saharan African countries to enhance the effectiveness of existing capacity building programmes.

In this section we argue that existing technical assistance and capacity building programmes would be more effective if they pay more attention to the underlying reasons for capacity constraints in Sub-Saharan African countries. The core reasons for capacity constraints in Africa include:

- Poor educational systems. Several countries in the region do not have the required capacity to participate effectively in trade negotiations because the educational systems have not been able to produce the quantity and, sometimes, calibre of economists needed to deal with trade issues in an era of globalisation. Furthermore, in several countries, there is a mismatch between the domestic needs and the training provided by universities. The curriculum does not adequately reflect the needs of the country on trade issues. For years there was more focus on professional areas such as law, medicine, engineering etc. The consequence is that in several countries the supply of experts in these areas is more than the demand. Furthermore, although several universities have economics departments, until recently trade negotiation hardly featured in the curriculum of these departments. In countries where “curriculum mismatch” is not a problem, there is severe pressure on the educational system because the demand for skills on trade issues is growing faster than the supply from universities.

Consequently, providing a long-term solution to the problem requires looking at the educational systems in these countries, particularly the tertiary sector.

- Lack of access to information on international trade policy and market developments due largely to poor as well as inadequate infrastructure and facilities. Access to information on trade issues is essential for effective policy-making as well as to exploit new opportunities arising from the multilateral trading system. Recent advances in information and communication technologies (ICTs) have made it relatively easier to access and exchange information between people. However, exploiting the potential of ICTs requires access to computers and telecommunications equipment, which are costly and hence not readily available to Africans. Table 2 shows that in 1998 the number of telephone mainlines per 1000 people was 14 in Sub-Saharan Africa compared to 123 in Latin America and Caribbean, 81 in the Middle East and North Africa, and 70 in East Asia and the Pacific. Compounding these problems is the fact that libraries on the continent are often not well financed and as a consequence do not have relevant information that individuals could consult to increase their level of awareness and understanding of trade policies and negotiations.
- Brain drain is a serious problem in several countries in the region. The problem is often caused and exacerbated by dysfunctional social and economic environments that force African intellectuals to migrate to developed countries in search of better living conditions. Available data indicate that one-third of professionals born in Africa live abroad. In addition, there is evidence that more than 35 percent of college graduates in 40 percent of countries in Africa reside abroad (IOM 1999). Political instability has also contributed to the mass exodus of educated Africans to developed countries. Gyimah-Brempong (2003) shows that political instability has a direct negative effect on economic growth in Sub-Saharan Africa. In addition, the paper provides evidence that political instability also affects economic growth indirectly through a reduction in human and physical capital formation.
- HIV/AIDS is the most serious downside risk to long-term capacity building in African countries. It can hinder development of capacity in trade by threatening the formation of human capital and reducing the growth rate of the labour force. A recent publication by the Food and Agricultural Organization (FAO) shows that in the ten most affected African countries the projected decrease in the labour force in 2020 is 10 to 26 percent (see Table 3). There is no doubt that labour losses of this magnitude have serious implications for economic growth and development. United Nations (2003) also shows that in some affected countries, the impact on economic performance could range from 2-4 percentage points decline in the rate of growth of GDP.
- Inappropriate use of expatriate technical assistance in some donor-funded programmes, which has created a dependency syndrome and made it more difficult for African countries to develop internal capacity hence creating the need for more technical assistance. One of the reasons for this outcome

is that donor-funded projects often come with restrictions on what recipient countries can or cannot do (Solignac-Lecomte 2003). For example, they often require recipient countries to use consultants from donor countries even though the cost of recruiting foreign consultants is significantly higher than the cost of recruiting an equally qualified local expert. For an analysis of the Ghanaian experience see Aryeetey, Osei, and Quartey (2003).

Given the reasons for low capacity in African countries, we believe that five steps are necessary to find a durable or long-term solution to the region's trade capacity problems. The first is that African governments must create an enabling environment that would provide the incentives for individuals in both the public and private sectors to pay more attention to the development of human capacity. The emphasis here is for the government to create an environment that encourages individuals to take the initiative to develop their own capacities rather than relying solely on the government.<sup>9</sup> This would require, for example, providing scholarships to individuals who are interested in obtaining degrees on trade policy. It would also require investments in health and education, good governance, and policies that engender political and macroeconomic stability.

The second is institutional development. This requires strengthening educational and research institutions through: more and stable financial support; creating better working conditions for teachers and staff of universities; providing more and better library facilities; and restructuring of the educational curriculum to ensure that it reflects the needs of the country on trade issues. Furthermore, to ensure the sustainability of the programmes, more emphasis should be placed on institutional capacity building and efforts should be made to ensure that it complements individual capacity development. Exclusive focus on individual capacity building is risky because some are likely to leave the public sector after they have been trained and so cannot assume roles that the government would like them to play in trade negotiations. Furthermore, even in cases where individuals do not leave the public sector, there is the likelihood that they may be transferred to departments where their training in trade may be of limited use to the government.

The third, and most important, is to change the attitude of decision makers and society towards policy analysis. They need to be convinced of the need and value of scientific research as an input in decision-making. This is necessary to develop a culture that respects knowledge and also reduce the focus of the public sector on administrative processes and procedures rather than policy analysis. It would also solve the problem of under-utilisation of professionals in the public sector and encourage government departments to broaden and conserve internal capacity by offering training opportunities to their officials so that they do not lose valued skills on the job.

<sup>9</sup> The presumption in several African countries is that the responsibility for capacity building rests with the government. While this may be true, it is becoming obvious that the government does not have the resources or the ability to do this alone. The private sector and individuals in particular must be more active in the process.

The fourth is private sector development. This is necessary to enable countries take advantage of trading opportunities arising from bilateral and multilateral trade liberalization. It requires creating political and macroeconomic policy environments conducive to economic activities, developing a relationship of trust between the public and private sectors, providing better infrastructure to enhance competitiveness, and diversification of exports to reduce vulnerability to external shocks.

Finally, there is the need to address the risk factors to long-term capacity building in Africa posed by political instability and the HIV/AIDS epidemic. Given the devastating effects of these phenomena on African economies, they can no longer be regarded simply as economic problems but should more appropriately be viewed as severe development crises. When viewed in this light it is clear that no capacity building programme can achieve the objective of creating a sustainable trade capacity in the region without dealing effectively with these phenomena.

The important lesson that flows from this analysis is the need for a comprehensive approach to trade capacity building in Africa. Obviously, this is not an easy task and will impose enormous challenges on African governments, donors, and executing agencies.

## **Challenges for African Governments**

The first challenge for African countries is the degree of attention and priority to accord to trade and trade capacity building compared to other development concerns. This is particularly important given limited resources and the fact that more resources on trade capacity building would imply less on other development priorities. A second challenge is how to reduce the risk of policy reversals, arising for example from frequent changes of government, and ensure the sustainability of trade capacity building programmes. As indicated earlier, complementary domestic policies are needed for trade capacity building programmes to have sustainable impact in recipient countries. Stability and continuity of domestic policies is therefore important. A third challenge facing African countries is how to ensure that all stakeholders participate actively in the process. Sustainable capacity development cannot be achieved without the active involvement of the private sector, civil society, individuals, and non-governmental organisations. There is therefore the need to develop a mechanism to foster stakeholder dialogue on trade capacity building. Finally, there is the challenge of how to enhance coordination and timely exchange of information among the various ministries and departments to ensure that there is policy coherence. In several countries, policy changes are made in one ministry without consultation with other relevant ministries to ascertain how the proposed changes might affect their programmes and objectives.

## Challenges for Donors

Donors also face serious challenges in building trade capacity in African countries. The first of these challenges is how to increase coordination of programmes. Multiplicity of programmes increases costs and reduces the effectiveness of the assistance rendered. The second challenge for donors is how to reduce the risk of biased aid. This bias is sometimes reflected in the insistence of donors that recipients use consultants from their countries on projects financed by them. It is also sometimes reflected in the choice of trade capacity building programmes that donors choose to finance. In the past some donors have financed programmes simply because they create more market access for their exporters in the recipient countries (Deere 2004). Another challenge for donors is how to ensure that there is local ownership of the programmes. Emphasis is placed on this issue in most donor programmes. However, in practice, the process adopted in the implementation of these programmes makes it difficult for recipient countries to take full ownership of the programmes and outcome. Finally, donors face the challenge of how to generate sufficient funds domestically in support of trade capacity building programmes in recipient countries.

## Challenges for Executing Agencies

The main challenge facing executing agencies is how to coordinate their trade capacity building efforts with those of other agencies with diverse mandates and governance structures. Better collaboration among agencies would facilitate agreements on objectives, sequencing of activities, and division of labour. Improved coordination would also save resources and enhance the effectiveness of assistance provided. Another challenge facing executing agencies is how to resist the temptation to focus on outputs rather than outcomes. There is also the issue of how to ensure the sustainability of project outcomes and create an incentive for recipient countries to develop the ability to help themselves rather than relying on external assistance.

## VI. Trade Capacity Building and Development Strategies

There is now widespread recognition and acknowledgement that long-term trade capacity building cannot be done in isolation. It must be integrated into a country's overall development strategy (OECD 2001). This requires mainstreaming of trade into national development plans to ensure policy coherence. Trade mainstreaming encompasses a host of issues and measures necessary to realize the potential of trade

for growth and poverty reduction. These include: ensuring that trade reforms have a pro-poor agenda; bringing together ministries of trade, finance, planning and other relevant departments to work together in the design and implementation of a country's trade agenda; ensuring that trade, macroeconomic and regulatory policies complement each other; dealing with market access impediments; and strengthening the capacity to trade and exploit trading opportunities.

Despite the widespread recognition of the need for mainstreaming, it is clear that African countries have so far not been successful in effectively integrating trade policies and programmes into their national development plans. Two reasons are responsible for this. The first is that mainstreaming is not a costless activity. It requires resources and African countries have so far not been able to garner the resources necessary to make a significant impact in this area. Donors encourage African countries to embark on programmes aimed at mainstreaming but have not really devoted enough resources to it. This means that if African countries want to push this agenda forward, they would have to divert resources from other activities. The second is that the approach to mainstreaming adopted in most trade capacity building programmes relies heavily on the PRSP as an instrument. However, existing PRSPs do not adequately address trade policy issues or their link to poverty reduction and so have not been effective vehicles for mainstreaming trade into national development strategies in Sub-Saharan Africa.<sup>10</sup>

One reason why African countries have not been able to effectively use the PRSP to mainstream trade into national development strategies is that they do not have complete national ownership of the PRSP process. The PRSP was originally designed to ensure that funds made available through HIPC (Heavily Indebted Poor Countries) debt relief are used for poverty reduction programmes in recipient countries. Consequently, international financial institutions are heavily involved in the process making it difficult for recipient countries to have meaningful and complete local ownership of the process and outcomes. Hewitt and Gillson (2003) provide evidence suggesting that in practice international financial institutions have strong influence over the choices made in PRSPs. This lack of complete local ownership of the PRSP process diminishes its effectiveness as an instrument for mainstreaming trade because ownership and participation by local stakeholders are essential ingredients of successful mainstreaming programmes. For trade mainstreaming to have a chance of success in the region, African countries should enhance policy coherence by addressing the following issues.

*Inadequate statistics:* To ensure coherence between trade priorities and national development strategies, it is important for policy makers to understand the structural relationships that exist in an economy. There is also the need for reliable information and timely monitoring of events in the economy, which in turn

<sup>10</sup> Hewitt and Gillson (2003) examined the trade and poverty content of completed PRSPs and loan documents and found that the extent and depth of coverage of trade was limited. Furthermore, trade policy discussions in the documents focus largely on export promotion measures and are rarely underpinned by poverty analysis.

requires access to reliable data. The fact that African countries do not have easy access to reliable data poses a serious problem. An improvement in data collection and analyses should therefore be incorporated in the trade mainstreaming agenda.

*Regional and multilateral negotiations:* Ensuring consistency between positions taken in the EU-ACP Economic Partnership Arrangements (EPAS) and the WTO negotiation processes is another issue that must be addressed. The fact that African countries tend to have different negotiators dealing with EPAS and WTO negotiations creates a serious problem. It increases the resource costs of these negotiations. It also reduces the effectiveness of African countries in the negotiations because their representatives in Brussels and Geneva do not have a coherent mechanism to coordinate their activities, exchange information, and ensure consistency of their positions. Clearly, these problems arising from trade negotiations have implications for government budgets and the achievement of trade as well as national development goals.

*Loss of policy space:* Membership of the WTO requires African countries to obey the rules of the multilateral trading system. For example, they are required to lower tariffs on imported goods. But several countries in the region rely on tariffs as an important source of government revenue. The loss of this stable and reliable source of development finance has implications for the provision of health, infrastructure, and education services. African countries therefore face the challenge of finding ways to deal with the possible loss of domestic policy space and instruments resulting from binding commitments made under the multilateral trading system. An effective mainstreaming programme should incorporate mechanisms for dealing with this challenge.

*Compensation of potential losers:* The trade reforms associated with mainstreaming will create losers and winners in the economy and so governments will have to find ways to compensate the potential losers in order to avoid conflicts. This is a major challenge given the fact that most African countries do not have social safety nets. To increase the likelihood of grassroots support and participation of key stakeholders in mainstreaming programmes, African governments must find ways to cushion the effects of trade reforms on vulnerable groups.

*Private sector participation:* A crucial aspect of mainstreaming trade into national development strategy is the need to increase the role of the private sector and civil society in the trade negotiation and development processes. This is a daunting task for African countries because of the fragile relationship between the public and private sector. Why is the private sector important? Trade policies and negotiations are typically done by national governments. But private sector response is critical in taking advantage of trading opportunities resulting from liberalization. The interests of the two groups are sometimes conflicting and it is not always the case that government positions are welfare-enhancing for the society at large. The views of African countries on trade facilitation provide a very good example of the possible differences in

opinion and interests of the public and private sectors in trade negotiations. While most African countries are hesitant to engage in trade facilitation due in part to valid concerns about implementation costs, exporting firms in the private sector see it as a welcome development that would reduce bottlenecks and enhance their competitiveness in foreign markets. These conflicts and differences of interests underscore the need for the private sector and civil society to have proper representation in the formulation of strategies and positions for trade negotiations.

## VII. Conclusion

There is no doubt that trade, if well managed, could play a very important role in the economic development of African countries. It provides easy access to foreign exchange, new technology and more consumer choice. It also increases efficiency in the use of resources through increased competition and allows the exploitation of economies of scale associated with enlarged market size. African countries have recognized the need to be active participants in the international trading system. Since the 1990s, they have shown more interest in trade policy and multilateral negotiations. There has also been a resurgence of interest in regional integration as a means to improve the competitiveness of African economies and integrate them into the multilateral trading system. Notwithstanding this new interest in trade and the multilateral trading system, it is clear that countries in the region have not been able to participate effectively due largely to capacity constraints.

Efforts have been made by the international community to address these problems through an increase in the provision of technical assistance and capacity building programmes. While useful, these programmes have had limited success so far, reflecting partly the fact that their scope as well as objectives are often not clear, and partly the fact that they do not really address some of the root causes of poor domestic trade capacity in African countries. It is also a consequence of the fact that actual financial commitments of donors to these programmes are quite small relative to what is needed to have substantial impact on capacity building in the region.

The paper proposes a more pragmatic approach to long-term trade capacity building that focuses on the underlying reasons for low capacity building in the region and recognizes the fact that trade capacity building: (a) cannot be done in isolation; (b) will have maximum impact if it is tackled as part of general capacity building problems of African countries; and (c) will have a sustainable impact only if the risks posed by political instability, brain drain and the HIV/AIDS epidemic are quickly and adequately addressed. Furthermore, the paper suggests that building trade capacity is not an end in itself. It is useful to the extent that it enables countries to participate more effectively in negotiations, obtain a fair share of the benefits of trade, and reduce poverty. If African countries approach it from this perspective they are more likely to make significant progress in reducing the incidence of poverty on the continent through trade.

## Data Appendix

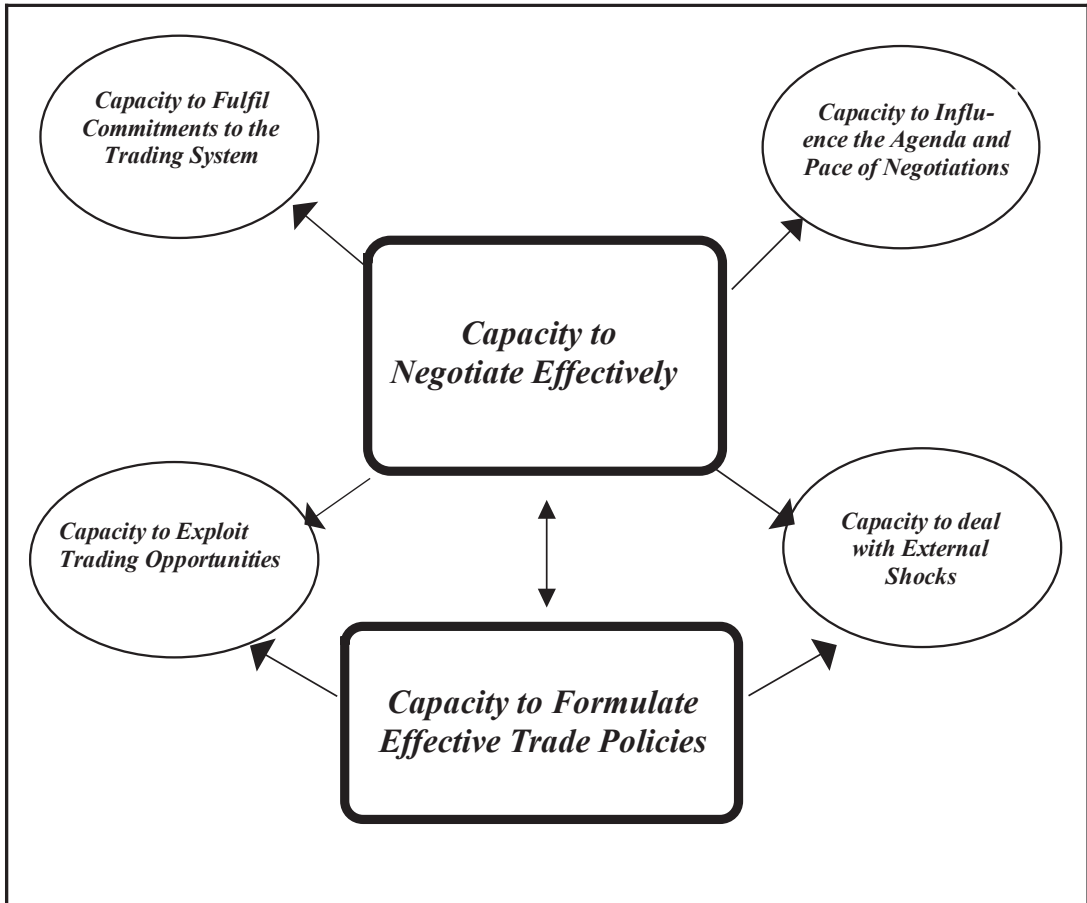
1. Trade capacity building data is defined as the sum of expenditures on trade development and trade policy and regulations. See OECD/WTO Database <http://tcdbdb.wto.org>.
2. Export volume data were obtained from UNCTAD Handbook of Statistics, 2003.
3. Export diversification index is from the UNCTAD Handbook of Statistics, 2003.
4. HIV/AIDS is the estimated number of adults (15-49) living with HIV. The data are from UNAIDS 2004 Report on the global AIDS epidemic.
5. Education variable is defined as the primary school enrolment ratio obtained from UNESCO Database and ADB Report for 2004.
6. Two governance variables were used: Government effectiveness and regulatory framework. Government effectiveness covers the quality of policymaking, bureaucracy, and public service delivery. Regulatory quality covers perceptions of market-unfriendly policies and burdens imposed by excessive regulation. For more information on the definition and computation of these variables see Kaufmann, Kraay and Mastruzzi (2003). <http://www.worldbank.org/wbi/governance/govdata2002/>.
7. Political Instability data were obtained from the ADB's African Economic Outlook 2002/2003. For further details on the construction of the index see Dessus, Lafay and Morrisson (1994).

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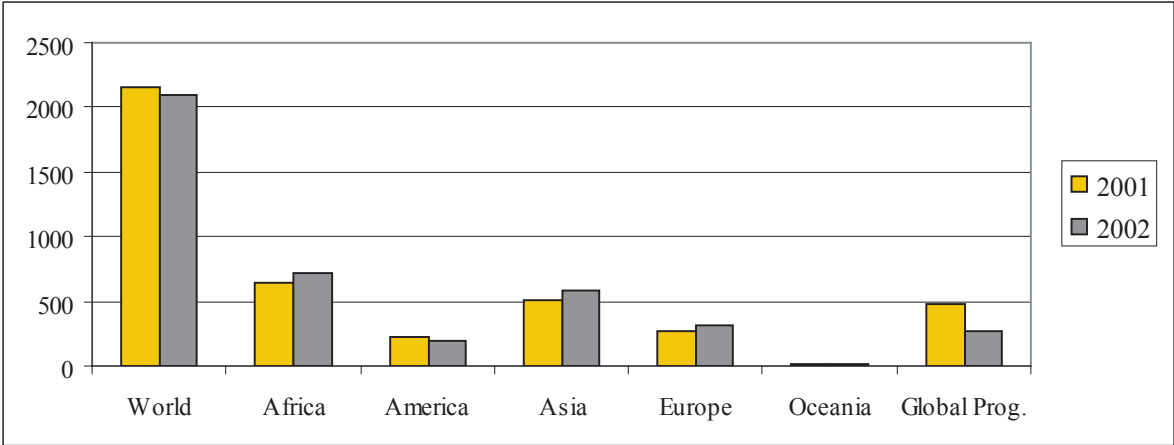
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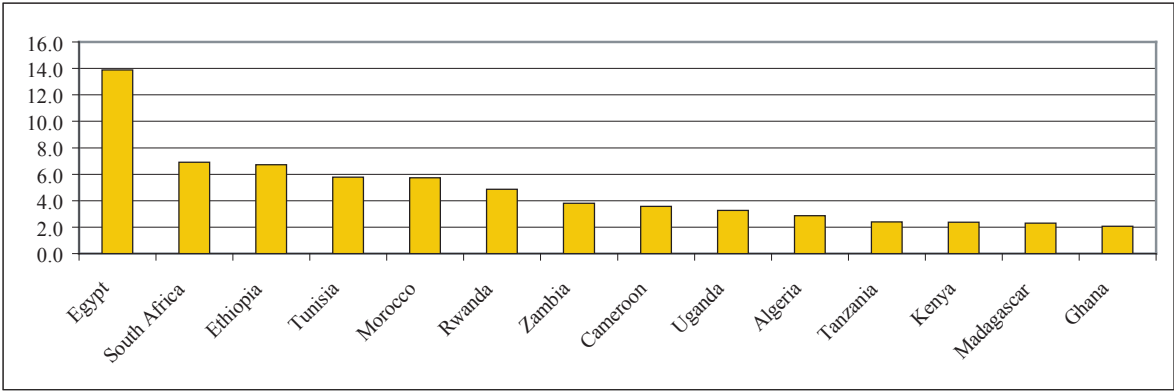
Figure 1: Trade Capacity Linkages



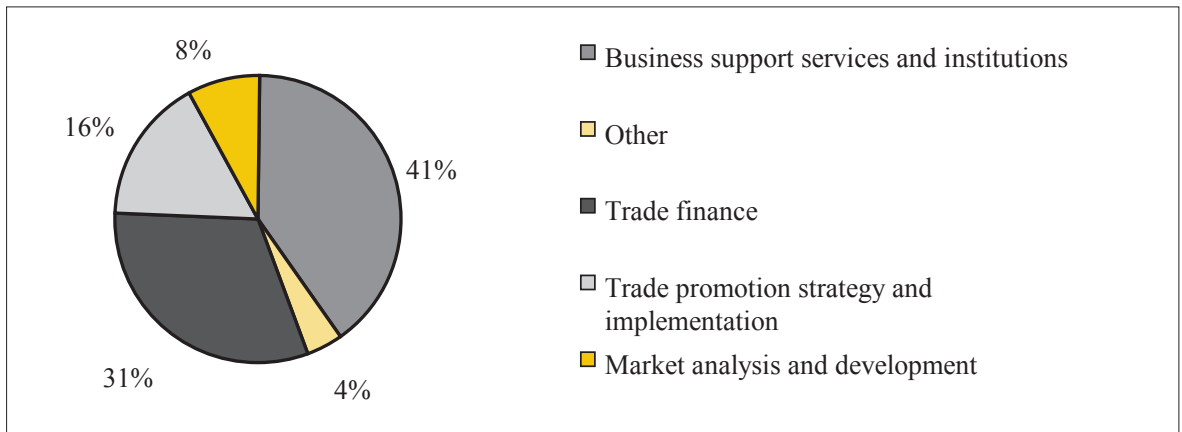
**Figure 2: Regional Distribution of Expenditure on Trade Capacity Building (millions of US dollars)**



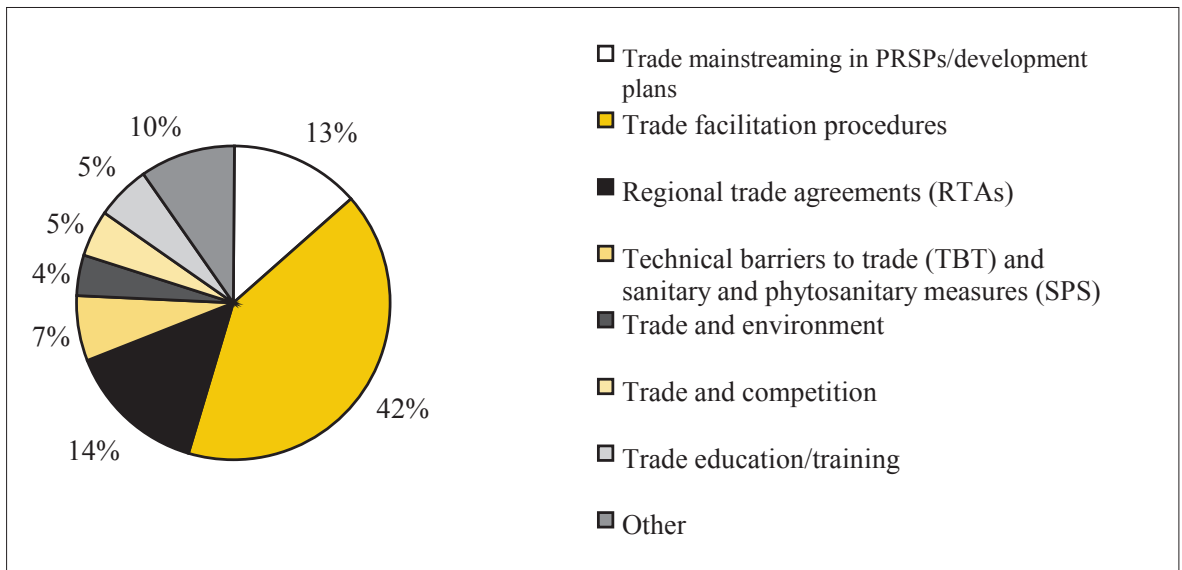
**Figure 3: Main Beneficiaries of Trade Capacity Building in Africa (%)**



**Figure 4: Trade Development Expenditures in Africa (average 2001-2002)**



**Figure 5: Trade Policy and Regulation Expenditures in Africa (average 2001-2002)**



**Table 1: Correlations of Trade Capacity Building with Variables in Sub-Saharan Africa\***

<i>Variables</i>		<i>Parametric test**</i>	<i>Non parametric test**</i>	
		<b>Pearson Correlation</b>	<b>Spearman rank Correlation</b>	<b>Kendall rank Correlation</b>
<b>Governance indicators</b>	Government effectiveness	0.22 (0.14)	0.27 (0.06)	0.19 (0.07)
	Regulatory quality	0.21 (0.15)	0.29 (0.05)	0.19 (0.07)
Political instability		0.19 (0.40)	0.43 (0.05)	0.31 (0.05)
HIV/AIDS		0.51 (0.00)	0.36 (0.03)	0.24 (0.04)
Education		0.08 (0.58)	0.00 (0.95)	0.00 (0.97)
Export volumes		0.42 (0.00)	0.28 (0.06)	0.19 (0.06)
Export diversification		-0.50 (0.02)	-0.38 (0.09)	-0.27 (0.09)

\* The number of sub-Saharan African countries in the sample is 46 except for HIV (37), education (33), and political instability and export diversification (21).

\*\* P-values or marginal significance levels are in parenthesis. The shaded areas indicate that the correlation is statistically significant at conventional levels.

**Table 2: Infrastructure Indicators by Region**

Country Group/Region	Electric power consumption per capita (kilowatt)	Telephone mainline per 1000 people	Paved roads (percentage of total roads)	Population with access to safe water (%)	Population with access to sanitation (%)
	1997	1998	1997	1995	1995
Lower Middle Income	1 737	115	50.7	75	...
East Asia and Pacific	771	70	17.4	77	...
Europe and Central Asia	2 692	200	86.5	...	...
Latin America and Caribbean	1 402	123	26.0	75	68
South Asia	324	19	57.0	81	20
Middle East and North Africa	1 158	81	50.2	...	...
Sub-Saharan Africa	446	14	15.0	47	47

Source: OECD (2002)

**Table 3: Estimated and Projected Loss of Labour Force in 2000 and 2020 (%)**

Country	2000	2020
Namibia	3.0	26.0
Botswana	6.6	23.2
Zimbabwe	9.6	22.7
Mozambique	2.3	20.0
South Africa	3.9	19.9
Kenya	3.9	16.8
Malawi	5.8	13.8
Uganda	12.8	13.7
Tanzania	5.8	12.7
Central African Republic	6.3	12.6
Cote d'Ivoire	5.6	11.4
Cameroon	2.9	10.7

Source: FAO (2001)