

Workshop on the Private Sector and Aid for Trade
ITC / IDB Dialogue
Lima, Peru
12 September 2007

The International Trade Centre (ITC) and the Inter American Development Bank (IDB) jointly organized a dialogue on the Private Sector and Aid for Trade on 12 September 2007. The dialogue was intended to unequivocally think, deliberate and underline the critical role of the private sector in the debate on aid for trade. It provided an opportunity to take stock of the numerous instances where the governments and private sectors have worked together to promote trade. The factors which led to the success or failure of such endeavors were analyzed to look for the means to replicate these successful initiatives. The lessons drawn from not so successful experiences were used to assess the specific needs of the private sector which should be addressed through the aid for trade initiative.

The dialogue was split into four panel discussions amongst key stakeholders and experts on the whole gamut of public-private collaborations for trade development, that is,

1. Private sector as advocates in trade policy making and for creating business friendly environment;
2. Private sector as partners in design, financing and execution of infrastructure projects,
3. Small and medium enterprises (SMEs) as beneficiaries of aid to enable them to take advantage of the opportunities of trade liberalization and
4. Trade finance as a tool for aid for trade.

The **panel on the advocacy role of the private sector in policy making** underscored that a well run system of private sector advice strengthens trade policy since,

- Private actors know the priorities
- Private sector is in a better position to impart technical information, and
- Their involvement in all stages of trade policy formulation and negotiations increases 'buy in' and effectiveness of the reform process.

It was considered absolutely essential that the private sector representation in advocacy is inclusive of all interests, that is, protectionist as well as reformist; local as well as foreign business interests etc.

In the context of participation of smaller countries, it was felt that they should organize themselves in issue based or regional coalitions and alliances and focus on priority issues instead of thinly spreading their limited resources on all issues under negotiations.

Effective participation on the part of private sector entails their willingness to learn about negotiations, mastering of technical issues, willingness to compromise with others' positions and be realistic about possible outcomes.

The private sector participants can leverage the technical competence and the neutral platform provided by international organizations in indirectly influencing the trade negotiations and policy formulation and getting access to the higher echelons of their governments. This would be especially important in countries with less transparent political regimes or where the culture of public-private debate on these issues is still at a nascent stage. It was further underlined that there is no 'one size fits all' model for public-private dialogue. The nature and factors for success vary from country to country.

The **panel on the role of the private sector in design, financing and execution of infrastructure** projects underscored the large and growing gap between the infrastructure needs and the resources that governments have at their disposal to invest in meeting these needs. Therefore, public and private partnerships (PPPs) are more and more considered as supplementary means for infrastructure development. The experience of implementing such programmes in developing countries has been mixed and has varied from sector to sector.

The adequacy or otherwise of sector specific regulatory arrangements played a major role in achieving the intended objectives of these projects. The issues determining the success of these projects are that the regulatory framework should facilitate competition and ensure transparency and fairness of pricing decisions. Getting the public and private sectors together to set priorities and develop mutually acceptable regulatory frameworks was considered an important pre-requisite to successful implementation of PPPs in infrastructure development. Similarly, other stakeholders also need to be taken into confidence especially while dealing with social and environmental impacts of such projects. Countries will need to learn from the experience of others in designing PPP policies and approaches tailored to the unique characteristics of individual sectors and local conditions.

The infrastructure was seen in the wider context comprising not only roads, railways, ports, energy, telecommunication etc but also the laboratories for quality, sanitary and phyto-sanitary controls, verification of standards compliance, border posts and associated computers and customs software etc.

Innovative methods of raising project finance for infrastructure from private investors through securitization of government certificates of acknowledgement of payment rights to the concessionaires and trading them in the secondary financial markets were also proposed.

The **panel on SMEs taking advantage of opportunities of trade liberalization** identified areas of technical assistance which would substantially enhance their export competitiveness. These areas include:

1. Formation of associations and clusters of SMEs for marketing their products and services.

2. Identification of niche markets and assisting small enterprises to produce according to the buyers' needs
3. Assistance in exports logistics by establishing linkages with large exporters.
4. Assistance for compliance with quality, SPS standards, packaging requirements, fulfilling customs procedures etc.
5. Assistance to SMEs in formulation of long term business plans for exports.
6. Assistance for product upgrading, innovation and diversification.
7. Assistance for regional integration was mentioned during all panel discussions.

The participants laid considerable stress on ensuring sustainability of such initiatives through building long term capacity and strengthening of local trade promotion institutions and reducing their dependence on external consultants.

It was felt that aid should increase especially for building the productive capacity, overcoming supply side constraints and infrastructure development. Furthermore, the effectiveness of technical and financial assistance should be enhanced through better donor and agency coordination and direct engagement of the private sector in design, management and monitoring of aid for trade schemes.

In the panel on **Trade Finance** as a Tool for Aid for Trade, the importance of trade finance as a critical requirement for all businesses was highlighted, as access to trade finance is key for exporting and importing companies, for them to be able to take advantage of the opportunities of, and compete within an increasingly global market.

The panel participants stressed the role of development banks in increasing, deepening and, during times of volatility, stabilizing the supply of trade finance by covering risks related to financing, providing unsecured loans to financial institutions for on-lending to exporters and importers and direct lending to corporates for export or import related activities.

Several areas where donor support could further increase and deepen the impact of the IDB's trade finance initiatives were identified:

To overcome limits on risk-taking capacity:

- Creation of Donor Risk Sharing Funds, for:
 - Countries experiencing volatility
 - Smaller banks and banks in smaller/lower-income countries and regions
 - Countries and/or banks reaching exposure limits

To overcome financial and human resource constraints to the integration of reaching smaller banks in the region:

- Financial/human resources support for:
 - The selection, credit analysis and integration of smaller banks into IDB trade-related initiatives
 - Monitoring the credit quality of these banks, annual line renewals

- Transactions processing, coaching these banks

To improve LAC trade finance capacity with a focus on MSME:

- Financial/human resources support for:
 - Provision of joint trade finance training courses for banks and representatives of their MSME exporting or importing client companies
 - Organization and coordination of the trade finance training courses