

TRADE AND TRANSIT FACILITATION IN LANDLOCKED COUNTRIES



Development Objectives

Geography adds dramatically to the development challenges facing many landlocked developing countries (LLDCs). An inland location frequently results in high trade transaction costs, with logistics costs accounting for 30% of the GDP of LLDCs, double that of other emerging economies and three times that for developed countries. Half of all landlocked countries are classified as least developed, with a majority in Sub-Saharan Africa and many of the others in Central Asia.

Until recently solutions mainly focused on addressing these high costs by improving infrastructure and cross-border cooperation. However, in many cases, lack of infrastructure is no longer a binding constraint and cross-border cooperation has improved thanks to corridor-based organizations promoting effective dialogue. Recent Bank studies have identified high trade transaction costs attributable to other deficiencies in national trade and transport policies and in the governance of transit systems.

Transit trade is highly vulnerable to rent-seeking activities, inefficient bureaucratic procedures, and the inadequate provision of private sector services. The deficiencies extend to the reliability of supply chains particularly in the context of the small, distant markets served by many LLDCs. The current political economy does not provide incentives for the emergence of efficient freight transit operations. In many regions, including Sub-Saharan Africa and Central Asia, this has led to systems which can favor informal rather than formal operators.

In light of a growing consensus on the need to give a greater priority to the needs of landlocked developing countries, the Bank has initiated a major project to develop new knowledge and begin to explore new approaches to deal with the critically important but frequently underperforming area of transit.

The Bank's work in this area will start with research to establish a thorough understanding of the key issues involved and the problems that have thwarted previous reform efforts. Indeed, some core issues such as the efficacy of guarantee systems and regional cooperation efforts need to be reassessed after decades of ineffectiveness. The work will be based on a stock-taking of World Bank and donor experience complemented by a series of targeted field studies.

Outputs will include a flagship publication, targeted learning and dissemination activities, diagnostic tools and pilot projects. The later will target two areas of crucial practical importance: i) transition of transit regime towards carnet based guarantee systems and, ii) design of relevant and sustainable trade corridor performance measurement tools.

The program will be implemented over a period of two years. Given the cross-cutting nature of transit logistics, and the assessment of knowledge gaps, a wide spectrum of topics needs to be covered. The program has been designed so as to produce a staggered output of policy notes, working papers and case studies, from the early months of the program. This strategy maximizes interaction with experts and practitioners, allows for flexibility and adjustment, and fosters early dissemination and rapid feedback. At the end of the program the project team will work with operational staff in the regions to design pilot initiatives in order to mainstream the proposed approaches.



Expected Contribution to Development Outcomes/Results

The program is a global cooperative involving knowledge dissemination and implementation and will:

- A. Provide reliable and pertinent information on transit trade issues and practices and identify feasible long term solutions to existing problems.
- B. Establish a performance measurement system for the major transport corridors and border crossings for LLDCs in Sub-Saharan Africa, fill identified knowledge gaps, identify the main barriers to improved trade and regional cooperation, and identify sets and sequences of reforms and improvements at the national and sub-regional levels.
- C. Directly contribute to the implementation of improved transit systems through support to national and sub-regional bodies wishing to improve their transit systems, and provide policy oriented inputs to World Bank and other donor's trade and transit related projects in LLDCs.
- D. Strengthen partnerships between national and sub-regional stakeholders, including large private providers of logistics related services, donors, and international organizations.
- E. Directly contribute to other developmental objectives such as diversification of exports and trade in services that are dependent upon good freight logistics.
- F. Provide capacity development for government and private sector agencies involved in transit corridor performance measurement and diagnostics.

logistics issues associated with the small scale shipments that are typical to LLDCs. This will result in the publication of a report on the transit barriers to growth of private companies in LLDCs.

The third component of Phase One will be focused on performance and benchmarking indicators as key instruments in assessing the impact of transit facilitation measures. Based on existing experience and knowledge, relevant indicators will be initially proposed from the operational efficiency, and the political economy perspectives with an emphasis on sustainability and cross-regional comparisons. These performance indicators will then be validated for at least three transit corridors for LLDCs, to better determine their benchmarked performance, and the relevance of the recommendations from the Working Paper and Thematic Issue reports.

A fourth component will look at the problem of transit regimes. Targeting sub-regions where there is a demand from national and sub-regional organizations, the program will benchmark current transit regimes and test the feasibility of improved carnet systems. It will assess the needs for regulatory change and capacity building in the public and the private sector, and break the ground for further assistance.

Phase Two: *will focus on dissemination and implementation of the findings from Phase One, and also several pilot capacity building programs.*
(October 2007 to June 2008)

The fifth component will consist of preparation of a summary flagship report with the participation of two recognized international experts in the area.

The sixth component will consist of three activities:

- 1) a flagship report;
- 2) a series of up to six regional workshops. The conclusions of the Workshops, together with the flagship report and Working Papers will be widely disseminated to all public and private international agencies involved in developing and improving the trade performance of LLDCs.
- 3) a toolkit on the implementation of Transit Initiatives for LLDCs will be made available on a dedicated Transit Initiative website and through WBI courses.

The seventh component will be the implementation of several pilot capacity building programs targeting Sub-Saharan Africa. These will be aimed at improving the ability of the stakeholders to identify the main barriers to growth in their trade and to apply the knowledge gained in Phase One in overcoming these barriers.

The program is divided into two phases with a total of seven components.

Phase One: *will focus on knowledge and analytical tools.* (October 2006-September 2007)

The first component will result in the publication of a series of thematic reports and case studies largely based on already initiated analytical work. The themes to be covered include:

- Corridor Management
- Technology aimed at securing the supply chain (e.g. cargo tracking...)
- Guarantee regimes
- Transit economics, performance indicators and transit project appraisal methodology
- Impact of transit from LLDCs on the economy of transit countries
- Understanding of the critical elements of transit regime, and cross-regional comparisons
- Supply chain management in LLDC's and the problem of small-scale shipments.

The second component will consist of a survey of international companies that operate in LLDCs in order to develop a better understanding of the impediments to their expansion and competitiveness, in particular the



Expected Results



This program is expected to produce new tools and solutions. Yet, many of the changes that are expected to emerge from this Transit Initiative are likely to take time to be fully realized. Therefore, the program's performance is output based rather than outcome related.

Phase One

Number of trade corridors for which comprehensive performance measurement indicators are provided.
Number of sub-regional transit regime benchmarked.

Phase Two

- (i) Number of government officials and business associations' representatives trained to use performance measurement methodology and to implement the recommendations of the Phase One reports.
- (ii) Number of private sector agencies and NGOs participating in trade facilitation training and playing a significant role in the dialogue to increase trade of LLDCs.
- (iii) Dissemination: number of dissemination events (Workshops) and number of participants.
- (iv) Number of new IFI (including World Bank) projects in Sub-Saharan Africa with transit facilitation components and/or addressing issues of landlocked developing countries, committed before the end of 2008.
- (v) Institutional changes in the design of a transit system in sub-regions, particularly Sub-Saharan

Knowledge Dissemination Strategy

- The working papers to be prepared under Component One will be disseminated before the end of 2006, to provide early evidence of the activities for the Transit Initiative. The thematic studies prepared under Component Two will be published as they become available, with short summaries posted on a dedicated Transit Initiative web-site, as soon as each study has been completed.
- A comprehensive and operationally focused toolkit will be prepared to facilitate the preparation of World Bank and other IFI projects dealing with trade for the LLDCs. The Toolkit will be based on the Working Papers, the Thematic Reports and the outcomes of the Workshops.
- Regional workshops on specific themes and focused on specific corridors.
- Global Distance Learning events (with WBI support) making use of the Toolkit, for public and private agencies and organizations.
- Contributions to WTO and UN sponsored events and other sub-regional seminars to foster experience sharing in transit facilitation.
- Inclusion of all Working Papers, Thematic Reports, Workshop Conclusions and the Toolkit in current World Bank (e.g. WBI) dissemination activities on trade and trade facilitation (and if possible, UNCTAD, WTO etc). Workshops for field staff of WB and other IFIs and regional and national agencies to review corridor performance indicators and Toolkit implementation.



Geographic Preference

Given the focus on landlocked countries, Africa and Central Asia will be the main focus of the capacity building and the disseminations efforts. However, this focus is not exclusive; the lessons and proposed mechanisms are expected to be global in nature and should also benefit other regions where transit trade corridors or transport under bonds are of economic significance.

List of least developed landlocked developing countries, gateway countries, and sub-region:

Country Name	Gateway countries	Sub-region
Afghanistan	Pakistan, Iran	South-Asia
Armenia	Georgia, Turkey	Europe-Central Asia
Azerbaijan	Georgia, Turkey, Russia, Iran	Caucasus
Bhutan	India	South-Asia
Bolivia	Chile, Argentina, Brazil, Peru	Latin America
Botswana	South Africa, Namibia	Southern-Africa
Burkina Faso	Côte d'Ivoire, Togo, Ghana	Western Africa
Burundi	Kenya, Tanzania	East-Africa
Central African Rep.	Cameroon	Central Africa
Chad	Cameroon	Central Africa
Ethiopia	Djibouti	East Africa
Kazakhstan	Russia	Europe-Central Asia
Kyrgyz Rep.	Russia, Kazakhstan	Europe-Central Asia
Lao PDR	Thailand, Vietnam	East Asia
Lesotho	South-Africa	Southern-Africa
Malawi	South-Africa, Mozambique	Southern-Africa

Coordination with Development Partners

Building coalitions and constituencies for change is a key factor for trade facilitation reforms. This project will bring together donors, the global private sector (International Road Union is a core partner), and also at the local level, through the pilots, sub-regional bodies, stakeholders and government agencies.

Country Name	Gateway countries	Sub-region
Mali	Côte d'Ivoire, Togo, Ghana, Senegal	Western Africa
Moldova		Europe
Mongolia	China, Russia	East Asia
Nepal	India	South Asia
Niger	Togo, Benin	Western Africa
Paraguay	Argentina, Brazil	Latin America
Rwanda	Kenya	East-Africa
Swaziland	South-Africa, Mozambique	Southern-Africa
Tajikistan	Russia, Kazakhstan, Uzbekistan	Europe-Central Asia
Turkmenistan	Russia, Kazakhstan, Uzbekistan, Iran	Europe-Central Asia
Uganda	Kenya	East-Africa
Uzbekistan	Russia, Kazakhstan	Europe-Central Asia
Zambia	South-Africa, Mozambique, Tanzania	Southern-Africa
Zimbabwe	South-Africa, Mozambique	Southern-Africa
Macedonia (FYR)		Europe



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