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**CAPACITY BUILDING FOR PROMOTING  
TRADE AND INVESTMENT IN AFRICA**

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Gibson Guvheya<sup>1</sup>

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# CAPACITY BUILDING FOR PROMOTING TRADE AND INVESTMENT IN AFRICA

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By

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## INTRODUCTION

It is common cause that improved trade and investment hold out promise for attaining higher economic growth and greater gains in the fight against poverty, indeed, for the attainment of the millennium development goals. International development experience attests that countries that have entered export markets, opened their economies up to imports, and strengthened their investment climates have tended to grow faster over sustained periods of time. Unfortunately, African countries have not harnessed these potential benefits of trade and investment due to a combination of factors, not least: (1) poor infrastructure, (2) benighted government policies, (3) weak productive capacity, and (3) restricted access to export markets, particularly in those areas in which they have a comparative advantage, notably agriculture and labor-intensive manufactures.

The Continent's share of world *exports* has slid by nearly 60 percent over the last three decades, amounting to a precipitous loss of some US\$70 billion annually, equivalent to 21 percent of the region's GDP and over five-fold the US\$13 billion dollars in annual aid flows to Africa. This trend has persisted over the recent period, with Africa's share in global *trade* falling from 4.2% in 1985 to about 2% at the end of the 1990s. More ominously, the Continent's global share in *manufactured exports* is almost negligible (World Bank, 2003; Luke, undated).

Similarly, Africa's share in global FDI inflows stands at a paltry 3% chiefly due to the Continent's failure to engender a sound investment climate, despite some recent improvements mainly attributed to natural resources, in turn riding on the back of strong commodity prices and a rising demand for petroleum that are billed to persist in the outlook period. In 2005, South Africa commanded the largest share of FDI inflows in Africa, with

21 percent — to a considerable extent due to the acquisition of Absa by Barclays UK — followed by the petroleum-exporting countries comprising Algeria, Egypt, Equatorial Guinea, Mauritania, Nigeria, and Sudan, together accounting for 48% of the region's FDI inflows. However, Africa's least-developed countries have accounted for virtually nothing of the region's FDI inflows. Worse still, Africa has also been witnessing outflows of private capital. The Continent is reckoned to be suffering domestic capital flight to the tune of about 40% (Stein, 2002; UNCTAD, 2006).

In short, Africa has inexorably lost international competitiveness in trade and investment over the last three decades, doubtlessly explaining its poor performance in economic growth and human development over the same period.

Thirty African countries ratified the Final Act Embodying the Conclusions of the Uruguay Round at Marakesh, Morocco, in April 1994, that included, *inter alia*, the establishment of the World Trade Organization. Then, African countries comprised a third of the total WTO membership. This enthusiasm by African countries to join the WTO belied the fact that only a handful of them had actually participated in the Uruguay negotiations and in the multilateral trading framework that was established under the auspices of the General Agreement of Tariffs and Trade (GATT), the predecessor to the WTO. Rather, the tremendous show of interest by African countries owed in large measure to the ongoing structural economic reforms that had buffeted the Continent under the supervision of the World Bank and the International Monetary Fund. In addition, the WTO framework held out the promise of a stable and predictable market access, as well as provision of safeguards for national trading and related interests in the rapidly globalizing world (Luke, *op cit*). The multilateral trading system (MTS) and international markets have become increasingly complex over the years, requiring major investments in institutional and human capacity as well as a multidimensional strategy for integrating into the global economy.

It was therefore not lost to African countries that participation in both the WTO and international trade required the necessary capacity building, as expressed in the adoption by African Trade Ministers, shortly after Marakesh, of a Framework for Action for the Implementation of the Uruguay Round Agreements by African Countries (*ibid*). The Framework delineated capacity building needs for the development and management of trade policy, the implementation of the Uruguay Round Agreements, participation in the WTO framework, and the promotion of exports. These concerns have since elicited international initiatives at trade-related capacity building and technical assistance starting from the second half of the 1990s. Indeed, there has been increased currency in development cooperation, of the idea that capacity building for trade and investment promotion can form the cornerstone of development assistance to Africa and other least developed countries, with a realistic potential to contribute to primitive development objectives such as poverty reduction, gender, and environmental protection.

Through a survey of the literature, this paper seeks to proffer a critical appraisal of the multilateral, bilateral, and national initiatives and experiences at capacity building for trade and investment promotion for developing and least developed countries in general, and African countries in particular. The goal of the paper is distill thematic issues and lessons learnt and best practices in capacity building for trade and investment promotion, in turn to provide strategic guidance to ACBF in the implementation of its Second Strategic Medium

Term Plan (SMTP II, 2007-2011) insofar as trade and investment promotion is concerned. With some foresight, the discussion in this paper appeals to two of the Foundation's six core competency areas, namely, economic policy analysis and management, and professionalization of the voices of the private sector and civil society in the development process.

## **CONCEPTUALIZING CAPACITY BUILDING FOR TRADE AND INVESTMENT PROMOTION IN AFRICA**

For expositional convenience, we shall for the meantime be agnostic and subsume investment within trade, and then take up in a later section the idiosyncratic treatment of capacity issues for investment promotion. Thus, we shall for the meantime talk about trade-related capacity building and technical assistance.

For trade to be an engine of growth and development, Africa's trade-related capacity constraints have included lack of capacity to:

- Formulate effective trade policies;
- Negotiate effectively on trade issues of interest to Africa;
- Influence and set the agenda or pace of multilateral negotiations;
- Fulfill commitments to the MTS, without undermining Africa's development goals
- Exploit trading opportunities.

There has been growing attention to the need for addressing Africa's productive capacity, in addition to the traditional focus on market access and policy formulation. This reorientation has been prompted both by Africa's declining international competitiveness as alluded before, and the Continent's failure to fully exploit its export quarters under previous or ongoing preferential trade agreements such as the ACP-EU and AGOA frameworks. Unlike trade policy formulation and market access issues that largely concern themselves with "getting policies and prices right", addressing supply constraints to trade development in Africa calls for substantial resource outlays to build trade-related infrastructure. Furthermore, the growing use by industrialized countries of non-tariff barriers (NTBs) to exports from developing and least developed countries has exacerbated the Continent's supply capacity. The crucial importance of addressing Africa's supply capacity is dramatized in Hyla Mint's conceptualization of trade as a "vent for surplus".

Despite the widely shared consensus on the need for trade-related capacity building and technical assistance to enable African and least developed countries to participate effectively in the MTS, there is surprisingly little agreement on what trade-related capacity building entails. Such a common framework would facilitate information and knowledge sharing; permit country needs-assessment using common standards; and facilitate cross-country comparisons and donor coordination. Over the years, capacity building for trade promotion has shifted from "export marketing or promotion" in the 1970s; to "trade liberalization" in the 1980s and early 1990s as part of broader structural reforms; to "trade facilitation" that sought to reduce trade-related transactions costs and enhance familiarity with the rules, procedures, and institutions of the MTS; to "trade capacity for development" that situates trade-related capacity building within a participatory, country-driven process of overall

development policy formulation, in other words, “mainstreaming trade in development” (OECD, 2001).

Arguably, the single organizing principle in guiding capacity building for trade and investment promotion in Africa is the urgency to improve the Continent’s *competitiveness*. Contrary to the neoclassical concept of *comparative advantage* — itself a static, physical concept — competitiveness is a dynamic concept that goes beyond physical resource endowments and factor intensities to capture the economic policies and institutions that countries could use to facilitate trade and investment, and ultimately economic growth and poverty alleviation<sup>2</sup>. Competitiveness provides an organizing framework for policymakers, and is based on actionable variables that could promote economic entrepreneurship, growth, and prosperity (ECA, 2004). Trade competitiveness calls for private enterprises, industrial and commodity associations, civil society groups and public sector institutions to be able to: (a) monitor and analyze foreign market opportunities, trade policies and trade institutions at the national, regional and multilateral levels; (b) articulate their needs and concerns in the domestic trade policy process; (c) produce the goods and services that meet the requisite tastes, timeliness and regulatory requirements of targeted foreign markets and international trade agreements; and (d) utilize a variety of trade and investment related technical assistance and advisory services including export credit, export marketing assistance, management advice and technical assistance regarding compliance with international trading rules and product norms and standards (OECD, op cit).

## **THE RELATIONSHIP BETWEEN TRADE, GROWTH AND POVERTY REDUCTION**

A point of departure for mainstreaming trade in development would be the strengthening of in-country analysis of the theoretical and empirical link between trade, growth and poverty reduction. Mainstreaming trade in development is crucial not only to ensure that the poor benefit from trade, but also to bring trade-related capacity building and technical assistance under the ambit of international development assistance in order to alleviate inherent financial resource constraints. However, there is no clear-cut policy on how to ensure that the poor would gain most and suffer least in the MTS. While it has been quite easier to argue both theoretically and empirically that *some* trade begets measurable benefits relative to isolation and self-sufficiency (autarky), it gets trickier when one ponders the question of how much trade, for there is wide policy space between autarky and totally free trade (Helleiner, 2006; OECD, op cit).

Furthermore, the presumption that trade takes place only if there are mutual gains to trade naively ignores the potential role of power and other non-trade considerations in fostering and shaping international (trade) relations. In addition, there are pertinent questions to be addressed regarding how the benefits of trade are distributed between and within countries. A particular concern for African countries in the outlook period regards whether openness (to trade), left to its own devices, will benefit the poor, or whether expressly pro-poor policies are needed to ensure that the poor proximately benefit from trade-led growth. The

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<sup>2</sup> The two concepts are related, however. Comparative advantage is one of the determinants of competitiveness, in keeping with the mantra of first picking the low-hanging fruits in developing countries’ productive capacities.

bottom line is that it has been analytically difficult to proffer generally acceptable conclusions about the relationships between openness and the ultimate objectives of poverty reduction and development. Nevertheless, general conclusions are emerging, which should be validated through detailed country analyses.

The received wisdom is that openness to trade — measured by the ratio of the sum of imports and exports to GDP — contributes significantly to long-term growth, which in turn is a necessary condition for long-term poverty reduction. The other stylized fact is that trade is likely to be beneficial to both long-term growth and poverty reduction if it is supported by a conducive macroeconomic and trade policy environment, adequate infrastructure and sound institutions, thus providing justification for mainstreaming trade in overall development policy formulation and management.

The shorter-term is however more tenuous. Varying initial conditions in the individual countries — with respect to the type of trade protection, livelihood sources, and consumption patterns for the poor — determine whether trade liberalization benefits or hurts the poor. The poor are likely to gain from trade liberalization if they are employed in export sectors and overwhelmingly consume products that have been previously protected from import competition. For example, it was a stylized fact throughout the 1980s that the modern industrial sector was heavily protected at the expense of agriculture in developing countries, despite agriculture's immense potential for enhancing economic performance, and poverty reduction in particular (World Bank, 1986). Despite some adjustment costs, subsequent trade liberalization in the later 1980s and 1990s has had a positive impact on poverty alleviation, through enabling access to higher-producing technologies and higher border prices for agricultural tradables, as well as lower prices for previously protected consumer goods. Needless to say, trade liberalization has been beneficial only when accompanied by mutually reinforcing policies, not least macroeconomic stability, an appropriate exchange-rate policy, and supporting institutions such as banks, property rights, and standards organizations.

In the same breath, a gender approach to trade liberalization and globalization can help ensure that women also benefit directly from openness, by identifying sectors where women are most-employed, such as export industries, the informal sector, and the agricultural sector. Thus, strengthening capacity to collect gender-disaggregated data, and including a gender dimension to monitoring and evaluation of trade policies would ensure that both men and women benefit from trade liberalization and globalization (OECD, op cit).

One of the unsettled debates concerns the choice of the particular trade policy that would unlock the positive benefits of trade liberalization. Historically, the Asian Tiger countries have shifted the structure of incentives towards export-led growth, through such instruments as export subsidies and devalued exchange rates to enhance export competitiveness, and selectively opening the economy to competitive imports while retaining considerable protection in their countries. Accordingly, countries such as Taiwan, China, and Vietnam have employed export-processing zones to increase exports of select commodities or classes of products while maintaining trade controls in the rest of the economy, thus achieving a managed opening-up of the economy. The extant reality for Africa is that some of these instruments are no longer tenable under the WTO framework in spite of its supposed

development provisions, which raises the need to investigate alternative strategies for advancing the interests of African countries within the WTO framework.

## **INTERNATIONAL INITIATIVES AT TRADE-RELATED TECHNICAL ASSISTANCE**

Building upon efforts at policy reform and trade liberalization in the 1980s and 1990s, there has essentially been a first- and second-wave response to Africa's demand for trade-related capacity building since the conclusion of the Uruguay Round. The three Geneva trade agencies, UNCTAD, the WTO, and the International Trade Center (ITC) — hereafter the Geneva Trio — have been at the vanguard in designing and implementing the required interventions, developing between them a diverse array of tools and expertise in trade-related capacity building and technical assistance according to their respective core competencies. Bilateral and multilateral agencies such as the World Bank, IMF, UNDP, and ACBF have also been involved. However, the differential mandates, interests and approaches of these donors or agencies have often confounded inter-agency cooperation, further compounded by the wide dispersion of initial conditions among the targeted countries, questions of ownership, and priorities. Bilateral donors have an especially competitive edge in trade-related technical assistance and capacity building, deriving from their field presence and experience in engaging government, the private sector, and civil society (Luke; op cit; OECD, op cit).

The Joint Integrated Technical Assistance Program for Selected Least Developed and Other African Countries (JITAP) was launched in May 1996 as a collaborative venture between the Geneva Trio and other interested international donors. Eight developing or least developed African countries were initially selected for JITAP, namely, Benin, Burkina Faso, Cote d'Ivoire, Ghana, Kenya, Tunisia, Uganda, and Tanzania. JITAP was operationalized through a series of coordinated activities aimed at building national capacity with respect to: understanding the WTO Agreements and their strategic and development implications for each targeted country; trade negotiations; priming the domestic policy and regulatory framework for implementing the WTO Agreements; and enhancing the country's supply-response to the supposedly enhanced market access under the WTO.

The Integrated Framework (IF), launched in October 1997, was a collaboration of the Geneva Trio, the World Bank, IMF, and UNDP. IF grew from an expressed desire by WTO member countries to foster an integrated approach in assisting least developed countries to enhance their trading opportunities. The design of IF was informed by the need to be sensitive to differential initial conditions across the target countries. Each participating country was mandated to complete a (trade-related) capacity needs-assessment, to which the six collaborating agencies would respond by drafting a provisional program, termed the "integrated response", for onward discussion and validation by the applicant country. The ultimate "consultative" stage was envisioned to be the scheduling of a trade-sector roundtable to provide the country's development partners an opportunity to endorse a multiyear program for trade-related technical assistance and individually pledge to support elements of the program. By the end of 1999, only Uganda had managed to convene such a trade-sector roundtable (Luke, op cit).



The PA Initiative was promoted by UNCTAD in collaboration with a host of other intergovernmental and regional organizations such as the South-Center, UNDP, the Commonwealth Secretariat, and the then OAU. The purpose of PA was to enhance research and analysis aimed at assisting African countries and other least developed countries to develop a “positive agenda” for future trade negotiations, including the built-in agenda for agriculture and services that was to be launched at the following WTO Ministerial Conference, subsequently scheduled for Seattle at the end of 1999. The PA initiative was motivated by perceived flaws in the WTO decision-making process as manifest in the Singapore Ministerial Conference, where an inner circle of 34 countries out of a total membership of 128 negotiated the text on sensitive issues including clothing and textiles, labor standards, investment, competition policy, ICT, and pharmaceutical products. The limited African participation probably reflected their lack of export capacity for these sectors, despite Africa’s stake in these negotiations both as importers and consumers on one hand, and in light of the need to safeguard their future development aspirations (*ibid*).

These first-generation efforts at trade-related technical assistance and capacity building heightened the sensitization of African countries regarding compliance with WTO membership as well as participation in the rules-based MTS. However, both JITAP and IF suffered serious deficiencies; the former was limited to just a handful of countries, while both initiatives largely failed to deliver on enhancing competitiveness and overcoming binding supply constraints. Both programs were also largely silent on regional trade policy coordination despite its potential as a stepping stone to effective participation in the MTS, quite a curiosity given the fact they coincided with a flurry of activity towards regional integration on the Continent. While IF actually never really took off completely due to funding problems, its needs assessment exercises have fostered dialogue on trade policy issues and priorities between government, development partners, civil society and the private sector in many more countries relative to JITAP. As a result of the PA initiative, African countries demonstrated a keen awareness of the issues at stake during Seattle, an outcome of intensive preparatory activity that culminated in the formulation of a “positive agenda” for Africa. So much that when the conference reverted to the Singapore-style inner-circle decision-making process, African countries demurred, triggering a breakdown of the talks (Luke, op cit).

Mid-term evaluations for JITAP and IF were undertaken in 2001, leading to their remodeled versions in JITAP II and IF II. The overarching theme was the need to mainstream trade within the overall development and poverty reduction efforts of developing countries. Among other considerations, mainstreaming trade in development was billed to foster linkages between trade and related policy areas such as health, education, and social welfare, thus fostering a coherent policy framework. Thus within JITAP, new emphasis was placed on strengthening the role of Trade Ministries as focal points for trade policy development, providing extension services to the private-sector, and fostering institutional engagement with the WTO. Such a corporate approach in managing the trade policy process had the added advantage of fostering coordination between other institutions of national economic management. The evaluation also highlighted the need to build and nurture a national network of trainers and analysts spanning local universities, think tanks, and business schools regarding the key elements of trade-related capacity building and the WTO. JITAP

II also made provision for an additional 10-15 African countries<sup>3</sup> given the increasing demand for its accelerated and integrated mode of delivery. The reformed JITAP also embodied a firmer recognition of the role of regional integration as a stepping-stone to effective participation in the MTS, by including participation in regional integration processes as a selection criterion (WTO, 2006; ILEAP, 2006).

Motivated by JITAP's and IF's failure to effectively mobilize sufficient resources for addressing supply-side constraints to Africa's effective participation in the international trading system, the Aide-for-Trade (AFT) initiative embodied the formal recognition that trade-related assistance should go beyond soft-issues to deepen productive capacity and finance trade-related hard infrastructure. AFT builds upon and is complementary to JITAP, IF and seeks to raise *additional, predictable, sustainable* resources to fully address trade-related capacity building in order to unlock Africa's trade potential for growth and development. The broader concern with enhancing export competitiveness has also meant a concentration on expanding business support services, engendering a sound investment climate, conducting market analyses, and expanding e-commerce. AFT also seeks to further promote regional integration as a platform to full participation in the MTS, as well as assist African countries to deal with the adjustment costs inherent in trade liberalization, for example the erosion of trade preferences arising from accession to the WTO. Countries are required to draw up and submit their AFT requirements, and currently it is not clear where funds for AFT will come from. Mauritius, a much more developed African country, has estimated its total resource requirements to be US\$4.5 billion over the next ten years, suggesting higher (per capita) requirements for the lesser-developed African countries (ECA, 2007; ILAEP, op cit; WTO<sup>a,b</sup>, 2007).

## INVESTMENT PROMOTION IN AFRICA

FDI can provide a major fillip for African development, through employment creation; the enhancement of skills — including managerial skills — according access to new, profitable technologies; fostering competition in the domestic productive sector; and providing access to foreign markets (UNCTAD, op cit). Quite clearly, improving FDI inflows is key to improving Africa's international (trade) competitiveness. However, analyses of capital flows to Africa since 1980 to 2006 have revealed that FDI inflows to the Continent have paled in comparison to aid and remittances, and has even been the most volatile of the three. Over the period 1994-1999 and 2000-2004, inward-bound FDI to Africa stagnated at 1% compared to 10% for Latin America and the Caribbean, and 17% for Asia and the Pacific (ECA, 2005).

Work by UNCTAD and others has shown irrefutably that Africa offers some of the highest rates of return to investment in the world. However, efforts to lure FDI flows have been hampered by the Continent's failure to engender a sound investment climate. The goal for engendering a sound investment climate is to provide opportunities and incentives for firms to invest productively, provide jobs especially to the poor<sup>4</sup>, and expand. China and India

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<sup>3</sup> The additional countries included Botswana, Cameroon, Malawi, Mali, Mauritania, Mozambique, Senegal, and Zambia (ILAEP, 2006).

<sup>4</sup> In addition to access to public services, employment is a critical pathway out of poverty because labor is invariably the major *market endowment* for the poor.

offer cogent examples of how improvements in the investment climate can drive growth and achieve a dramatic reduction in poverty. Governments elsewhere have hampered progress by creating needless costs and policy-related risks and uncertainty, in addition to creating unjustified barriers to competition (World Bank, 2004). We submit that a point of departure for building a sound investment climate is to recognize the animal spirits of all investors — be it as individuals or through their corporate incarnations — that they are generally willing to maximize investment returns and minimize risk. A corollary of risk aversion is that investors typically demand premiums in the form of exceptional returns, upfront deals or concessions in order to take additional risks, often in ways that are injurious to the national good. Indeed, African countries' failure to mitigate investment risk could explain in large measure the apparent invariance of FDI inflows to the macroeconomic and trade reforms that swept across the Continent from the late 1980s to late 1990s, over and above the expected impact of the halfhearted implementation or even abortion of the reforms in many countries (ECA, *op cit*).

There is reasonable agreement on the constituent elements of a sound investment climate for growth and poverty reduction, which transcend the need for deep macroeconomic and trade reforms to include the crafting of effective *institutions* that guarantee basic investor protection (property rights and enforcement of contracts), propagate the right incentives (taxation and regulation) to guide resource allocation and harness the poor in the very productive process, and cultivate an enabling environment comprising good governance and sound financial institutions. Hence, engendering a sound investment climate largely comes down to drawing up and implementing an agenda for *institutional reform*.

However, efforts at institutional reform and the persistence of dysfunctional institutions in much of Africa have come down to the entrenched political elites who stand to lose from and are inclined to resist any change to the status quo. The stark reality is that it is only when the power configuration changes in favor of other interest groups (civil society), or when there is a veritable undertaking to compensate potential losers, that bankable change can be expected. Development experience cautions that there is no magic bullet in building and reforming institutions for investment promotion, that different factors constrain the investment climate at different times. Disparate initial conditions mandate that there is no one-size-fits-all, and that international best-practice models and lessons learnt should be tempered with local knowledge and historical experience. It is therefore incumbent upon African governments to foster a learning mechanism for getting continuous feedback from incumbent investors to keep track of and fix changing problems. Drawing on its development experience, the World Bank cautions that perfection cannot be achieved at a stroke, and that everything does not need to be achieved at once. Rather, governments need to be committed to addressing important constraints and investing and sustaining a process of ongoing improvements (ECA, 2005; World Bank, 2004).

The East Asian financial crisis was a stark reminder of the urgency for complementary *regulatory institutions* in order to unlock the positive contribution of FDI to recipient countries, a factor that had been overlooked by the Washington Consensus that served as the hitherto received wisdom in that region. It is now widely accepted that rash openness to FDI inflows, notably to speculative or “hot” money (portfolio investment), has tended to exacerbate countries' vulnerabilities to financial crises through increasing the volatility of the currency (Stiglitz, 2003). This problem lurks ominously for most African countries as they

invariably lack sound regulatory institutions, compounded by the thin financial markets across much of Africa. And without strong competition laws, FDI may kill off local competitors, notably the small and medium enterprises (SMEs) that are crucial to employment and poverty reduction across much of Africa.

Whatever the country circumstances, it follows therefore that a key axiom for engendering a sound investment climate is to install a stable, predictable institutional environment governed by rule of law rather than bureaucratic decision-making. Stein (op cit) argues that a potential investor offered an attractive deal by the local minister may well be wary that a future entrant may secure a better deal and drive them out of the market. As a result, the foreign investor would demand upfront deals to compensate for such *bureaucratic risk*, often in ways that are injurious to the national good. Another axiom is *equal treatment* between investors — between potential investors and incumbents, and domestic and foreign investors — both to mitigate the bureaucratic risk discussed before, and to protect domestic investors who do not enjoy the sophisticated risk-mitigating strategies available to foreign investors such as political risk insurance, diplomatic pressure, and membership of investment consortia. Domestic investors are an especially important constituency because they typically export their capital in the face of a harsh investment climate, inadvertently communicating signals to potential foreign investors regarding the auspiciousness of the investment climate in the country. In a widely cited study, Collier and Gunning (1999) estimate that the hostile investment climate in Africa results in a domestic capital flight of up to 40 percent. Furthermore, foreign investors typically seek information from their domestic and incumbent counterparts in the determination of their investment *positions* in the country (UNCTAD, op cit).

Overall, many African governments are considered high-risk for investment. One strategy is to ratify international investment agreements (IIAs) that commit signatory countries to basic investor protection<sup>5</sup>. There has been a proliferation of such investment deals over the years in the form of Bilateral Investment Treaties and Double Taxation Treaties. The challenge is that these investment treaties have inexorably attained increasing complexity, tending to deal additionally with such public concerns as health, safety, public corruption, and the environment, thus exacerbating compliance costs. African countries also need to muster the capacity to participate in the rulemaking for these IIAs, particularly through South-South cooperation (*ibid*). Regional or sub-regional commitments to a stable and predictable investment climate — within the auspices of regional economic communities — could also mitigate excessive country risk, in particular through checking the prospect of *investment contagion* among regional member countries. However, African countries should also guard against the attendant race-to-the-bottom in competitive efforts to lure FDI inflows to particular countries within regional blocks (Stein, op cit).

Many of the investment risks in Africa have emanated from the malfunctioning of the government bureaucracy, spanning the workings of the judiciary, tax system, and customs service. As argued before, investors typically demand separate premiums to compensate them for the different implied risks, adding up to aggregate premiums that could chock off

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<sup>5</sup> Accession to the WTO could also serve as a device to commit African countries to engendering a sound investment climate, including sound macroeconomic and trade policy reforms. However, the 'bite' of those WTO obligations has been ineffective because the international stakes are too low already, as African countries largely do not have the supply-side capacity anyway.

and distort investment. There is ample cross-country evidence suggesting that the rule of law and related issues of bureaucratic harassment and criminality are important determinants of domestic and foreign direct investment (ECA, 2005; Stein, op cit; World Bank, 2005).

Poor public-service delivery can also increase the cost of — hence reduce — investment. Other public services, notably health and education, have direct benefits on people and dynamic benefits for the private sector and investors, thus complementing physical infrastructure. Granted, improving public-sector delivery requires financial resources, but here again development experience has shown that money is not everything, that government effectiveness matters as well. In much of Africa, the public-sector has often been used as an instrument of political patronage, rather than the intended public service delivery to the wider community and the poor. There is a critical need for institutions that send the right incentives for sound public-service delivery. Development experience has shown that the promotion of competition among providers, and democracy and participation in local authorities provide a strong impetus for competent public-service delivery. Above all, political leadership has been crucial in implementing institutional reforms more generally, and in shaping public action towards improving the efficiency of the public-sector and public service delivery (World Bank, 2004).

Another consideration is that improving quantitative investment flows is one thing, and getting investment to impact on economic growth and poverty reduction, that is, enhancing investment efficiency, is another (ECA, 2006). The depth of local financial markets has been established as a key factor in improving investment efficiency, in light of these markets. Failure to address low investment efficiency has been purveyed as an explanation for the empirical puzzle of high investment and low growth that was experienced in North Africa and the Middle East in the early 1980s (Stein, op cit). In addition, sound financial markets are important for mitigating the impacts of financial crises, one of the lessons learnt from the Asian Financial Crisis (Stiglitz, op cit). While the majority of African countries are a long chalk from liquid financial markets, most have banking sectors and budding stock markets, which require appropriate regulation and special institutions to deal with the information asymmetries that are key to financial market performance, as well as align market instincts to the social goals of development and poverty reduction.

## **IN-COUNTRY INSTITUTIONS AND REGIONAL DIMENSIONS:<sup>6</sup>**

In any country, trade policy formulation and implementation performance involves a complex institutional mosaic of government agencies, private-sector bodies, and civil society organizations, both to provide for coordination and dialogue between disparate stakeholder groups across a broad range of trade issues, and in lieu of the fact that the implementation of international trade agreements and reforms is incident upon a number of public-sector agencies. In many developing countries, many of these organizations are bereft of the requisite human and institutional capacity, financial wherewithal, and access to data and information to deliver on their supposed mandates in trade policy formulation and

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<sup>6</sup> This section draws on the experiences of USAID and DFID in trade-related capacity building and technical assistance in developing countries, as discussed in USAID (2003) and DFID (2001), as well as additional references that are cited along the way.

implementation. This challenge has become more pernicious in the fast-paced, rules-based multilateral trading system.

*In the public sector*, the ministry of trade should be the formal apex of a network of public-sector institutions responsible for trade policy formulation and implementation, in concert with other line ministries including the ministry of finance, agriculture, and industry; and agencies such as customs administration, revenue administration, standards associations, statistics agencies, and trade promotion organizations. To the contrary, in many African countries trade ministries have been marginalized by strong ministries of finance, which have tended to give short shrift to public-sector investment in the building of trade-related physical and institutional infrastructure. Furthermore, finance ministries have often frowned upon requisite trade policy reforms such as those pertaining to the tariff system because of their adverse impact on revenue generation in the short-term. Worse still, in her development memoirs recently published with ACBF, Herfkens (2008) notes that many African countries were slow to a ministry expressly dedicated to trade issues, much less a trade policy process that could provide a matrix for coordinating trade policy formulation and implementation. Alas, African countries have been bent on maximizing aid, not trade, despite the latter's multiplier effects for sustainable economic growth and take-off for Africa (*ibid*).

Given the myriad line ministries and agencies, improving trade policy coordination within government is no trivial task, a fortiori given the inter-agency conflicts of interests alluded to before. Continuous interdepartmental consultation and consensus building is necessary not only for the trade policy process, but for good governance writ large. Such consultative processes have the salutary effect of fostering political and bureaucratic commitment to the trade process, facilitating the continuous review of the legislative and regulatory implications of proposed trade policy reforms or new international trade agreements, as well as assessing the latter's financial and human resource consequences for government. As the negotiation process evolves, Geneva-based negotiators need to confer and coordinate with in-country teams to ensure that various negotiating proposals can be implemented (Chifamba, 2007).

The multiplicity of line ministries and public-sector agencies also implies that designating authority for intra-governmental coordination of the trade process is a delicate substantive and political proposition. The best practice has been to designate the trade ministry as the *lead agency* in coordinating trade policy, aided by *interagency committees*. The nature of international trade negotiations demands that many of these committees be prepared to meet on an *ad hoc* basis, in addition to regular meetings to enable the lead agency to apprise other departments on progress in trade negotiations or noteworthy international developments. Interagency coordination can be strengthened through capacitating individual committees on key trade issues or themes, providing training on communication and presentation skills, as well as investment in secure interagency IT platforms.

Government should also take leadership in *engaging the private sector and civil society* in the trade policy process, since these non-state actors provide important communication channels between government, business and consumers on trade policy matters. Many African countries are still struggling to organize their private sectors and civil society for effective participation in trade policy reform and implementation. These trade-related non-state actors include chambers of commerce and producer associations, freight companies,

clearance agencies, and road haulers, most of whom have limited resources and suffer from weak capacity for evidence-based policymaking and advocacy. A critical issue for the majority of African countries is that none have the liquid financial markets for generating trade finance, given the lag between delivery and payment in international transactions. The short-term solution for African countries has been to make recourse to international trade-related assistance, including IMF balance-of-payment support, provided the applicant countries commit to sound political and economic governance, including a veritable subscription to poverty alleviation.

Civil society organizations, comprising NGOs, labor unions, consumer associations, and universities influence trade policy reform through research and advocacy, focusing on such issues as the impact of trade on health and safety, labor standards, poverty reduction, employment, social development, and the environment. Unfortunately, many African governments view civil-society organizations with suspicion, often undermining their development and participation in the trade process. This despite the reality that if the domestic civil society does not speak up, it will be the civil societies of Africa's western trading partners who will exert pressure on the WTO, leading to more stringent NTBs that have tended to price Africa out of the international markets.

Most African countries are bereft of strong and independent policy think tanks dedicated to trade policy research and advocacy. Although a number of serious policy think tanks can be identified across the continent, many adopt multiple research themes and so lose focus on trade issues. Exceptions to this rule include the Trade Law Advisory Center (TRALAC) in South Africa, with others coming close, such as the ACBF-supported Botswana Institute of Development Policy Analysis (BIDPA), and the Economic and Social Research Foundation (ESRF) in Tanzania. Rather than investment in new, trade-focused policy think tanks, the emergent best practice has been to promote the development of *networks of trade researchers and specialists* — both at the country- and regional levels — centered on universities, business schools, and think tanks dealing on the myriad trade policy issues, to provide technical backstopping to the foregoing stakeholders in the trade policy process (Helleiner, op cit).

Furthermore, the absence of *formalized consultative platforms* between government and non-state actors has weakened the latter's participation in the trade policy process. It has been observed that many governments have tended to consult narrowly without sharing strategic information with other stakeholders, to the effect of crowding out those stakeholder groups lacking capacity to source their own information, including SMEs that are so critical for the economic performance of many African countries. Furthermore, the consultation has tended to be ad hoc and limited to workshops and seminars, although these can admittedly be effective for setting the groundwork for policy dialogue, especially when made part of strategic reviews of national trade policy. The role of the state should be clearly defined in these consultative platforms, which should center on the provision of public goods, resolution of coordination failures, and lowering transactions costs in national trade policy formulation and management. USAID (2003) delineate three principles for guiding consultations between the public sector and non-state actors in the trade policy process, namely, timely information and agenda setting, broad representation, and transparency of participation. Government should also provide leadership in building and strengthening *business support services* in partnership with the private sector and civil society, such as

undertaking regular international trade fairs, industry exhibitions, and foreign trade missions to targeted international markets.

A key issue Africa countries will contend with in developing their productive capacity concerns compliance to mandatory *technical regulations and standards* regarding health and personal safety, labor standards, environmental health, technical specifications, etc<sup>7</sup>. Despite their legitimate policy justifications, technical norms and standards have a real impact on market access and can prohibit trade, either through their cost implications on producers and exporters, or through masking outright protectionist motives. To minimize the potential harm to international trade at the same time serving the legitimate policy objectives of member states, the WTO Agreement on Technical Barriers to Trade (TBT Agreement) provides the framework for the preparation, adoption, and enforcement of technical regulations and standards. The methodology of supply or value chain analysis provides an organizing framework for addressing Africa's supply capacity for key commodity sectors<sup>8</sup>, as well as guiding investments to capture a larger part of the global value-chain.

Traditionally, country *Standards Associations* — in concert with International or Regional Standards Associations or Agencies — have been responsible for ensuring adherence to international norms and standards for the domestic productive, import, and export sectors, both for protecting domestic consumers against substandard products wherever their origin, and for enhancing Africa's competitiveness in international export markets. While these agencies need capacitating, we submit that African countries should seek a thorough understanding of the TBT Agreement and participate in its deliberations, to ensure the fairness and sensitivity of the agreement to African and developing country conditions.

In light of the foregoing discussion, it is small wonder that trade policy coordination has been quite a formidable challenge in many African countries, prompting the requirement for *National Steering Committees* under IF, JITAP to facilitate in-country coordination of the trade process, although these too are still rudimentary even in the most advanced African countries. Countries could also turn to international assistance to mitigate the interagency conflicts-of-interest, coordination failures and trade-adjustment costs inherent to implementing trade reforms, such as those pertaining to short-term losses in revenue generation, the erosion of trade preferences, or loss of jobs for certain sectors and constituencies. More broadly, a *Trade Policy Advisory Council* would be instructive for providing overall assessment of the efficiency and efficacy of trade policy coordination in the country, comprising senior representatives from government, the private sector, and civil society, with a semi-annual rotating chairmanship of this council to mainstream participation by all stakeholders in the trade policy process.

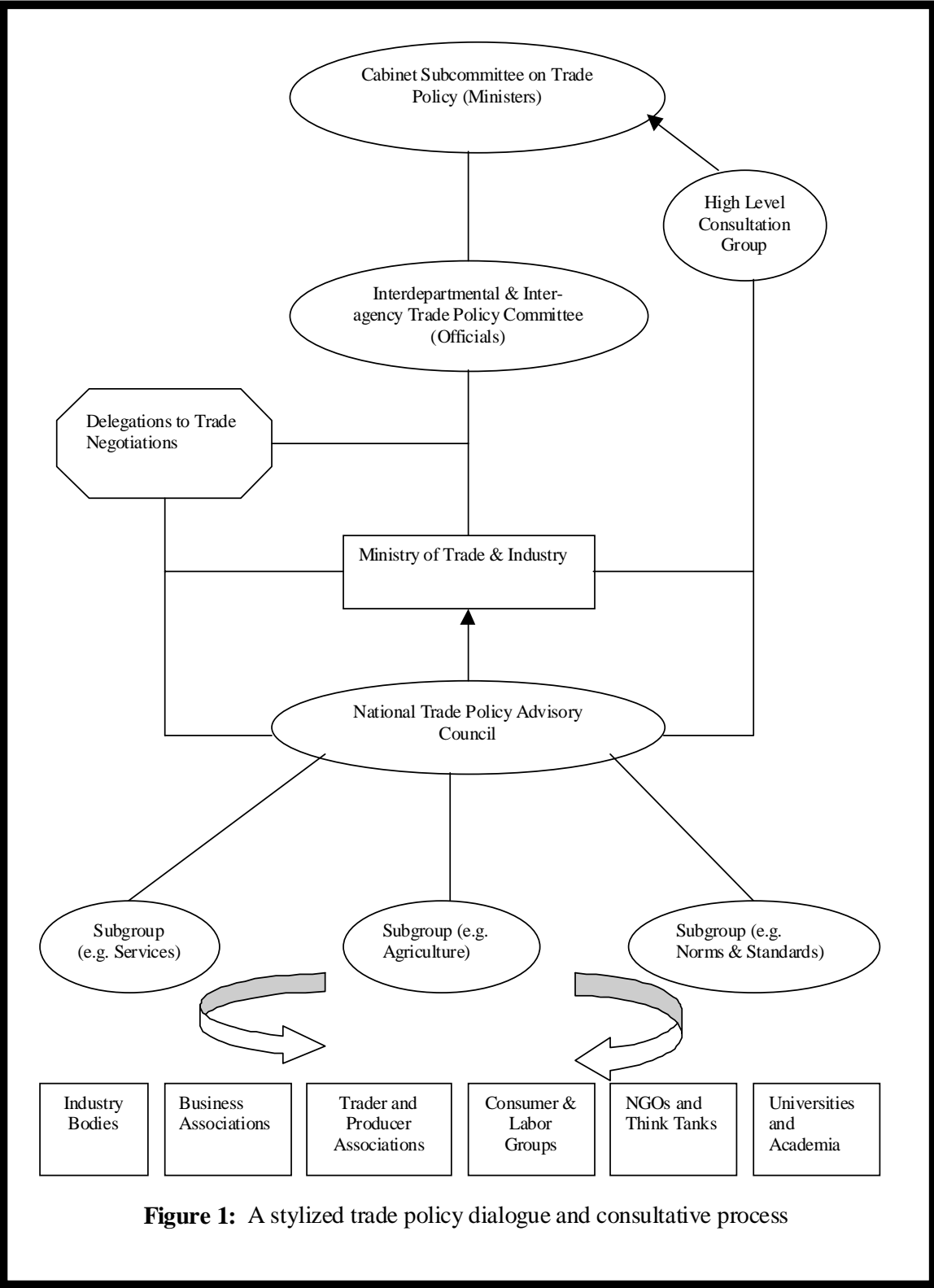
Figure 1 below is a diagrammatic of a stylized trade policy dialogue and consultative process, adapted from USAID (op cit).

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<sup>7</sup> The rising standards of living worldwide have occasioned concomitant trends in the demand for safe and high-quality products, accentuated by the growing problems of water, air, and soil pollution. Standardization is also a corollary of the modern, decentralized production firm and international specialization, where different components of consumer products are made in different countries and latter assembled into whole products before sale.

<sup>8</sup> Key commodity sectors qualify as such by dint of bearing comparative advantages; potential for poverty alleviation; or *linkages* with the rest of the economy, such as a privileged position as a leading foreign exchange earner.





**Figure 1:** A stylized trade policy dialogue and consultative process

Trade and investment promotion in Africa have important cross-border dimensions that require *regional collective action*, be it in respect of building and accessing regional trade infrastructure; cross-border animal disease control for agricultural trade; designing and managing regional certification schemes; or the need to manage the risk of investment contagion across regional member countries. In addition, regional integration can offer African countries relatively sheltered markets pending the attainment of the threshold competitiveness required for effective participation in the multilateral trading system, through the twin effects of *trade diversion* from the rest of the world and *trade creation* within regional blocks. Through the creation of large sheltered markets and increasing returns to scale, regional integration can provide a powerful attraction to market-seeking FDI (UNCTAD, op cit).

The regional dimension to trade-related capacity building is arguably starkest within the thematic on *trade facilitation*, particularly for the fifteen landlocked African countries. A regional approach stands to facilitate customs harmonization and simplification, alleviate border-post delays, enhance transport corridor efficiency, foster regional norms and standards certification, promote regional information sharing and exchange, build consensus on regional investment codes, and provide a framework for joint investment in cross-border trade infrastructure, notably power and transport networks (ILEAP, 2006; ECA, 2004). The reformulated JITAP, IF programs have also sought to sharpen the regional dimension to international trade-related capacity building and technical assistance.

Another critical area that lends itself to a regional approach in trade and investment promotion concerns multilateral trade negotiations within the auspices of the WTO, or the EPAs that are by design meant to be negotiated between two regional blocks, namely, the EU and sub-groupings of the ACP respectively. For African countries in particular, a regional approach could enable them to muster the critical bargaining power in multilateral negotiations, particularly with respect to contentious issues in the current Doha Round, such as reducing the cap on allowable agricultural subsidies; reducing the ceilings on tariffs on industrial products (so-called non-agricultural market access or NAMA); tackling such contentious issues as tariff escalation<sup>9</sup> for those commodities that Africa has a comparative advantage in, such as coffee, cocoa, cattle hides, tropical forestry, and diamonds; as well as agitating for enhanced access to trade-related capacity building and judicious technical assistance such as under JITAP, IF and other international initiatives as previous discussed. However, it is important to note that traditional coalitions of developing countries in WTO and the predecessor GATT negotiations are unraveling due to differential speeds at industrialization of the member countries. India, Brazil and China, long dependable African allies with the South-South partnership have increasingly become less so. For instance, India and the US have come under criticism for arguing for exceptions on too many agricultural products as sensitive sectors under the current Doha talks (*ibid*). The upshot is that African

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<sup>9</sup> Tariff acceleration refers to the levying of higher import tariffs on processed goods than on raw materials, which is effectively a tax on every step that developing countries could take in capturing the global value chain, in other words, an affront to Africa's aspiration to add value to and improve the terms-of-trade for their exports. For example, un-roasted coffee beans could enter the EU duty-free, but the tariff increases to 7.5% for roasted and decaffeinated beans. The current draft of the Doha text proposes to cut those by half (The Economist, 2008), with obvious appeal to East African countries for which coffee is an important crop; similar scenarios could be expected for cocoa and cotton in West Africa.

countries should continually evaluate their regional coalitions so that they could speak with one voice. It is hereby argued that Africa's regional economic communities (RECs) offer an excellent negotiating platform in WTO and EPA negotiations, for their relative regional homogeneity in socio-economic conditions.

A best practice in regional capacity building for trade and investment promotion is the establishment of *regional trade* and *investment hubs* for promoting competitiveness in the different regional economic communities. The regional hubs could also be instrumental in supporting a *regional network of trade expertise*, quite scarce in the experience of ACBF. Fortunately, there has been considerable progress in the development of regional economic communities (RECs) on the Continent. Nevertheless, a recently published ACBF-supported RECs Capacity Survey has revealed systematic capacity issues besetting many of the RECs in respect of their mandates (ACBF<sup>c</sup>, 2008). Because of the specialized nature of trade policy issues, establishing and strengthening regional trade and investment hubs ensures that efforts at trade-related capacity building and technical assistance are not diluted by the broader capacity weaknesses of the RECs<sup>10</sup>.

## **ACBF'S CONTRIBUTION TO CAPACITY BUILDING FOR TRADE AND INVESTMENT PROMOTION IN AFRICA**

The African Capacity Building Foundation was established in 1991 through the collaborative efforts of three multilateral agencies — namely the World Bank, the African Development Bank, and UNDP — in concert with African governments, with a mandate to build sustainable human and institutional capacity to promote economic growth and poverty reduction in Africa. Initially, ACBF's interventions focused primarily on economic policy analysis, formulation and management to support the then ongoing structural and economic policy reforms, until 1999 when the Foundation's mandate was broadened to the current six core competency areas. As at December 2006 the Foundation's portfolio comprised 130 active projects and programs across the six core competency areas, let alone small grants, for a total commitment of US\$173,444.673 million (ACBF<sup>a</sup>, 2006).

These projects and programs include policy units or think tanks in development policy analysis, management, and advocacy; training institutions and programs to generate a steady supply of qualified economic and development policy managers; interface projects to strengthen the capacity of non-state actors and foster their participation in national development and policy processes; knowledge networks to facilitate knowledge generation, harvesting, sharing, and policy advocacy; as well as national focal points for coordinating capacity building interventions in the respective countries. These efforts have a proximate bearing on trade and investment promotion in Africa, bearing in mind that the latter is predicated on sound macroeconomic and trade policy reforms, as well as the effective participation of all stakeholder groups — including the poor — in the development process (ACBF<sup>b</sup>).

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<sup>10</sup> Yes, this is some rare mitigation of the trenchant criticism of Project Implementation Units in the capacity building fraternity.

Recognizing the need for a more focused approach, the Foundation has since 2000 supported three regional projects expressly devoted to capacity building for trade policy development and negotiations in the multilateral trading system. In May 2000 the Foundation approved a Grant of US\$2 million with the overall objective of strengthening trade negotiating capacity within ECOWAS member states, through the development of a dynamic training program housed in the Trade and Customs Department of the ECOWAS Secretariat. Two years later, the Executive Board approved a grant of US\$1,500,000 in support of the project: “Strengthening Capacity for Trade Negotiations and Trade Policy Development within the Common Market for Eastern and Southern Africa (COMESA)”, with a goal to foster regional integration among COMESA member countries as well as their integration into the global economy through trade promotion. By design, these regional trade projects comprise an initial regional training-of-trainers to engender a critical mass of regional trade expertise, followed by demand-driven inc-country workshops on trade policy formulation and management within the multilateral trading system. The mid-term review for the COMESA trade project concluded that the program was well received throughout the COMESA member countries, triggering strong demand for subsequent training and materials on the WTO and the multilateral trading system.

Furthermore, in 2004 the Foundation approved second-phase funding for the *Projet pour le Renforcement de l'Interface entre les Etats et Chambres d'Agriculture de l'Afrique de l'Ouest* (PRIECA/AO II). PRIECA/AO I was the first of its kind in the Foundation’s portfolio, and the only regional interface project in Africa providing a formal regional forum for business leaders in the agricultural sector, government officials and representatives of regional and international organizations in regard to agricultural policy and trade development. PRIECA has been effective not only for the institutional consolidation of the chambers of agriculture, but also for the conduct of innovative research such as the effect of western subsidies on West African cotton economies, as well as contributing to the formulation of the African negotiating position in the Doha Round. The Project has also made notable contributions to the formulation of the NEPAD regional agricultural policy and strategy.

## **SUMMARY AND RECOMMENDATIONS**

Motivated by the need to address Africa’s low and declining competitiveness in global trade and investment, this paper has set out to explore the broad terrain of capacity building for trade and investment promotion in Africa, in turn to distill strategic guidelines for informing the implementation of the Foundation’s Second Strategic Medium Term Plan (SMTP II, 2007-2011), especially in respect of economic policy analysis and management, and professionalization of the voices of civil society and the private sector, themselves being two of the Foundation’s six core competency areas. The paper first argues that trade and investment promotion offer a veritable way of enabling Africa to achieve sustainable growth and poverty reduction. However, systemic weaknesses in human, institutional and productive capacity have hampered the realization of these aspirations.

At the international level these capacity weaknesses touched off a wave of initiatives at trade-related capacity building such as JITAP and IF, run and managed especially by the three Geneva-based agencies, namely, the WTO, UNCTAD, and ITC, in concert with multilateral

institutions such as the World Bank, UNDP, and the IMF. Apart from persistent concerns about the need to enhance the depth of access, and predictability and sustainability of funding, these international initiatives have generally failed to address the critical area of Africa's weak productive capacity to participate effectively in the multilateral trading system, not least because this area of capacity building requires significant resource outlays which developed countries are loath to mobilize because it provides direct competition with their entrenched interests. The paper argues that the methodology of supply or value chain analysis for *key commodity groups* provides a meaningful organizing framework for addressing Africa's weak productive capacity and competitiveness in trade and investment promotion. Informed policy could then be deployed to attract domestic and foreign direct investment to these targeted sectors.

The thrust of the paper has been its advocacy for an *institutional* approach to capacity building for trade and investment promotion, that is, the need to target key stakeholders, institutions and their interrelationships in the *trade policy process*, starting with the Ministry of trade as the formal apex of a network of public-sector institutions for trade and investment promotion, not least relevant line ministries, customs administration, revenue administration, immigration, investment authorities, standards associations, statistics agencies, trade promotion organizations; in addition to private-sector institutions such as chambers of commerce, commodity associations, freight companies, clearance agencies, road hauliers, trade-finance institutions. Civil society organizations include umbrella and specialist NGOs, labor unions, consumer associations, and universities. The received best practice has been to have the ministry of trade serve as the *lead agency*, assisted by multiple *inter-agency committees*. In particular, there should be continuous support for interdepartmental consultation and consensus building within the trade policy process.

It is also incumbent upon governments to institute *formalized consultative platforms* as veritable vehicles for engaging civil society and the private sector in the trade policy process. Government could also further engage non-state actors through partnerships with them in providing *business support services*, such as undertaking regular international trade fairs, industry exhibitions and foreign trade missions. The other institutional vehicle concerns the development of *networks of trade researchers and specialists* both at the country and regional levels to make up for the lack (and inherent limitations) of specialized and independent think-tanks dedicated to trade and investment promotion, spanning universities, business schools, and policy units focusing on the myriad trade policy issues, in turn to engender sustainable capacity and provide technical backstopping to stakeholders in the trade policy process.

To reiterate, the trade policy process provides the institutional *matrix* for tackling capacity building for trade and investment promotion in Africa. The trade process should also be endowed with a committee to coordinate international and regional programs such as JITAP, IF, EPAs, and regional initiatives such as COMESA. Finally, a *Trade Policy Advisory Council* with representation of the key stakeholders could be charged with the overall functioning and efficiency of the trade policy process.

The third thrust of the paper has been the articulation of the centrality of the regional approach to addressing important dimensions of trade and investment promotion in Africa, be it in respect of building and accessing regional infrastructure for trade and investment promotion; *trade facilitation*; regional coordination in multilateral trade negotiations; and

mitigating investment contagion among regional member countries. Regional coalitions could most naturally be co-extensive with the RECs, in addition to such formations as the ACP countries, South-South cooperation, and importantly, ad-hoc sector coalitions such as African cotton producers closing ranks with former Soviet Republics to agitate to enhanced market access to the US market for textiles and apparels, for example. As discussed before, the regional approach could be supported with a regional network of trade expertise to provide timely technical support to regional programs and initiatives.

Notwithstanding the commendable efforts of the African Capacity Building Foundation in strengthening capacity for trade and investment promotion in Africa, both at the national and regional levels, this paper argues that there is further need to target more squarely capacity building for key national and regional *institutions* proximate to trade and investment promotion in the respective member countries and the respective sub-regional formations. It is hereby submitted that the national and regional trade policy processes should provide the organizing frameworks for national and regional capacity building interventions for trade and investment promotion in Africa, targeting simultaneously the key institutions involved and the attendant interrelationships. In this respect, the paper goes so far as proposing a new product, namely, *country program for trade and investment promotion*<sup>11</sup> in the respective member countries. Trade and investment promotion should also be accorded greater prominence in the programming of the ACBF-supported Policy Units and training programs. The paper also hazards that the Foundation should consider building and sustaining the emergence of *specialized centers of excellence* in research, analysis and advocacy for trade and investment promotion particularly at the regional level, as well as building and sustaining *knowledge networks for trade and investment promotion* at both the national and regional levels. These local think tanks and networks would be crucial in providing intellectual succor to the national and regional trade policy processes, including multilateral negotiations.

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<sup>11</sup> A Country Program is one of the Foundation's fast growing interventions in capacity building. Unlike project interventions that have a narrow focus, a country program seeks to address simultaneously capacity weaknesses in a number of core institutions in the country in order to achieve discernible results and impact. Country programs are ideal for addressing systemic capacity weaknesses across the board, such as is the case with countries emerging from conflict, or those that have experienced a sustained political and governance crisis.

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