

Explanatory note to the DTIS Template

- The template summarizes the main topics covered by DTISs that have been completed or that are presently being prepared. However, all topics are neither covered in every DTIS nor is there the expectation that they will be covered in their entirety in future DTISs or DTIS updates. This template provides an indicative example of trade issues to be covered in DTISs/DTIS updates, rather than a prescriptive list of issues to be analyzed. In preparing DTISs/DTIS updates, other studies, such as the Investment Climate Assessments (World Bank), Investment Policy Reviews (UNCTAD), Trade Policy Reviews (WTO), Human Development Impact Assessments (UNDP) etc. may be used. Duplication should be avoided, and coordination with other studies should be ensured.
- The main challenge of future DTISs/DTIS updates is the prioritization of topics to be discussed in the studies and to be covered in the Action Matrix. DTISs can provide building blocks for this prioritization process, but our experience shows that this process should take place during an interactive dialogue with the stakeholders prior to the finalization of the DTIS. When we started the revamped IF, it was assumed that prioritization would mainly take place during National Workshops. However, in practice, this dialogue already starts during the preparatory mission; the preparation of the concept note prepared after this mission constitutes the first step of this dialogue. This dialogue should be continued during the DTIS drafting exercise, and active participation of stakeholders during this exercise has in our experience produced the best results. It builds ownership, the most crucial variable of the IF.
- The prioritized set of recommendations of the Action Matrix should be validated during National Workshops. It should be borne in mind that this set should be a package of measures, which in its totality will have a visible impact on a country's trade performance. This prioritized package will constitute a country's trade strategy, which should be reflected in a country's PRSP. Sometimes, this has been formulated as "the challenge is to identify the optimal size of a package that can make a difference". A package that is too large will face implementation barriers, and one that is too small will not have a sustainable impact. A viable trade strategy will most likely be comprised of sub-sets of all the main components of the template. The components of this package will of course vary from country to country.

DTIS TEMPLATE

Introduction

Given the distinctive situation and conditions prevailing in beneficiary countries, it is recognized that a Diagnostic Trade Integration Study (DTIS) must be country-specific. Thus, it must be understood that studies will not follow a 'one size fits all' approach. The integration strategy and related action plans must be tailored to the specific needs of each country and fit within the development framework proposed by the country itself.

At present (May 2008), 30 DTISs have been completed, and 13 additional studies are in preparation. Completed DTISs, along with concept notes, aide-mémoires and action matrices, are available on the web at <www.integratedframework.org>. The template presented in this note is based on the (foreseen) content of these DTISs and is intended to provide an illustrative but not prescriptive overview of the issues to be covered in future DTISs.

The template illustrates that trade is a multi-faceted issue; the topics presented cover a wide range of subjects. Not all of these topics are discussed in every individual DTIS. In addition, not every issue discussed in a DTIS is reflected in the Action Matrix. Prioritization of the issues to be selected and the related recommended measures are important for undertaking the DTIS and are key requirements for formulating a coherent trade strategy.

In practice, the prioritization process begins with the preparation of a concept note. The concept note highlights the issues to be discussed in a DTIS and formulates proposals on the methodology of the analysis to be followed. The concept note is discussed intensively with the authorities before launching the DTIS. Similarly, during the DTIS drafting phase, many interactions with the main stakeholders should take place. This will enhance their participation in the DTIS process, promote country ownership, and allow them to participate actively in the prioritization process. Based on the present practice, it is expected that the IF Board will be invited to comment on draft concept notes and draft DTISs/DTIS updates.

As strongly emphasized by the recommendations of the EIF Task Force, national ownership is one of the core principles of the Integrated Framework. The Terms of Reference and Criteria of the EIF National Implementation Arrangements provide clear guidelines on the operationalization of the ownership concept.

The recipient country will take the lead in the preparation and/or updating of its DTIS, including selection of the executing entity. Experts from other IF agencies and local and international consultants will work with the executing agency to prepare the studies.

Environmental, gender and labor standards implications from increased trade (especially in directly affected sectors) will be addressed, building on available studies on these issues if possible.

Several of the topics dealt with in a DTIS (for instance regional trade agreements and trade facilitation) have a regional dimension. In the relevant DTIS chapters, the regional dimension and the synergy between national and regional activities will be highlighted.

The government's adoption of the prioritized measures in the Action Matrix, including policy recommendations and measures for which external assistance will be sought, should result in the formulation of a coherent trade strategy and be integrated into in a country's national development plan or PRSP.

Under the Enhanced IF, it is envisaged that existing DTISs could be updated. In coordination with beneficiary governments, it will be decided at that time which issues need to be updated and which additional issues will be addressed.

The main components of the template include overall trade issues, cross-sectoral issues, sectoral studies and implementation arrangements. The DTIS will also include an executive summary and the Action Matrix. The headings and the specific issues listed under each heading can vary in line with the specific needs of countries.

Part I: Executive Summary and Action Matrix

A short and focused Executive Summary will be presented, highlighting the key points and main messages of the DTIS.

This section also contains the Action Matrix, which summarizes the prioritized strategic objectives and key actions that will be needed to address the main constraints to trade. The matrix will include policy recommendations and measures for which external assistance will be sought. The matrix should specify the following:

- an appropriate time frame;
- the responsible bodies for implementing the recommendations; and
- the source of existing and potential donor support.

Preferably, the matrix should be presented in a format that can easily be integrated in a country's PRSP or development plan.

Part II: Overall Trade Issues

A. Macroeconomic Environment

A stable macroeconomic environment and a stable exchange rate are a prerequisite for improving trade performance. The DTIS therefore contains a current description and assessment of the macro-economic environment, which could include the following elements:

- (i) the general macroeconomic environment (growth, monetary and fiscal policy, debt situation, remittances);
- (ii) the trends in the effective exchange rate vis-à-vis its major trading partners and linkages between a country's exchange rate policy and its trade competitiveness;
- (iii) the possibility of "Dutch disease" and its potential impact; and
- (iv) the impact of trade liberalization at the global and regional levels on the balance of payments, the real and nominal exchange rates, and the government budget.

B. Structure and Pattern of Trade and Investment

To provide background context on the general trade environment, the DTIS should present an overview of existing trends in trade and investment flows and the origin and destination of these flows. In addition, this section will address the (potential) comparative advantages of the country concerned.

Specific issues could include the following:

- (i) trends in imports, exports, and investments;
- (ii) a country's recognized global and regional comparative advantage, the identification of potential new exports and the identification of overseas market opportunities;
- (iii) international comparisons with the trade performance of similar countries; and
- (iv) quality of trade data.

C. Trade Policy and Institutions

This section analyzes the country's trade policy regime. Similarly, trade interventions and incentive arrangements will be analyzed to explore their effectiveness. In-country capacity bottlenecks on this subject should be given special consideration.

Specific issues could include the following:

- (i) trade regime in terms of tariffs, tariff dispersion, effective rate of protection, potential anti-export bias and other trade restrictions such as export and import licences, export taxes and export bans;
- (ii) other interventions in trade, including state trading enterprises, countervailing measures, anti-dumping duties and safeguards;
- (iii) institutional trade incentives, including export processing zones, trade promotion institutions and consultative arrangements with the private sector and civil society organizations; and
- (iv) capacity and coordination of a country's trade policy and trade promotion arrangements.

D. Trade Agreements and Market Access

Least-developed countries enjoy preferential treatment in many markets. Therefore, tariffs and quotas are less likely to be a major stumbling block for these countries. However, other market access issues may be constraining exports. Special attention should be paid to the in-country capacity to deal with these issues, which could include the following:

- (i) status of negotiations and implementation of multilateral, regional and bilateral trade agreements and preferential schemes;
- (ii) benefits and costs of involvement in several (overlapping) regional trade agreements;
- (iii) utilization of preferences;
- (iv) other market access constraints in export markets, such as standards, technical barriers to trade, tariff peaks and tariff escalation;
- (v) recommendations to strengthen preferential agreements with other countries and to reinforce the use of existing arrangements; and
- (vi) trade implications of a country's possible graduation from its LDC status.

E. WTO Accession (if applicable)

For countries that are in the process of WTO accession, it is useful to discuss in the DTIS how the country can maximize the benefits of WTO accession and membership.

Examples of issues to be addressed include the following:

- (i) outline of the main requirements for WTO accession (e.g., tariff bindings, domestic support for agriculture, implementation of trade-related regulatory agreements, etc.), the major constraints to meet these requirements and the likely impact of the Doha Development Agenda;
- (ii) an overall strategy for using the WTO accession process to support the country's economic development program;
- (iii) experiences of similar countries that have recently acceded to the WTO (such as Nepal and Cambodia); and
- (iv) review of policies and regulations affected by WTO obligations (e.g., those governing subsidies, standards, intellectual property, state trading enterprises, import licensing, trade remedies, customs, etc.), suggested priorities for the country's legislative action plan, and technical assistance needed to implement these reforms.

F. Trade and Poverty

To achieve pro-poor growth, the DTIS should analyze the implications of increased international trade for poverty reduction. Given that international trade can have both direct and indirect effects on poverty, the DTIS should provide estimates of the effects of trade expansion on the poor.

If appropriate data are available, the DTIS can examine the links between trade and poverty by making use of quantitative estimates. If data are not available, a qualitative assessment can be made. Other research, such as Poverty and Social Impact Assessments, can also be used to provide a better understanding of poverty.

Specific issues could include the following:

- (i) implications of trade liberalization on incomes, prices, availability of commodities, and employment with regard to the poor's consumption and production, and estimate the net impact on the poor over time; and
- (ii) identification of trade opportunities that benefit the poor, especially of labor-intensive sectors such as agriculture.

Part III: Cross Sectoral Issues

DTISs should address export competitiveness issues through an assessment of the business environment and other cross-cutting issues that affect exports, such as trade facilitation, customs and SPS constraints.

A. Business Environment and Institutional Framework for Trade and Investment

A well-functioning private sector is a prerequisite for countries to be able to take advantage of trade opportunities. However, conducting business in many countries is still difficult and costly. This places domestic producers at a disadvantage—both in terms of competing with imports as well as being competitive to exporters from other countries. Creating an enabling business environment and providing backbone services is, for many countries, a major bottleneck. The final selection of these issues should be based on an analysis of those elements of the business climate that mostly constrain trade.

Examples of issues that might be considered include the following:

- (i) legal framework, judiciary system, banking system including access to finance, land tenure, taxation, investment procedures, labor regulations and investment promotion; and
- (ii) access and costs of critical services such as power, telecom, water, etc.

B. Trade Facilitation

Effective customs administration, transportation infrastructure, and trade logistics services are critical to the developing countries' participation in world markets. This significance is derived from the need to provide efficient in-country transportation, as well as to ensure that the country is connected to foreign markets. Effective trade facilitation institutions stimulate trade and reduce one of the most significant bottlenecks to the movement of goods. Trade facilitation is broader than infrastructure—most of the delays in transport take place because of cumbersome procedures and regulations both at- and behind-the-border.

The trade facilitation section might undertake the following:

- (i) assess the trade facilitation chain in terms of infrastructure support—from the manufacturer to the forwarder, to the line haul, to customs to outbound transport (handling, scheduling), to the user;
- (ii) assess the non-infrastructure support of the supply chain, including regulations and institutional arrangements;
- (iii) assess the trucking sector policies including back loading of trucks; and
- (iv) identify actions by neighbouring countries and/or joint action at the regional level to facilitate the transfer of goods and provide alternative routing.

C. Standards

A country's standards regime, including but not limited to Sanitary and Phyto-Sanitary measures (SPS), has an important impact on its integration into the world economy. Therefore, it would be important to identify standard constraints and capacity issues as they relate to trade. In some countries this issue can more appropriately be dealt with in sectoral studies, in others as one of the cross-sectoral issues.

Specific issues could identify the following:

- (i) products where standard issues have already been raised or are likely to arise as exports develop; and
- (ii) policies and infrastructure needed to promote higher standards throughout the production chain.

Part IV: Sectoral Studies

In addition to cross-sectoral issues, the DTIS will thoroughly address constraints to exports at the sector and sub-sector levels. The (sub-)sectors will be drawn from agriculture, manufacturing and services. The selection arises from close consultations with the major stakeholders and may reflect the current or potential contribution to export growth as well as their impact on poverty alleviation.

Specific elements of sectoral studies could include the following:

- (i) review of trends of production, exports and employment levels;
- (ii) identification of major constraints (through value chain analysis or another suitable methodology) to production and export expansion in terms of external market conditions/demand and a country's overall competitive position;
- (iii) assessment of the scope for increased production, export, and export diversification including the identification of a country's most attractive markets;
- (iv) discussion of implications for poverty alleviation and employment generation, and review of the poverty alleviation dimension of increased production and exports through direct and indirect employment generation, in both the formal and informal sectors; and
- (v) proposals to address sectoral constraints including policy, legislative or institutional changes, capacity building measures and investments.

Part V: Implementation Arrangements

An important building block of the Enhanced IF is a strengthened focus on in-country implementation. The report of the IF Task Force and the ensuing work of the Transition Team include important recommendations to achieve this goal. In future DTISs and DTIS updates, recommendations can be formulated using an approach to concretely organize the in-country implementation process and the specific tasks of the appropriate bodies.