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**CLOSE OUT REPORT:
TRADE ENHANCEMENT FOR THE
SERVICE SECTOR (TESS)
September 2002 – November 2005**

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PREFACE

This is the closeout report for the Trade Enhancement Service Sector (TESS) project, under contract to the United States Agency for International Development (USAID) in Washington, DC. (Contract No. PCE-I-07-97-00014). The TESS project has been implemented for EGAT/EG/TI by CARANA Corporation.

The TESS Project was designed to encourage and support the liberalization and trade of services as a means of promoting economic development and country competitiveness. Specifically, the project has been intended to enhance the awareness of the importance and potential of investment and trade in services, facilitate empirical research and test new concepts, and disseminate best practices, and provide USAID Missions with rapid response technical support for the design and testing of service sector related concepts. More information can be found at www.tessproject.com.

This Closeout Report is organized in three principal sections. Section I summarizes the Concepts, Objectives and Evolution of the three year TESS project. Section II profiles the principal activities supported by TESS, organized by year. Section III provides some lessons learned with implications for future USAID programming.

TRADE ENHANCEMENT FOR THE SERVICES SECTOR (TESS): CONCEPT, OBJECTIVES AND EVOLUTION

INTRODUCTION

In most countries, services account for the largest (usually 50-80%) and most rapidly growing component of GDP, a significant share of foreign investment (FDI), a major source of employment and a growing dimension of trade. However, the role and potential of services in economic development and trade is often under-appreciated. Not only do services generate most new jobs, but they also provide essential inputs and the infrastructural platform that determine the competitiveness of productive sectors (agriculture, manufacturing, mining). For example, financial services are crucial in intermediation between savers and investors; telecommunications are increasingly critical in the knowledge based economy; transport in facilitating trade; education and health in building human capital; and business services in reducing transaction costs and adding value to products. As such, services can have a large impact on a country's ability to attract investment, expand exports and sustain broad economic growth.

In many countries, the availability, cost and quality of services are major constraints to development and trade. Problems range from public sector monopolies and limitations on competition and foreign investment (e.g. infrastructural services, financial services), to national standards that are inconsistent with international standards and/or the requirements of an evolving economy (e.g. accounting, education). When countries liberalize their service sectors and allow domestic and international competition, they enhance the performance (quality and cost) of their domestic services industries, stimulate an infusion of domestic and international investment and facilitate economic growth.

Liberalization of trade in services is a major emphasis of the current Doha round of world trade negotiations. While a number of developing countries have taken steps to liberalize their services market, many have been slow and/or uninterested in participating in the corresponding General Agreement on Trade in Services (GATS). Further depth and broadening of these international efforts, as well as efforts to strengthen domestic regulatory frameworks are required to maximize the benefits of services on economic development.

Systemic, institutional and human resource factors can also constrain the economic efficiency and effectiveness of service sectors. Weak capacity among service providers or systemic bottlenecks can lead to inadequate, costly, or inefficient services. For example, weaknesses in transportation and logistics services negatively impacts the cost and time in delivering goods to market, thus undermining export competitiveness. These systemic and enterprise level constraints and bottlenecks need to be addressed as elements of a country's economic growth strategy.

TESS OBJECTIVES, DESIGN AND EVOLUTION

In this context, the objective of the Trade Enhancement in Service Sectors project (TESS) has been to raise the profile of services among development practitioners and policy makers and demonstrate how the liberalization of services and/or facilitation of trade in services contribute to growth and economic development. The underlying question is how to help catalyze effective and efficient service industries, especially those that most directly affect export competitiveness and trade. TESS was established to function as a kind of research and development facility to support USAID/EGAT/EG in providing technical leadership in this important area, through the dissemination of best practices and results from special studies, rapid responses to Mission and country requests for support in designing strategies and

programs, workshops and training events, and providing an information clearinghouse on trade and liberalization in service sectors.

TESS is a Task Order under SEGIR Privatization I designed with both core funding and Mission buy-ins. Core funding was intended to be \$1 million per year for three years, but due to budget constraints, totaled \$2,299,200 over the three years. The total contract ceiling was \$6 million, with the balance – outside of core funding – to be made up through buy-ins from USAID missions or central bureau. After some initial buy-ins, however, the Contracts Office discouraged further buy-ins since SEGIR Privatization I had been superseded by the Privatization II IQC, and deemed that utilization of TESS as an IQC-like instrument, was inappropriate. As a result, total TO funding, including buy-ins, amounted to \$3,349,000. The lower level of funding, however, also meant a significant change from the original SOW and expectations in regards to the project’s deliverables.

TESS was designed by USAID/EGAT with three principal thrusts: (1) Knowledge management, (2) regional service sector trade seminars, and (3) USAID mission and USAID/Washington Offices support, specifically a quick response mechanism for short-term technical assistance efforts targeting global trade development, with an overall focus on design, analysis, assessment, and program/project support. The initial SOW requirements and the evolving and actual responses under each of the principal thrusts are outlined below:

Knowledge Management

The focus of this component of TESS was to advance the level of knowledge regarding services, develop tools and best practices, disseminate and provide access to information and resources, and generally advance the level of awareness among development practitioners, but within USAID in particular. The specific TO requirements included:

- Analysis – Discrete analytical studies relating to the role of services in trade competitiveness, service sector capacity development and trends in services sector. Twelve such analyses were completed during the duration of the project. Study topics were mostly requested by EGAT. The most significant activity, which involved several studies related to transportation and logistics was specifically requested by Emmy Simmons, the director of EGAT at the time. Some analyses, however, were linked to USAID mission requests. The analytical studies, further discussed in a subsequent section of this report, included:
 - Impact of Transport and Logistics on Trade: Role of Transportation and Logistics in International Trade in the Developing Country Context
 - Impact of Transport and Logistics on Nicaragua’s Trade Competitiveness
 - Impact of Transport and Logistics on Indonesia’s Trade Competitiveness
 - Impact of Transport and Logistics on Mali’s Trade Competitiveness
 - Impact of Transport and Logistics on the Competitiveness Bulgaria’s Apparel Sector
 - Improving Transport and Logistics for Trade (Final report for transport and logistics activities)
 - Marketing Strategy for Sector Investment in Kyrgyzstan (also a USAID bilateral support activity)
 - Diasporas and Development: Theory, Evidence and Programmatic Implications
 - Diasporas, Émigrés and Development: Economic Linkages and Programmatic Responses

- West Africa Financial Flows (Also a USAID bilateral support activity)
- Enhancing Export Capacities of Mauritian Service Suppliers in IT and Business Process Outsourcing (BPO) (Also a USAID bilateral support activity)
- Database Development and Management – The SOW anticipated a database to track trade liberalization of services in USAID assisted countries with EGAT hosting this database and TESS staff updating on a semi-annual basis. In consultation with the CTO, however, it was determined that this would not be a cost-effective use of resources. Instead, a web site was developed to provide

Year	2003	2004	Jan-Nov. 2005	2005 (est.)	Total
Visits	4994	11282	16554	18058	34334
Unique Visitors	4321	9526	14287	15585	28134
Average pages/visit	2.54	2.19	1.78	-	2.17

users with a clearinghouse of data sources, reports, and information regarding services in development and trade in services (see www.tessproject.com). Text box 1 provides information on TESS website usage.

- Service Sector Training Module – The SOW envisioned a training module for service sector trade liberalization, outlining relevant issues, approaches and resources to be used by USAID in ongoing training activities for EGAT officers. While a training module was outlined, it was determined by EGAT that since another contractor (Nathan Associates) was already providing overall training on trade capacity building for EG officers, it would be redundant and overkill to add a major new module or training activity. Thus, this initiative was dropped in favor of more specialized workshops and seminars. A series of workshops was held at the Ronald Reagan building, including the following:
 - Russian Electricity Industry Restructuring
 - Harmonized Telecommunications Liberalizations and Regulation in the Eastern Caribbean
 - Transport, Logistics and Trade: A Focus on Civil Aviation
 - Impact of Transportation and Logistics on Trade
 - Diaspora, Émigrés and Development
- Services Sector Pamphlets – The SOW anticipated that TESS would produce pamphlets on different types of infrastructural services, outlining specific issues, potential solutions and web-based resources, as well as an overall brochure describing TESS services. These were to be in printed form and distributed among Missions to help guide them through key issues and to available resources. During the first year, a general brochure was prepared and widely distributed, and two specific pamphlets (telecommunications and civil aviation) were also prepared. In Year 2, two additional pamphlets on services within the GATS context were prepared. Midway through Year 2, however, the CTO accepted the recommendation that printed pamphlets were not cost effective. Instead, more emphasis was given to developing and disseminating more practical materials and tool-kits. These included videos of workshops and training events (disseminated on the website and CD).

Regional Service Sector Trade Seminars

The SOW anticipated that the Service Sector Training Module (discussed above) would be delivered in four regional trade seminars for USAID bilateral mission personnel, their government counterparts and private sector participants. However, since the training model was not developed, these seminars were not organized either. Instead, TESS focused on facilitating a number of regional and country specific

workshops and conferences related to specific issues and in most cases to better disseminate the results of other TESS activities. These included:

- A two day conference in Washington, D.C. on the asset-based approach to poverty alleviation, organized in support of the Poverty Reduction office in EGAT
- Two workshops in Nicaragua on logistics and transportation and strategic implications for investment and export development
- Two workshops in Bulgaria on logistics and transportation and their implications for supply chains and export development
- Eleven workshops and seminars on harmonization of education standards in Central Asia for nearly 800 university officials and professors and government officials
- A workshop bringing together top level private and public sector officials to develop a strategy for promoting investment in Kyrgyzstan, especially in service sectors
- The 2004 International Council of Certified Accountants and Auditors (ICCAA) Winter Conference in Moscow to promote international accounting standards
- A workshop in Thailand on best practices in service sector statistics

Rapid Response to Mission and USAID/Washington Office Requests

The third and principal thrust of the TESS SOW involved support for USAID Mission and/or technical officers within USAID/Washington with respect to analytical, design and/or evaluation services to advance service sector and service trade liberalization. It was initially anticipated that funding for seven to ten short-term assignments would be implemented each year. However, this assumed Mission buy-ins and co-financing, which with a few exceptions were discouraged by OP. The following assignments were carried out in response to Mission requests:

- *Technical Assistance to Barbados Fair Trading Commission (FTC) on Interconnection Issues* – Support for regulators in negotiating interconnection agreement required for telecommunication liberalization.
- *Technical Assistance to the FTC of Jamaica* – Training for regulators in understanding and enforcing competition law in services industries.
- *Support for Securities Market in Botswana* – Technical assistance to facilitate the development of the Botswana Stock Exchange to enable it to serve as a host for listing Government Bonds.
- *Introducing a Standardized Credit Hour System for Higher Education in Central Asian Republics (CAR)* – Facilitating the implementation of the Bologna Agreement, and specifically the credit hour system and accreditation concepts to facilitate trade in education services.
- *Marketing Strategy for Sector Investment in Kyrgyzstan* – Survey with potential investors in different opportunity areas (including services sectors) to determine potential for attracting investment, and the priority actions required.
- *Promotion for Certified International Professional Accountant Program (CIPA) in Russian Speaking Countries* – Facilitating the introduction into Russia of the Russian language certification program for accountants (developed with USAID funding in Central Asia).
- *The Impact of Trade and Investment on Employment Creation and Poverty Decline in Indonesia* – Participation in assessment to inform USAID about the impacts of Indonesia's trade and investment reforms.

- *West Africa Financial Flows (WAFF)* – Analysis of informal, cross-border financial flows and the constraints to bringing these into the formal sector.

The following assignments were carried out in response to requests from USAID/W and other USG agencies:

- *Global Accounting Education Benchmarking* – Developed a quantitative assessment tool to identify gaps between present practice and international accounting standards and monitoring a countries’ progress in meeting international standards for the accountancy profession.
- *Enhancing Export Capacities of Mauritian Service Suppliers in IT and Business Process Outsourcing (BPO)* – At the request of the Government of Mauritius, and the US State Dept., an assessment of the competitiveness of this service industry.
- *Thai Services Statistics* – At the request of the Government of Thailand, and the USTR, support for strengthening the quality of service sector statistics.

TESS ACTIVITY BY YEAR

A brief description of specific TESS activities, by contract year is provided below:

YEAR ONE ACTIVITIES

Knowledge Management - Analysis

- *Special Study Phase I: Impact of Transport and Logistics on Trade—Role of Transportation and Logistics in International Trade, the Developing Country Context*

This study was identified as a top priority by EGAT management. This first phase was a desk study to understand the systemic structures and dynamics of transport and logistics systems and their impact on trade, and to develop an analytical framework to diagnose, benchmark and improve developing country trade support service sectors. The study, led by Lora Melvin, identifies a number of key drivers leading to higher trade transaction costs through accrued time and financial cost in the movement of traded goods in developing countries. These include drivers tied to different modes of transport (air, maritime, land), the provision of auxiliary services such as cargo handling and storage, and consequences of inadequate competition within modal sectors and other factors with an impact on the movement of goods. While cost drivers vary from country to country, and product to product, the impact remains the same, less competitive goods.

The study provides an analytical framework, or “roadmap”, to identify specific constraints and issues within various modes of transport, intermodal networks, infrastructure, customs practices and procedures, trade related banking and financial practices, transport/logistics intermediaries, and the overall framework of a country’s transport and logistics system. The information gained from these analyses can be used to develop national strategies geared towards enhancing trade competitiveness through more efficient transport and logistics systems. This diagnostic tool was tested in four countries (see below) and presented at USAID in September 2003.

- *Special Study: Enhancing the Role of Émigré Populations in Economic Development*

TESS initiated a special study to gain a better understanding of economic linkages between émigré and diaspora communities and their countries of origin, and to identify possible economic development initiative to capitalize on these linkages. Two sub-studies were commissioned to assess the link between

émigré and economic development. Dr. James Rauch prepared *Diasporas and Development: Theory, Evidence and Programmatic Implications* that reviewed commercial ties between diaspora communities and their countries of origin. Dr. Rauch focused on the mechanisms through which trade and direct investment generated by diasporas might increase economic growth and also discussed weaknesses in diaspora business linkages.

Brett Johnson conducted a literature review and extensive interviews with members of donor agencies and relevant international organizations in assessing programmatic opportunities for international donors, international organizations and countries of origin to tap into the development potential of diaspora and émigré communities. This sub-study covers means to further involve diaspora communities in development programs, add value to remittance flows through activities in financial sectors, organize diaspora communities to promote trade and investment, and turn the assumed brain drain into a “brain gain.” The resulting report, entitled *Diasporas, Émigrés and Development: Economic Linkages and Programmatic Responses* was widely disseminated among practitioners within USAID, the World Bank and migration-development community, and resulted in several requests for participation in workshops and discussion roundtables.

Knowledge Management – Seminars/Workshops

- *Workshop: Russian Electricity Industry Restructuring*

Larissa Shiryaeva, a lead member of the team coordinating the electricity sector-restructuring program, presented an overview of radical and comprehensive liberalization, demonopolization and privatization reforms being undertaken at RAO UES (United Energy Systems). Ms. Shiryaeva focused on the industry structure, changes in the relationship structure, the competitive wholesale market and the retail market. The strategy will result in the disappearance of RAO UES (the monopoly holding company) by 2007.

- *Workshop: Harmonized Telecommunications Liberalization and Regulation in the Eastern Caribbean*

This seminar presented the results of an innovative regional approach to liberalizing the Eastern Caribbean telecommunications services sector, which has always had a private monopoly (Cable and Wireless). Three senior telecommunications experts/economists presented an overview of best practices and lessons learned in helping the small countries of the Eastern Caribbean implement a harmonized liberalization strategy, including a common regulatory authority, through the USAID-funded Eastern Caribbean ICT Initiative (ECICT).

Dr. L. Spence Thomas demonstrated how poor service quality and high prices have negatively impacted investment and subsequent growth in the islands, and how this has begun to change with liberalization. Dr. Martin Taschdjian examined five interrelated issues to be addressed in the policy framework, reviewed the challenges facing regulators and how they were being addressed in the region. Dr. Sharon Black focused on the legal structure and the regulatory responsibilities of ECTEL, the National Telecommunications Regulatory Commissions (NTRCs), Ministers of Telecommunications, Prime Ministers, and related agencies. Dr. Black also presented recommendations from the ECICT team—including the production of a manual to guide each member state in the writing of harmonized policies and legislation, and the hosting of training workshops on the technical areas of the policy framework.

- *Workshop: Transport, Logistics and Trade: A Focus on Civil Aviation*

TESS invited Anil Kapur, a senior-level consultant with extensive experience in globalization and infrastructure, to lead a seminar on the role of the civil aviation sector and identifying some of the emerging issues affecting the sector as a result of globalization and the growth of world trade. The

presentation focused on trends in globalization and world trade, emerging constraints in the civil aviation sector, issues and implications for globalization and trade, and suggested next steps and actions. The seminar was recorded on video and disseminated in CD format and streaming video on the Web.

- *Workshop: The Impact of Transportation and Logistics on Trade*

On September 3, 2003, TESS hosted a seminar that explored how trade and market related policies and considerations may unduly raise transportation costs and negatively impact quality of service and infrastructure, as well as the efficiency of the integrated system. Of particular importance are barriers to competition, artificial distortions in pricing and service quality, limits on entry of world-class service providers, lack of investment in transportation infrastructure, and inefficiencies in inter-modal transport linkages. This workshop was linked to the Phase I of the special study on transport and logistics.

USAID Bilateral and USAID/Washington Support

- *Rapid Response Assignment: Technical Assistance to Barbados Fair Trading Commission (FTC) on Interconnection Issues*

During the summer and fall of 2003, at the request of the USAID/Barbados, which provided buy-in funding, a team of TESS consultants assisted the Barbados FTC on technical matters related to the country's telecommunication act and interconnection regime. The objective of the task was to end the monopoly in the telecommunications sector. The team provided assistance on issues related to quality of service, interconnection regulations, pricing, competition, dispute resolution and access deficit arrangements. A major theme of the project involved tutoring and training FTC staff and commissioners to strengthen their capacity to undertake future negotiations as Barbados moves toward greater telecommunications sector liberalization.

The team succeeded in providing the FTC with the information and training they needed to strike an agreement with the private monopoly provider that was equitable as well as supportive of investment by new market entrants. An agreement, based on the activity's input, was signed on January 14th, 2004. Almost immediately, two new entrants entered the market and cellular prices dropped by as much as 76%. It is anticipated communications sector employment and investment will increase too. Since the end of the TESS activity, Barbados has also moved forward in liberalizing its international telecommunications services.

- *Rapid Response Assignment: Technical Assistance to the Fair Trading Commission of Jamaica*

In the summer and fall of 2003, at the request of USAID/Jamaica, TESS mobilized a team of competition, consumer protection law and economics experts to provide the staff of the Fair Trading Commission (FTC) of Jamaica with the knowledge and understanding of competition issues. This understanding is necessary for the Commission to develop into an effective competition authority able to address abuses of monopolistic dominance and unfair competition. A second objective was to expose relevant Jamaican government bodies to the basic issues of competition for which they are responsible. In addition to involving government officials, training invitations were extended to attorneys and law firms in Jamaica.

- *Rapid Response Assignment: Support for Securities Markets in Botswana*

In May 2003, at the request of the USAID mission in Botswana, a TESS team was sent to provide technical assistance and facilitate the further development of the Botswana Stock Exchange's (BSE) legal, structural and operational framework. The activity was aimed at enabling the BSE to serve as an adequate host for the impending listing of a Government of Botswana Bond. This included assistance in the

strategic planning process of the BSE, the development of a financially self-sustaining business plan, and the drawing up of a phased organizational structure. The TESS team also provided adopting or revising its rules and operating procedures related to trade, membership, disciplinary procedures, clearance, settlement and depository activities for government bond trading. Furthermore, TESS provided guidance to the BSE and Ministry of Finance to ensure the legal framework (i.e., the Botswana Stock Exchange Act and Rules) allowed for the listing and trading of government and corporate bonds.

- *The Impact of Trade and Investment on Employment Creation and Poverty Decline in Indonesia*

In late 2003, USAID/Indonesia requested assistance in analyzing the impact of Indonesia's trade and investment reforms on economic growth, creation of more and better jobs and poverty reduction. The study was to provide not only general information, but also distributive dimensions of this growth across sectors, regions and different household demographic groups. As part of a collaborative effort with the USAID Growth Through Investment and Trade (GIAT) Program (who provided two consultants) TESS provided a trade and services advisor to provide a services perspective in relation to trade policy and trade, investment and labor market developments.

YEAR TWO ACTIVITIES

Knowledge Management

- *Study: Nicaragua Transport and Logistics*

The TESS team conducted a two-week in-country study to assess the impact of Nicaragua's transport and logistics system on the competitiveness of its exports. A team of TESS transport, logistics and trade experts met with a variety of stakeholders in the private and public sectors to identify inefficiencies and bottlenecks within the movement of goods. The consultants also gathered cost data on the movement of a variety of bulk and containerized exports, quantifying costs related to pre-shipment, domestic transit and international transit. Based on this information, the TESS team provided a range of recommendations related to infrastructure improvements/investments, shipment consolidation, pre-shipment packaging, customs processes and transportation policy. After the completion of the study, members of the team returned to Nicaragua for two workshops to present the findings to public and private stakeholders, which helped accelerate action on a number of the recommendations.

- *Study: Indonesia Transport and Logistics*

In order to determine how transportation and logistics affects Indonesia's trade competitiveness, the TESS team met with a variety of players in the private and public sectors and conducted field visits to trade gateways to observe inefficiencies and suggest better supply-chain management techniques. The team followed seven products from the manufacturer's gate to the final exit point in the country to identify transportation bottlenecks and the addition of cost. The study focused on ways to address factors that lead to bottlenecks, inefficiencies, and higher time and financial costs in the movement of traded goods in Indonesia. Among costs quantified were the costs of bribes and corruption. The team's recommendations were submitted both to USAID and the Government of Indonesia.

- *Study: Mali Transport and Logistics*

The TESS team conducted a three-week in-country study to assess the impact of the transport and logistics system on Mali's export competitiveness. Data was gathered through face-to-face interviews with over 50 public, private and international stakeholders. The team quantified transport and other trade support service costs and time factors at each stage of the system, for the export of cattle, cotton, gold, mangoes and freight-all-kinds (FAK). For each product category, cost information was collected for the

movement of goods via various routes and modes to different destinations abroad to allow for comparison and development of a “Transportation and Logistics Map.” Priority areas for attention and possible private and/or public interventions to strengthen the transportation and logistics chain and facilitate the development of the trade support services market were recommended. The WATH Trade Hub is following up the study.

- *Workshop: Asset Building for Sustainable Development*

The TESS team organized a two-day workshop January 14th to 16th 2004 for USAID Washington staff on asset-based approaches to poverty reduction and development and ways that USAID can incorporate these approaches at the institutional and programmatic levels. The asset-building approach focuses on developing the stock of wealth available to the poor to achieve sustainable long-term and improved well-being. Assets are broadly defined and do not simply include financial holdings but also the knowledge and skills of individuals, their social bonds and community relations, and their ability to influence decisions that affect their lives. Hernando de Soto presented the keynote address. The event was videotaped and disseminated through the TESS website, and has been picked up by other sites such as the USAID-financed MicroLink.

USAID Bilateral and USAID/Washington Support

- *Rapid Response Assignment: Introducing a Standardized Credit Hour System for Higher Education in Central Asian Republics*

Several countries in Central Asia signed the Bologna Agreement, in which European and Eurasian countries agreed to harmonize higher education standards and move towards a more Anglo-American model. At the request of USAID/CAR, TESS provided help to four countries (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan), with compliance, and especially adoption of the credit hour system, and corresponding changes in accreditation and degree structures. These involve drastic changes for Ministries of Education, university administrators and professors. The TESS team developed brochures and guides on western systems, tailored to the specific needs of each Republic based on their phase of transition to the credit hour system. They also developed a series of articles in newspapers and journals, as well as a website, that focused on the role of the education sector in trade capacity building and economic growth. The team also held workshops on western degree systems attended by over 779 university rectors, deans, department chairs, professors and government staff. The work initiated under this assignment is being continued under the USAID funded Business and Economics Education Project, EU grants and government commitments, especially in Kazakhstan and Kyrgyzstan.

- *Rapid Response Assignment: Marketing Strategy for Sector Investment in Kyrgyzstan*

At the request of the Government of Kyrgyzstan and USAID/CAR, the TESS team helped structure a strategy for marketing the country to foreign investors. This was primarily based on an interview program with representatives of 141 foreign companies in six opportunity areas perceived to be the most promising (including 4 service sectors). Interviews determined the key “success factors” used by firms in making location/investment decisions, how Kyrgyzstan rated relative to these factors, and likelihood/potential of investment if these priority issues were addressed. In addition, data was collected from cities in 5 other countries in the region on key location factors (i.e. transportation, telecommunications, electricity, labor, land and buildings). Based on the investor perceptions, cost and location factors and sector analysis, the team prioritized opportunities for proactive promotion based on likelihood of success and economic impact. The team facilitated a workshop aimed at helping key opinion makers and stakeholders in the Kyrgyz Government understand the market from the investor’s perspective and forge a consensus on how to move forward. The results have been incorporated in a EU funded program to establish a proactive Investment Promotion Agency.

- *Study: Enhancing Export Capacities of Mauritian Service Suppliers in IT and Business Process Outsourcing (BPO) Sectors*

At the request of the Government of Mauritius and US Embassy, CARANA assessed Mauritius' IT and BPO service sectors ability to increase their shares of the global market using primary data gleaned from interviews with private and public sector firms and organizations. Using criteria established by global corporations and medium size businesses when selecting an offshore destination, the study delineated key success factors and made specific recommendations to improve the competitive position for Mauritius. The Information and Communications Technology (ICT) environment and infrastructure were also reviewed.

- *Rapid response Assignment: Accounting Reform—Promotion for Certified International Professional Accountant Program in Russia*

To promote transparent accounting as the basis for enhanced management, financing and shareholder trust, USAID/CAR had developed a Russian language certification program for accountants, “Certified International Professional Accountant” (CIPA). While this program was expanded to other countries, notably Ukraine, it was understood that long term, the program would be most successful if Russia joined the initiative. At the request of the E & E Bureau and USAID/Moscow, TESS established a CIPA promotion office in Moscow with linkages to accounting associations from Russian speaking countries, and designed and implemented a marketing and public awareness campaign advocating the adoption of international accounting standards, and Russian language certification. The TESS initiative is being followed up by a major GDA program involving Russian, international, regional partners.

YEAR THREE ACTIVITIES

Knowledge Management

- *Study: Bulgaria Transportation—Impact of Transport and Logistics on Bulgaria's Textile and Apparel Competitiveness*

At the request of the E & E Bureau, between April and June 2005, a USAID TESS/CARANA Team assessed the impact of trade support services and supply chain management logistics on the competitiveness of Bulgaria's textile and apparel industry. The study was used as a basis for training targeted managers of firms in the textile and apparel, and transport and logistics sectors. The textile and apparel sector represents almost 25 percent of Bulgaria's export revenue and is the one of the largest single product category of exports for the country exports. The analysis suggested that the key opportunities for improving transportation and logistics performance for apparel exporters in Bulgaria are increasing the capacity and capability of border crossings, improving linkages between producers and their supply chain providers, and streamlining customs procedures – especially for goods that are imported for goods that are ultimately exported.

The USAID/Bulgaria Labor Market program, as well as the E & E Bureau's Regional Competitiveness Initiative are funding follow-up activities.

- *Final Report on Transport and Logistics Task: Improving Transport and logistics for Trade*

The TESS project carried out five different analyses focusing on transport and logistics issues in a variety of developing and transition country contexts, covering different export products and value chains. The final report on the project's transport and logistics provided a summary of the TESS transport and

logistics findings, common issues identified in the studies, and recommendations on designing interventions to address transport and logistics in development projects.

- *Impact Assessment of TESS Project Sub-tasks*

At the request of the TESS CTO, the TESS team developed a summary of the results and impacts (both realized and potential) of the TESS project. Providing examples from the project's 20 sub-tasks in over 20 countries, the assessment discussed how the TESS project has 1) raised the profile and awareness of services sector and issues; 2) promoted services enhancement and drive new types of thinking in services development; 3) carried out actionable research and development and develop analytical frameworks for service sectors; and 4) served as a catalyst or seed for services enhancements or follow-up programs in service sectors.

USAID Bilateral and USAID/Washington Support

- *Global Accountancy Education Benchmarking (GAEB)*

The GAEB project supported efforts to increase transparency and accountability in transition and developing countries. Working with professional accountancy bodies in the Balkans, a team of TESS consultants developed a quantitative assessment tool to identify gaps between present practice and international accounting standards and monitoring a countries' progress in meeting international standards for the accountancy profession. A primary focus was on professional accountancy bodies and how they prepare their members to process the capability and competency required by international standards. This type of activity is important for facilitating global trade in accountancy services and setting priorities to strengthen the accountancy profession in transition and developing countries. While the methodology is transferable, this project focused on countries in South East Europe.

- *Thai Services Statistics—US-Thailand Cooperation on the Collection of Thailand's Services Sector Statistics*

At the request of USTR, a program was organized to help Thailand improve the collection of service sector statistics. The TESS project team advised the Thai agencies on the international standards established by the Manual of Statistics of International Trade in Services (the *Manual*), and on prioritizing and implementing the *Manual's* recommendations. While the *Manual* establishes the guidelines, it does not provide compilation guidance, hence, the project team provided a strategy and developed tools to undertake implementation of the *Manual*. Work included an assessment of Thai statistical collection activities, a study tour of US statistical systems for 6 Thai officials, design of two special survey questionnaires to collect international services data, a pre-test of one questionnaire, discussion of the pre-test experience and presentation of the draft final report containing the team's findings and recommendations for future implementation, as well as compilation notes on how to compile data for most of the services sectors. Once implemented, Thailand will have services trade data that is internationally comparable and its trade negotiators will have more disaggregated and accurate data from which to base policy decisions. The methodology and the survey questionnaires that were developed are adaptable for use in other countries worldwide.

- *West Africa Informal Financial Services—Promoting economic integration in West Africa by facilitating intra-regional remittances and trade settlements*

At the request of USAID/WARP, a TESS team investigated the size and scope of informal financial transactions in ECOWAS and estimated the amount to be US\$2 billion annually in remittances and possibly US\$8 billion in trade settlements among the four countries (Ghana, Mali, Nigeria, and Senegal) that were selected for the case study. The team collected primary data through interviews with private, public, and informal sector players and presented its findings and recommendations at a major conference held in Accra in March, 2006 which was attended by other donors, government and the private sector from throughout the region. The West Africa region experiences overly restrictive government policies, inconvertibility of currencies, corruption and traditional patterns that contribute to informality in a region that is severely under-banked. The study quantified the magnitude of the demand for access to formal financial intermediation by enterprises and individuals that have been historically underserved by the private financial sector and the government. The report outlines a role for government interventions, financial intermediaries and the business community to usher in reforms while introducing the use of technology. Sub-Saharan Africa is a highly mobile and informal region and the findings and recommendations may be applicable to other regions on the continent.

LESSONS LEARNED AND IMPLICATIONS FOR FUTURE USAID PROGRAMMING

A number of lessons were learned in implementing the TESS project that should be of value for consideration by USAID in its future programming.

- *USAID Economic Growth officers and Missions generally underappreciate the role of services in development and economic growth around the world. This is reflected in Mission strategies and programming, which tend to emphasize general business climate and goods based sectors (agriculture and manufacturing) with little mention of services (with the possible exception of financial services). Occasional projects to enhance telecommunications, private-public partnerships involving infrastructure, tourism and ICT, are the exceptions that prove the rule. The fact that in most economies, services are the most dynamic sectors in terms of job creation and value added, and often in terms of trade is not reflected in strategies and programming. The critical role of competitive infrastructural services is more generally understood; however, it is assumed that USAID does not “do infrastructure” and thus opportunities of leveraging private investment through liberalization and demonopolization approaches are not emphasized. The implication is that EGAT should continue to provide intellectual and technical leadership through instruments such as TESS.*
- *Trade in services, and the services component of bilateral and multilateral trade negotiations are also generally underappreciated. This is reflected in the poor level of participation and preparation by most countries in GATS and its equivalent in FTA’s. A related problem is the limited awareness of how harmonization of standards in sectors such as education and professional services (i.e. accounting), can stimulate the growth of entirely new foreign exchange and employment generating opportunities. Most importantly, TESS has demonstrated that countries benefit from liberalization of service sectors, especially in infrastructure, with or without trade agreements. This is a long education process that EGAT can continue to lead through instruments such as TESS.*
- *The systemic approach for assessing transportation and logistics systems developed under TESS illustrates the type of tools that EGAT can develop to support more innovative thinking and programming at Mission levels. By highlighting the principal bottlenecks that add cost and time to*

the receipt of inputs and the shipment of good to customers, this methodology helps Missions, governments and businesses strategically target specific trade capacity building initiatives that will be of the greatest benefit to exporters. This has also proven to be of value to countries eligible for MCC funding, especially given its greater focus on infrastructure.

- *Missions are more willing to try pilot studies and projects if they are supported by EGAT.* Given the administrative burden related to procurement and supervision of contractors, as well as budgetary constraints, Missions tend to avoid smaller initiatives to test out creative new concepts. However, TESS demonstrates a high level of interest in these initiatives when EGAT provides a practical mechanism. More importantly, the pilots and studies supported by TESS will often result in Missions integrating the results into their own strategies and programs. In effect, vehicles such as TESS become the R & D capability within USAID.
- *Vehicles such as TESS represent an important dimension of Knowledge Management in USAID.* They facilitate the collection of, and access to, materials related to key themes of importance to practitioners in USAID and its partner and counterpart organizations.

As is further detailed in a report that assesses the results and impact of TESS assignments, virtually all had significant impact on perceptions and levels of understanding among key business and government leaders, and resulted in discrete follow-up activities with financing from other USAID, donor and private sources. The development of new tools (e.g. transportation and logistics system diagnostic) and crosscutting research (role of émigré populations in development) appealed to potential users in a range of different countries. The web site proved increasingly popular. In short, with modest resources, vehicles such as TESS clearly provide USAID, and EGAT in particular, with a highly cost effective capability to develop, test and disseminate creative approaches and concepts for supporting economic growth.