

1.

## THE CALL FOR AID FOR TRADE AND THE WORLD BANK GROUP RESPONSE

### From the Hong Kong Ministerial Conference to the Financial Crisis: The Need for Aid for Trade

The declaration of World Trade Organization (WTO) ministers in Hong Kong, China, in December 2005 called for an expansion of aid for trade, with the purpose of “helping developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.”<sup>1</sup> Indeed, while the overriding objective of the Doha Development Agenda has been to create new market opportunities for countries to trade by reducing external barriers, ministers recognized that internal constraints might prevent countries from taking advantage of any new opportunities. Internal constraints include trade-related *infrastructure*, such as ports and transport, trade-related *institutions*, such as customs or standards agencies, and policies and regulations that discourage trade.

Aid for trade has, if anything, become more urgent with the financial crisis and global recession. Trade worldwide is likely to contract in 2009, and trade has become a main channel through which recessionary



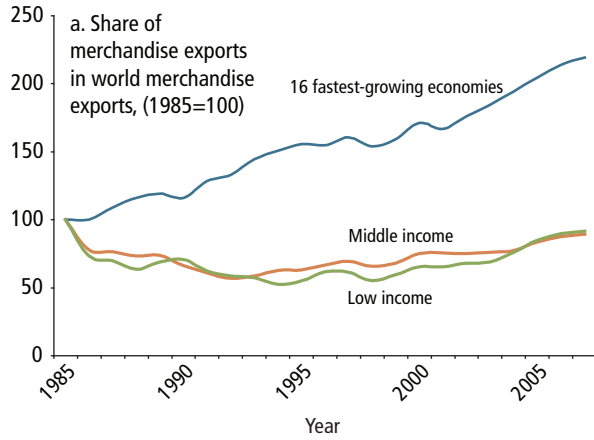
impulses from the United States and Europe are transmitted to developing countries. As the global economy begins to recover, developing countries have to position themselves to take advantage of the eventual global recovery. For low-income countries, this will not be easy or automatic. For most of the last quarter century they have seen little improvement in their share of goods and services, often because of shortcomings in infrastructure, institutions, and policies (figure 1). Aid for trade can play an important role in overcoming these obstacles.

In a sense, this paper is a case study of aid for trade. It describes aid-for-trade services available to client countries from the World Bank Group. Bank programs operate at three levels: country, regional, and global. Country programs span the full range of income groups in the developing world and operate in several policy arenas: trade policy, institutions, and infrastructure. The instruments deployed to serve governments range from

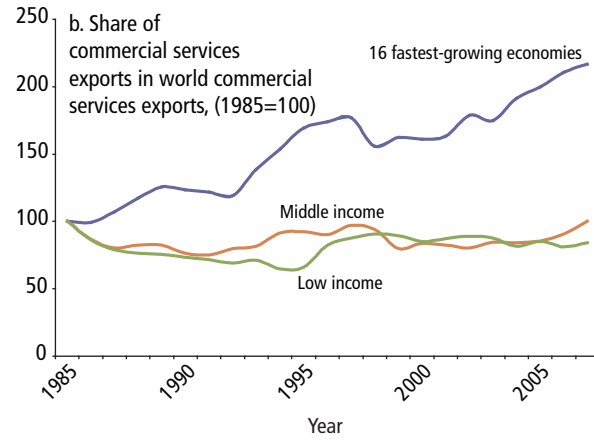
<sup>1</sup> WTO Ministerial Declaration, December 18, 2005 (Paragraph 57, WT/MIN(05)/DEC).

**Figure 1: Low-Income Countries Have Fared Less Well in Global Markets**

**The fastest-growing countries have expanded their shares of the global market for goods...**

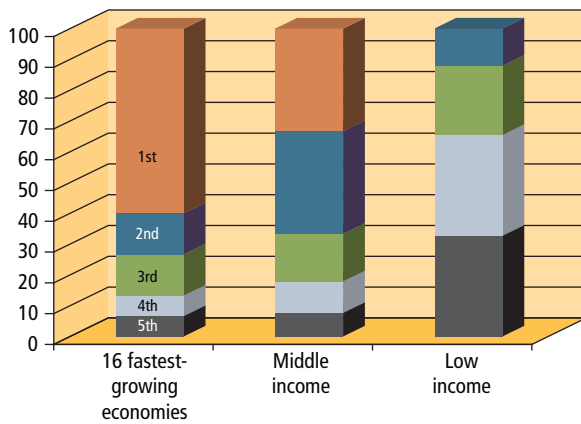


**and services.**



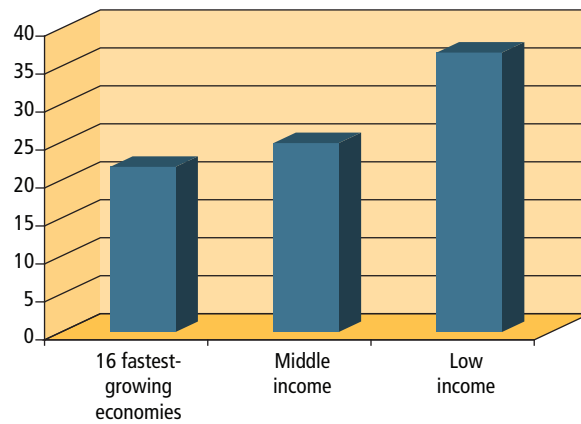
**The quality of infrastructures and IT is higher than in the fastest-growing countries...**

c. Quality of transport and IT, 2008 quintile scores (percent)



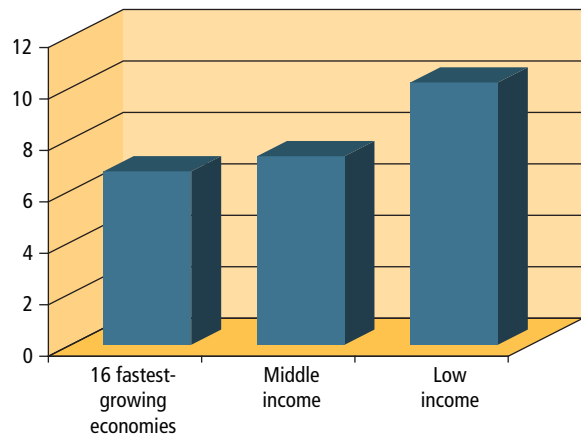
**and trade-related institutions are nearly twice as efficient as low-income countries.**

d. Number of days to trade, 2009



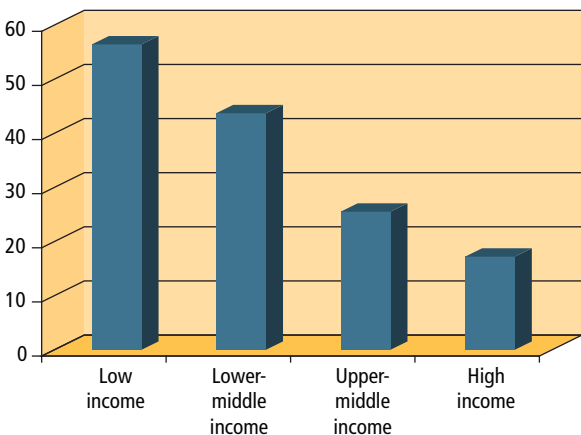
**Fast-growing countries have lower tariffs than others...**

e. Trade restrictiveness index, 2007



**and low-income countries restrict services three times more than high-income countries.**

f. Service restrictiveness index, 2007



Source: Gamberoni and Newfarmer 2009.

concessional loans and grants (the conventional Organisation for Economic Co-operation and Development [OECD]/World Trade Organization [WTO] definition) to nonconcessional loans, to technical assistance, as well as to market-expanding investments in trade-related private activities. All of these are intended to overcome internal constraints to trade and growth.

### The Objective: Overcome Supply-Side Constraints

Following the Hong Kong, China, Ministerial Declaration, the Aid for Trade Task Force was established in 2006 to provide recommendations to the General Council of the WTO regarding the implementation of the aid-for-trade agenda. The WTO's Aid for Trade Task Force emphasized the importance of overcoming limitations in trade policy and regulations, institutional support for trade, trade-related infrastructure, and trade-related adjustment (WTO 2006). Several studies have shown that these constraints at the border and behind the border represent important obstacles to countries' ability to export and import.

First, consider the importance of *infrastructure*. According to that study, an improvement in transport and communication infrastructure from the median score on surveys to the highest 25th percentile is associated with a decrease in transport costs by 12 percentage points and an increase in trade volumes of 28 percent.<sup>2</sup> *Institutions* also matter. The time required for exporting is generally a good indicator of the quality of trade-related institutions. Delays in getting goods back and forth through customs constrain firms from participating in time-sensitive off-shoring of production and production chains.<sup>3</sup> An additional day required for exporting is equivalent to being 70 km farther away from the trade partner.<sup>4</sup> Finally, *incentives* arising from the trade regime that guide private investment into exports or efficient import-substitution industries are no less important. Import tariffs create an incentive for firms to invest in activities that serve the domestic market rather than to invest in exports. If tariffs are high, reducing them can lead to productivity gains. A 10 percent fall in an output tariff is associated with a produc-

tivity gain of 1 percent.<sup>5</sup> Moreover, reductions of tariffs on imported inputs lead to even bigger productivity gains: a reduction in the input tariff of 10 percentage points leads to an 11 percent productivity gain for importing firms.<sup>6</sup>

These internal barriers can be as important as market access barriers in foreign markets in shackling exports from developing countries.<sup>7</sup> Indeed, figure 2 illustrates the various effects of both market access barriers abroad and internal constraints on *average level of bilateral trade* from developing countries. The center line in effect is the average level of trade between any two countries. Barriers abroad decrease trade substantially—pointing out the importance of the Doha Round negotiations. So do internal constraints. If the quality of infrastructure were to improve by 1 percent, exports would on average increase by more than 4 percent. Similarly, much as increases in tariffs abroad depress trade below average, delays in exporting and trade restrictiveness, along with distance, diminish exports by substantial amounts. These findings reveal the potential impact of infrastructure, institution, and policy reforms. If the number of days to export could be reduced by 1 percent, exports on average would increase by more than 1.5 percent. Additionally, a 10 percent reduction of the exporter share of tariff lines subject to tariff peak could lead to an increase in exports of about 2 percent. Overcoming these internal constraints is essential for harnessing the global economy for growth.

### The Strategy of the World Bank Group

In November 2007, at the first Global Aid for Trade review, World Bank President Robert Zoellick announced that the World Bank Group would intensify its activities in trade to help developing countries in the global economy promote growth and reduce poverty. This effort translated into a five-point strategy revolving around the following:

<sup>2</sup> Limao and Venables' (1999) infrastructure indicator is based on four components: the density of rail road per square kilometer, the density of road and of paved road per square kilometer, and the number of telephone mainlines per capita. The indicator has been widely used by other researchers to proxy for the quality of infrastructure cost and, thus, the cost of transport and communication (Carrere 2006).

<sup>3</sup> Nordas 2005.

<sup>4</sup> Djankov, Freund, and Pham 2006.

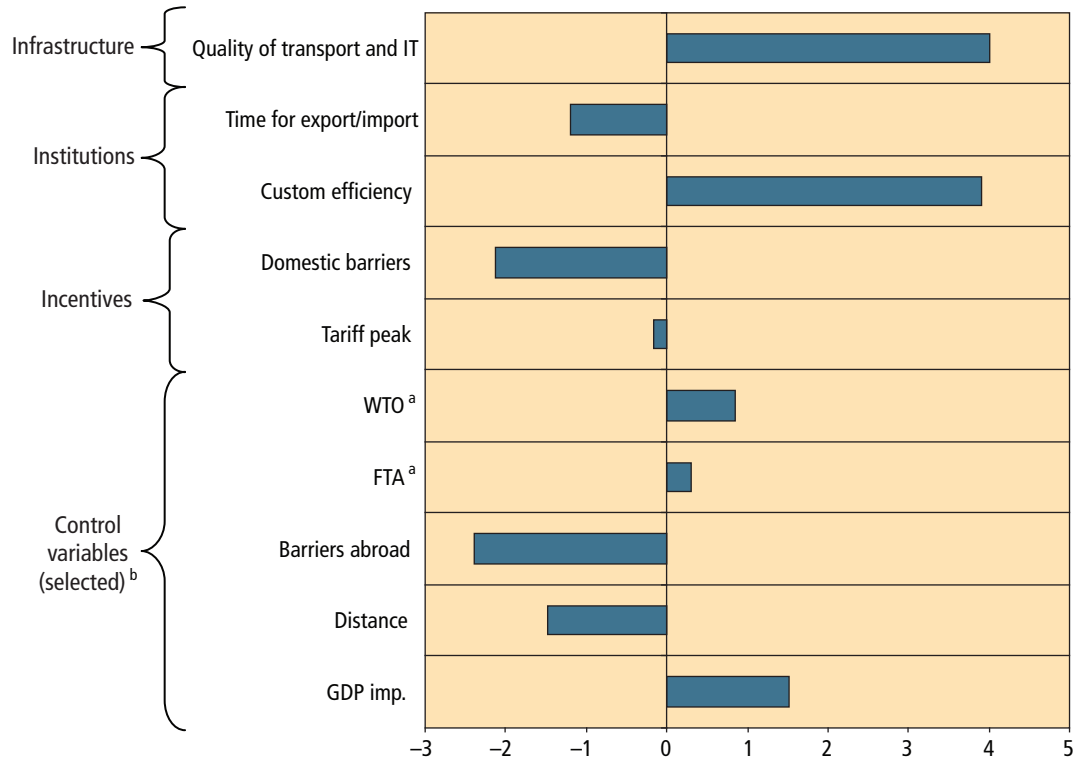
<sup>5</sup> Amiti and Konings 2007.

<sup>6</sup> Indeed, lower inputs tariffs allow firms to import intermediates and exploit the benefits of a greater variety of and/or higher-quality inputs. Even conceptually economists have long known that a tariff on imports is equivalent to an export tax, since the effect on relative prices is the same (Lerner 1936). Trade policy regimes do not consist only of tariffs. Fixed cost to entry in the foreign market dictates the ability of firms to export. Moreover, high fixed costs to serve the importing market impair the pro-competition process in the importing country. Greater competition drives the least productive firms out of the market and increases the average productivity of the country (Melitz 2003).

<sup>7</sup> See, for example, Hoekman and Nicita (2008).

**Figure 2: Infrastructure, Institutions, and Incentives Can Depress or Improve Trade**

**Effects of 1% increase in selected variables on exports (change in exports relative to the average country)**



Source: Gamberoni and Newfarmer 2009.

Note: Marginal effects calculated at the average of the sample.

<sup>a</sup> Represents the change passing from zero to one. The rest of the variables refer to change of 1 percentage point.

<sup>b</sup> "Barriers abroad" represents the bilateral Trade Restrictiveness Index (OTRI) that the exporter faces, while the variable "domestic barriers" represents the average OTRI imposed by the exporter on imports from the world. All the variables are statistically significant at conventional level.

- *Improving competitiveness* through diagnostics of the incentive regimes, institutional shortcomings, and infrastructure constraints; through technical assistance to help countries design comprehensive programs to improve their competitiveness; and through selected market-expanding investments in private activities.
- Reducing trading costs through *trade facilitation* investments and technical assistance.
- Expanding the supply of trade-related *infrastructure* in roads, ports, and energy as well as telecommunications.
- Promoting *regional integration* with investments that speed cross-border trade, and technical assistance to

design regional trade agreements around the idea of "open regionalism" policies.

- Promoting *multilateral cooperation* through analysis and advocacy of the Doha Development Agenda, aid for trade, and trade finance.

The first three of these are pillars of the World Bank country programs and are therefore elaborated in the next chapter; the last two form the strategic thrust of the Bank's regional and multilateral programs, respectively, and are discussed in chapters 3 and 4.

***Aid for Trade Is Multifaceted***

Since the days of the Aid for Trade Task Force following the Hong Kong Ministerial Meeting, the measurement of

**Table 1: World Bank Group Trade-Related Activities, 2007 and 2008 (Commitments, US\$ millions)**

	Public sector (loans and grants)	Private sector (IFC)	Total
<b>2007</b>			
<b>Low-income countries (IDA)</b>	<b>4,267</b>	<b>3,514</b>	<b>7,782</b>
Country programs	3,313	3,020	6,332
Regional activities	954	495	1,449
<b>Middle-income countries (IBRD)</b>	<b>4,905</b>	<b>6,302</b>	<b>11,206</b>
Total 2007	9,172	9,816	18,988
<b>2008</b>			
<b>Low-income countries (IDA)</b>	<b>3,520</b>	<b>3,304</b>	<b>6,824</b>
Country programs	3,245	2,770	6,016
Regional activities	275	533	808
<b>Middle-income countries (IBRD)</b>	<b>8,263</b>	<b>5,772</b>	<b>14,035</b>
Total 2008	11,782	9,076	20,858

Source: World Bank staff.

Note: This table uses the OECD/WTO definition of sectoral coverage for aid for trade (see box 2). Bold refers to subtotals.

aid for trade has revolved narrowly around commitments of *concessional* resources to developing countries. But public discussions, whether in the World Trade Organization-sponsored regional conferences, in the 2007 WTO First Global Review, or in the press, have explicitly incorporated many activities not captured in flows of concessional finance. For examples, the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB) have been leading actors in aid for trade, even though their concessional financing programs are quite limited because they operate in the middle-income parts of the developing world. The same is true of the European Bank for Reconstruction and Development (EBRD). The International Monetary Fund (IMF) provides virtually no aid for trade—in the narrow sense of concessional long-term finance measured by the OECD/WTO—yet it provides balance of payments support that can offset terms of trade or other trade-related shocks.

There is another reason to report nonconcessional trade-related assistance. Middle-income countries have direct linkage effects on neighboring low-income countries. For example, Brazil's growth creates export opportunities for Bolivia, Kenya's economic performance affects neighbors throughout the East African Community, and Thailand is an important market for the Lao People's Democratic Republic and Cambodia. Resource-scarce landlocked countries piggybacked on the growth of their neighbors—for example, one study found that if middle-income countries grew by an addi-

tional 1 percent, fully 0.4 percent was added to the growth of neighboring low-income countries and even 0.7 percent in the case of a landlocked neighbor—and this occurs primarily through trade linkages.<sup>8</sup> To emphasize these linkages, it is thus worthwhile to report on aid-for-trade activities in middle-income countries.

Similarly, public discussions invariably highlight the role of *private sector activities*, most recently on improving access to trade finance. But here, too, measuring only concessional flows does not include multilateral and bilateral donors' investments in private activities or in expanding trade finance.

Finally, and perhaps most important, focusing solely on concessional aid flows misses the important role of *technical assistance*. Certainly trust funds like the Enhanced Integrated Framework for Least Developed Countries (EIF) can play a key role in achieving the objectives of aid for trade. Similarly, the abundant technical assistance provided by bilateral and multilateral donors—including the International Trade Center (ITC), UNCTAD, UNDP, or the United Nations Industrial Development Organization (UNIDO)—is no less important. Such assistance, rendered through economic studies, technical assistance programs in trade facilitation or infrastructure management, or policy analysis of incentive regimes that affect private investment and trading decisions, demonstrate that aid for trade is multifaceted.

<sup>8</sup> Collier 2007.

**BOX 1**

**The World Bank Group and Aid for Trade**

Created after World War II as the International Bank for Reconstruction and Development, the World Bank Group comprises five separate entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for the Settlement of Investment Disputes (ICSID). The IBRD and IDA share the same staff and decision-making structure. The IFC and MIGA have distinct balance sheets, staffs, and procedures. Yet the IBRD and IDA staffs work closely with IFC staff in all activities.

International Bank for Reconstruction and Development (IBRD)	International Development Association (IDA)	International Finance Corporation (IFC)	Multilateral Investment Guarantee Agency (MIGA)	International Center for the Settlement of Investment Disputes
				
<ul style="list-style-type: none"> <li>• Supports middle-income countries</li> <li>• Provides loans at AAA terms plus cost spread</li> <li>• Funded through bonds, backed by shareholder capital</li> </ul>	<ul style="list-style-type: none"> <li>• Supports the world's poorest countries</li> <li>• Provides soft loans and grants plus debt relief</li> <li>• Replenished every 3 years by donors and through IBRD income</li> </ul>	<ul style="list-style-type: none"> <li>• Supports the private sector in developing countries</li> <li>• Provides loans and equity investments</li> <li>• Funded through bonds, backed by shareholder capital</li> </ul>	<ul style="list-style-type: none"> <li>• Supports investors in developing countries</li> <li>• Provides political risk insurance</li> <li>• Backed by shareholder capital</li> </ul>	<ul style="list-style-type: none"> <li>• Offers mediation and arbitration services for investors in developing countries</li> </ul>

Aid for trade is one of the areas in which collaboration has become especially close. IBRD and IDA staff work jointly on the operational trade facilitation agenda at country and regional levels, and have formed a rapid response team. The World Bank Group is also working actively on the providing data (for example, the Logistics Performance Index [LPI] and Doing Business data) and overcoming short-term constraints in trade finance (see chapter 4).

Source: The World Bank Group.

This report therefore presents a comprehensive review of the activities of the World Bank Group. It endeavors to adhere to the OECD/WTO's sectoral definition of aid for trade,<sup>9</sup> but distinguishes concessional assistance captured in the OECD data from nonconcessional and private sector investments.

<sup>9</sup> This definition includes trade policy and regulation, economic infrastructure (ports, roads, airports, telecommunications, and energy), capacity building, and trade-related budget support. Because it is impossible to distinguish which part of a loan is for the nontradable or tradable sector, the OECD considers the entire loan in these sectors as aid for trade, a convention followed in this report. The exception is budget support, for which we, like the OECD, have included that portion associated with trade-related activities as defined in the loan itself.

To provide an overview, table 1 lays out several dimensions of World Bank Group activities, including assistance provided through the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC; see box 1). Virtually all of the World Bank's concessional lending<sup>10</sup> is to low-income countries, and the Bank provided about US\$3.5 billion in aid for trade in 2008. This included

<sup>10</sup> IDA credits to low-income countries have a maturity of 40 years, with a principal repayable at 2 percent per year for years 11–20 and at 4 percent per year for years 21–40. Blend credits to low-income countries have a maturity of 35 years, with a principal repayable at 2.5 percent per year for years 11–20 and at 5 percent per year for years 21–35.

**Table 2: World Bank Group Trade-Related Activities, 2002–08 (Commitments, US\$ millions)**

Resources	2002–05	2006	2007	2008
<b>Low-income countries (IDA)</b>	<b>3,593</b>	<b>4,697</b>	<b>7,782</b>	<b>6,824</b>
Public sector	2,385	2,196	4,267	3,520
Private sector	1,208	2,501	3,514	3,304
<b>Middle-income countries (IBRD)</b>	<b>6,573</b>	<b>10,346</b>	<b>11,206</b>	<b>14,035</b>
Public sector	3,681	6,255	4,905	8,263
Private sector	2,891	4,090	6,302	5,772
Total	10,166	15,042	18,988	20,858

Source: World Bank.

Note: This table uses the OECD/WTO definition of sectoral coverage for aid for trade (see box 2).

US\$194 million in grants that the Bank also administers through several trust funds from bilateral donors. In addition, the Bank provided US\$8.2 billion to governments of middle-income countries on quasi-market terms.<sup>11</sup> Though these loans have a grant component, it is usually far below the OECD Development Assistance Committee's (DAC) 25 percent threshold for qualifying as development assistance.

The World Bank Group, through the International Finance Corporation, also makes substantial investments

<sup>11</sup> International Bank for Reconstruction and Development loans typically have on average a maturity of 15 years, with a first repayment occurring, in general, from the fifth year. The lending rate consists of a variable base rate and a spread. The lending rate is reset semi-annually, on each interest payment date, and applies to interest periods beginning on those dates. The base rate is the six-month London interbank offered rate (LIBOR) for the value at the start of an interest period for most currencies, and a recognized commercial bank floating rate reference for others. The spread rate is fixed for the life of the loan and it consists of the IBRD's projected funding cost margin relative to U.S. dollar LIBOR, a risk premium, a basis swap adjustment (for non-U.S. dollar loans), and the IBRD's standard lending spread.

## BOX 2

### Aid for Trade—The Search for an Adequate Definition

The OECD defines aid for trade as all concessional development assistance related to productive capacity building, economic infrastructure, trade policy and regulations, and trade-related adjustment. In creating this definition, the OECD and WTO Aid for Trade Task Force struggled with several measurement issues. First, it is difficult to distinguish between assistance for the nontradable and tradable sectors for economic infrastructure and to capture trade adjustment assistance. For example, an investment in a road or power plant serves firms selling both domestically and on global markets. The OECD/WTO opted to include *all* investments in transport, energy, and telecommunications as trade related. A second difficulty concerns general budget support (what the World Bank calls development policy loans or sector loans). In the first review these were excluded; later, as numbers became refined, OECD staff were able to identify budget-support lending associated with trade, and these were also included.

A third problem is with the regional development banks, as they provide very little concessional aid for trade. For example, following the OECD definition of aid for trade, the Inter-American Development Bank found that only 6 percent of its total trade-related activities were concessional in 2007. The Asian Development Bank (ADB) provides one-sixth of its overall trade lending on concessional terms. In other words, if nonconcessional lending to middle-income countries in sectors covered by the OECD's definition were considered, the amounts for the ADB would be nearly 5 times greater, and for the IDB nearly 15 times greater.

Commitments 2007	Concessional (Loans and grants)	Nonconcessional (Loans and grants)	Total
World Bank	4,267	4,905	9,172
African Development Bank	1,152	849	2,001
Asian Development Bank	653	3,375	4,028
Inter-American Development Bank	195	3,135	3,330
Total	6,267	12,263	18,531

(continued)

**BOX 2****Continued**

Finally, the OECD definition excludes donors' investments in private companies operating in the tradable sectors. For these reasons, this report includes IFC activities. Like the World Bank, regional development banks would have greater investments in the tradable sectors and in trade finance.

For its internal tracking purposes, the World Bank defines trade-related lending far more narrowly than the OECD/WTO definition of aid for trade used in this report. The Bank definition generally focuses on activities directly promoting exports. Not only does the Bank's definition generally not include infrastructure, it counts only that portion of a loan amount that focuses directly on trade, usually exports. The task manager for every project selects up to five themes that characterize the expected outcome of the project, such as trade, environment, poverty reduction, and so forth. The loan amount is notionally broken down into allocation by themes using a proportional formula. Hence the trade share of an infrastructure project—whether a road, power, or even water project—depends not only on the loan amount, but also on whether the infrastructure directly supports trade as opposed to other objectives. This procedure avoids double counting between trade and the other objectives, but it means that some trade-related activities are scored internally as governance or poverty reduction. For example, the customs development project in the Russian Federation is allocated as follows: trade (25 percent), tax policy and administration (25 percent), administrative/civil reform (24 percent), legal institutions and markets (13 percent), and standards and financial reporting (13 percent). So the amount of trade-related lending is US\$35 million, one-fourth of the total. On average, for its trade-related IDA projects, this internal Bank methodology allocates roughly 30 percent of total loan amounts to trade.

By focusing mainly on trade promotion projects and including only narrowly focused export-related infrastructure as well as policy reforms, this internal scoring misses the effects of other infrastructure investment on import-competing activities and overall competitiveness. For comparative purposes, this report uses the OECD/WTO methodology rather than the Bank's internal tracking.

**World Bank Group Aid-for-Trade Activities (Commitments, FY2002–08, US\$ millions)**

Fiscal year	Average FY2002–05	FY2006	FY2007	FY2008
Low-income countries (IDA)	286	537	569	591
Middle-income countries (IBRD)	525	1,074	1,001	829
Total	811	1,611	1,570	1,420

Source: World Bank staff, using World Bank definition of trade-related lending.

in the tradable sectors of developing countries to help pioneer new activities and expand the market. Virtually all of this investment was in infrastructure or productive capacity. About one-third of this investment is in low-income countries—about US\$3.3 billion in 2008. Finally, the WBG provides extensive technical assistance through its studies program (called economic and sector work). In 2008 alone, the WBG produced about 100 trade-related studies for client countries.

***WBG Aid for Trade Has Increased***

In the time since the Hong Kong Ministerial in late 2005, the World Bank Group has increased its aid-for-trade activities across the multidimensional spectrum just described. Resources to low-income countries have

almost doubled relative to the 2002–05 average, and concessional lending to the public sector has increased by more than half (table 2). Likewise, resources associated with trade in middle-income countries have more than doubled, both in IBRD lending to governments and in IFC investments in private companies in the tradable sectors.

**Looking to the Future: Will Aid for Trade Increase?**

Whether aid for trade will increase in the coming years depends on country demand for aid-for-trade projects and the overall envelope of development assistance. In this period of collapsed global demand, demand for aid for trade would be expected to increase, since lowering

the costs of reaching foreign markets, reducing bureaucratic and outdated border procedures, and improving infrastructure or providing windows for trade finance would help firms survive the downturn—and position them to take advantage of global recovery. Moreover, by improving customs efficiency or tariffs on infrastructure usage, governments would have more resources for dealing with emerging pressures to finance additional spending on social safety nets (the case recently for Afghanistan; see chapter 2).

That said, it is entirely possible that finance ministers, worried about declining revenues and rising social demands, will opt to request greater amounts of their aid envelopes as budget support. Such a shift would dimin-

ish lending for aid for trade. Also, as donors move from stimulus to deficit reduction—as eventually they must—pressures will mount on all expenditures, including for IDA and other concessional lending. If the volume of overall aid envelopes taper off or they decrease in size, it is unlikely that aid for trade could increase. Finally, with the crisis, overall economic activity is diminishing, and this restricts the ability of the multilateral development banks to invest in the private sector; already the IFC, along with other private investors, has seen its portfolio shrink. This tension between urgent investments in the real economy and imperative investments in social safety nets can only be reconciled by expanding the overall envelope of development assistance.

2.

## FOSTERING COUNTRY COMPETITIVENESS

The World Bank Group's activities at the country level originate in discussions with the country's finance minister and economic cabinet. Demand for services flows out of national development strategies, which in low-income countries are usually articulated in the Poverty Reduction Strategy Paper (PRSP). The government teams and World Bank staff then together assemble an indicative program in a Country Partnership Agreement (CPA) and Country Assistance Strategies (CAS),

which are ratified by the government and the Bank's executive directors. Not all countries may choose to use WBG resources for trade—health, education, or environment may be a higher priority. Increases in the Bank's aid for trade, therefore, are not decided by Bank staff, but rather as the summation of the collective expressed desire by governments around the world to use available Bank resources for trade rather than something else.

Demand has been strong for WBG services across the three areas of aid for trade in country programs: *improvements in competitiveness, trade facilitation, and infrastructure*. In 2008, concessional lending to low-income governments for aid for trade was US\$3.2 billion (table 3). In addition, the IFC invested about US\$2.7 billion in the private tradable sectors of low-income countries. As illustrated, about half of WBG lending to governments for aid for trade in low-income countries went into improving competitiveness and trade facilitation,



and the other half went into infrastructure. About two-thirds of IFC investments in tradable sectors went into productive capacity that improved competitiveness, and about one-third went into economic infrastructure, such as telecommunications and the like. Beyond this, the WBG provided about US\$8.2 billion in loans to middle-income countries, and invested about US\$1.9 billion in expanding productive capacity in the private sector. Resources were distributed with roughly the same proportional allocation across the three categories in low-income countries.

The World Bank Group also administers trust funds from bilateral donors.<sup>1</sup> Though most trust funds are

<sup>1</sup> The OECD/WTO, in its reporting on aid for trade, sometimes includes trust funds administered by multilateral entities under bilateral donor activities, giving rise to a small discrepancy between OECD numbers and reporters' numbers.

**Table 3: World Bank Group Trade-Related Activities (Commitments 2008, US\$ millions)**

Country Programs	Public sector		Private sector		Total	
	Low income	Middle income	Low Income	Middle income	Low income	Middle income
<b>Improving competitiveness</b>	<b>602</b>	<b>1,952</b>	<b>1,859</b>	<b>3,884</b>	<b>2,461</b>	<b>5,835</b>
Trade-related budget support	596	894	—	—	596	894
Trade policy and regulation	—	457	—	—	—	457
Productive capacity	6	601	1,859	3,884	1,866	4,485
<b>Trade facilitation</b>	<b>848</b>	<b>1,527</b>	<b>—</b>	<b>—</b>	<b>848</b>	<b>1,527</b>
<b>Economic infrastructure</b>	<b>1,795</b>	<b>4,784</b>	<b>911</b>	<b>1,888</b>	<b>2,707</b>	<b>6,672</b>
Total	3,245	8,263	2,770	5,772	6,016	14,035

Source: World Bank, project portfolio database and IFC internal database.

Note: This table uses the OECD definition of sectoral coverage for aid for trade. Lending to low-income countries' public sectors is IDA; lending to middle-income developing countries is IBRD; all private sector commitments are from the IFC. Dash reflects 0 or negligible activity.

not designed primarily to promote trade, some 57 projects in 2008 met the sectoral OECD definition of aid for trade.<sup>2</sup>

Regional projects financed in part by grants include the Common Market for Eastern and Southern Africa's (COMESA) Technical Assistance and Capacity project for the Africa Agricultural Market Program, and the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA), a trust fund that aims at enhancing regional collective action in agricultural research for development, agricultural extension, and agricultural training and education to promote economic growth, fight poverty, eradicate hunger, and enhance sustainable use of resources in Eastern and Central Africa.

### Efforts to Improve Competitiveness

Nearly all of the developing country clients of the World Bank Group want to use the global economy as a driver of growth. This means exporting goods and services. It also means importing goods and services that the local economy cannot provide efficiently or with the same variety. Importing efficiently is critical to supplying inputs to domestic and export production at lowest cost. Growth in global markets hinges critically on

increasing productivity and improving competitiveness. Both policies and investments are crucial to improving competitiveness. The WBG provides both advice on *policy options* and resources for *investments*.

### *Policies Can Lay a Foundation for Growth... Or Not*

Each country's needs are different. Each has its own constellation of resources, skills, market access opportunities, constraints, and politics. Nonetheless, policies in three domains shape productivity growth and competitiveness everywhere: incentives, services, and institutions.

- **Creating incentives for firms to export.** Private investors look for profits. Policies can inadvertently discourage exports and channel private investment into activities that are not internationally competitive. For example, high import tariffs are an export tax in disguise, as they are essentially borne by the tradable sector, which cannot pass on the tariff to foreign consumers. Import tariffs make it more profitable for firms to invest in activities for the local market rather than for export, and thus create a bias against exporting. High border barriers can prevent firms from integrating into global supply chains, one of the most dynamic sectors of the global market.

Several studies have shown that bringing down border barriers and reducing the disincentives to produce for the global market can increase export growth. In figure 2, for example, the calculations suggest that, on average (controlling for distances from markets, country size, and incomes), reducing the trade restrictiveness and peak tariffs on imports

<sup>2</sup> Many of these were from the Global Environment Facility, a fund created to finance energy projects that reduced CO<sub>2</sub>. Examples include the Argentina Energy Efficiency project, whose objective is to increase efficiency in energy use by developing a sustainable and growing market for energy efficiency services and equipment in Argentina.

by 1 percent is likely to increase exports by more than 2 percent. However, averages do not apply to every country, and reforms have to be calibrated to country circumstances. Moreover, policies that affect local prices include not only border barriers, but also any price controls, investments incentives, and taxes. Creating a modern incentive framework that spurs national competitiveness requires careful analysis to ensure that resources—land, labor, capital, and technology—are moving (i) to sectors in which the country has a long-term capacity to compete and (ii) to the most productive firms within sectors. This necessitates a clear understanding of how trade, tax, investment promotion, and labor market policies interact to affect investment and trade decisions. Then policy options have to be melded into a comprehensive reform program to improve competitiveness.

- ***Providing access to high-quality, low-cost backbone services.*** Countries whose firms have to pay more than their competitors for energy, telecommunications, transport, credit, insurance, and other services compete in the global markets at a severe disadvantage. For example, even though firms in Ghana have a huge comparative advantage in chocolate and produce it for the global market, unreliable and high costs of electricity penalize producers and depress exports. Reducing policy barriers to competition and improving regulatory effectiveness in these backbone services lie at the heart of the policy challenge. In many developing countries, lack or inefficiency of infrastructure is a critical constraint on the availability and cost of backbone services, impairing export diversification and export growth. But often the policy framework that governs use of the infrastructure is the key factor in reducing costs.
- ***Improving trade-related institutions and adopting proactive policies to drive trade.*** Laissez-faire policies and low tariffs are rarely sufficient to prompt dynamic export drives. Both market and government failures tend to afflict developing countries as they seek to expand exports and growth. Therefore, export promotion and credit agencies, a market-oriented product standards regime, and government support for innovation can help address the information and coordination failures that often discourage technological change or prevent buyers from connecting with sellers. Moreover, bureaucratic procedures in customs, visa offices, and port authorities can add days and therefore costs to a country's trade.

The challenge is to identify shortcomings in the marketplace and tailor interventions to target those problems. For example, export promotion agencies can help remedy information deficiencies for gaining access to new markets.<sup>3</sup> Other import institutions are likely to be standards bodies, customs, export processing zones, and the Ministry of Trade. It is important that these initiatives be brought together within a strategy for competitiveness rather than as a series of ad hoc interventions. In isolation, these agencies tend to be rather weak and ineffective.

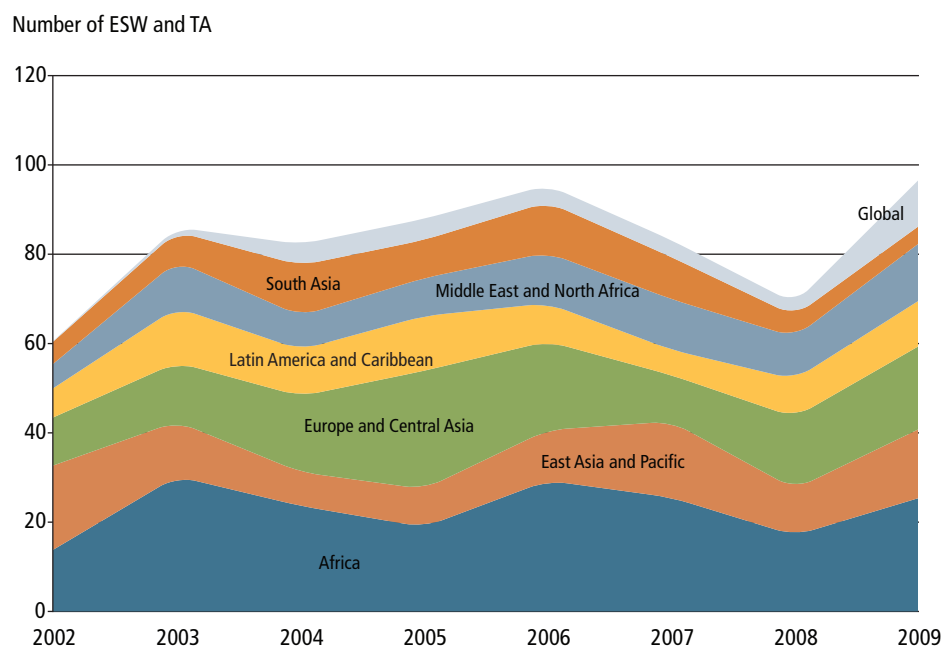
### ***World Bank Provides Assistance to Improve Competitiveness through Policy Analysis and Trade Studies***

The World Bank provides services to help countries design comprehensive trade strategies through programs of policy analysis and technical assistance. These often culminate in lending operations (both investment projects and budget support for policy reforms). To improve national competitiveness and diversification, the Bank has undertaken numerous targeted trade-related analytical economic and sector work (ESW) and technical assistance (TA) programs.<sup>4</sup> Efforts have been made to diversify exports and promote international integration of services markets—encompassing cross-border trade in business and transport services; consumption by foreigners of tourism, health, and education services; foreign direct investment in banking, communication, and distribution; and temporary migration of doctors, teachers, and construction workers. The WBG has worked in over 40 least developed and other low-income countries to provide diagnostics that pinpoint obstacles to export expansion or inefficiencies in the import process that tax consumers. The World Bank has also conducted many comprehensive Diagnostic Trade Integration Studies (DTISs) that identify the major trade constraints and proposed areas for technical assistance and investments.

DTISs were initiated as part of the Integrated Framework (now the EIF), a special multilateral program for least developed countries. The DTIS is a comprehensive analysis performed to identify—through research, analysis, and intensive dialogue with stakeholders—a country's constraints to trade and economic growth. DTIS reports include an action matrix listing proposed reforms that the country intends to implement. It has

<sup>3</sup> See Lederman, Olarreaga, and Payton 2009.

<sup>4</sup> A recent example is Newfarmer, Shaw, and Walkenhorst 2009.

**Figure 3: The World Bank Is Providing a Steady Stream of Trade Policy Analysis**

Source: World Bank.

also produced freestanding trade reports, such as the Mauritius Aid for Trade Report, or chapters in country reports.<sup>5</sup> Altogether, the Bank conducted nearly 700 studies between FY02 and FY09. More than one-quarter were in Africa (see figure 3). East and South Asia also figure prominently in requesting Bank analyses. The number of studies has risen slightly from an average of about 80 in 2002–05 to about 90 in 2008–09. These numbers are based on the World Bank's narrow definition of aid for trade<sup>6</sup> and span export development, regional integration, trade and integration, and transport and trade facilitation.<sup>7</sup> As of May 2008, 31 countries had completed DTIS reports,<sup>8</sup> and another 16 countries were in the process.

<sup>5</sup> The government and Bank staff discuss proposed studies in each country, commonly about once a year, as part of the country program discussions. The government may request analysis of one or another policy issue or financial support in a particular area. The Bank and the government then agree to undertake a study. Each study is discussed at length, often at its initiation and during its preparation, and of course always upon completion.

<sup>6</sup> The World Bank's definition of aid for trade is narrower than the OECD/WTO's in that it does not generally include infrastructure (see box 1).

<sup>7</sup> The costs of these studies range between US\$20,000 and US\$500,000. The average cost of the 31 DTISs was about US\$400,000.

In May 2008, the WBG conducted an analysis of 27 completed DTIS reports that revealed some cross-cutting problems common to nearly all countries:

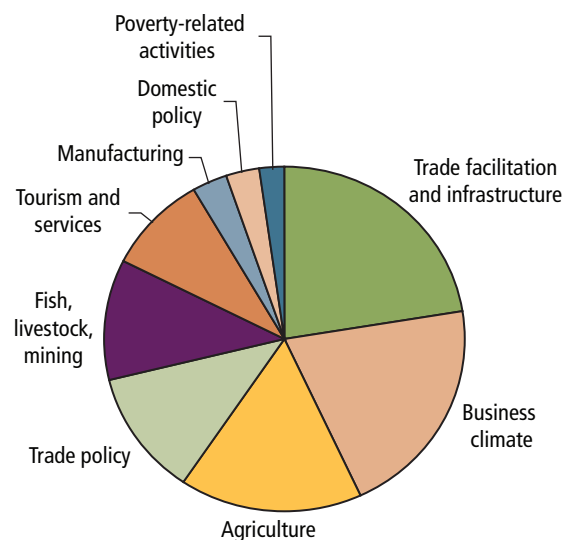
- Countries are often contending with or recovering from conflict or external shocks, raising concerns about the challenges of managing trade-related adjustments.
- Export diversification is seen as critical, yet proposed diversification efforts often focus on agriculture and not value added products, and rarely on services.
- Weak human capacity is cited as a common obstacle to growth.

In addition to these common factors, the matrices of proposed actions point out the complexity of the tasks facing the least developed countries (LDCs). They range from infrastructure needs to poverty-related actions (figure 4). The most common needs are infrastructure,

<sup>8</sup> Countries that have completed reports are Angola, Benin, Burkina Faso, Burundi, Cambodia, Cape Verde, the Central African Republic, Chad, the Comoros, Djibouti, Ethiopia, The Gambia, Guinea, Lao PDR, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Nepal, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, Vanuatu, the Republic of Yemen, and Zambia.

**Figure 4: Trade Studies Deal with Many Internal Obstacles**

Distribution of proposed reforms across 27 DTIS action matrices



Source: Brady 2008.

changes in policies that affect business, and agricultural policies and investments (box 3).

Many of the DTISs cite the need for better administrative capacity, including enhanced training for government officials who are responsible for trade strategy and policy. These needs are translated into the action matrices in terms of proposed capacity-building projects. Less often mentioned in the DTIS, at least in the action matrix, is the need for increased vocational or business training, so that business owners and workers will be able to take advantage of improvements in the business climate and in opportunities to export.

#### ***World Bank Investments Can Improve Competitiveness***

Together with its policy analysis and technical assistance, the WBG provided about US\$2.6 billion in loans to governments in both low- and middle-income countries to help them improve their competitiveness (table 3). Of this, some US\$600 million went to governments in low-income countries, mainly for budget support. Projects have taken quite different forms (see examples at the end of this chapter). Lending to the public sectors in middle-income countries was spread across budget support, trade policy, and investments in productive capacity.

At the same time, the IFC made equity and lending investments in private companies that had the effect of increasing competitiveness by adding to *productive capacity*, amounting to some US\$5.8 billion (table 3). These investments were designed to open up new activities, using the IFC's technical expertise and market knowledge to help producers get into the market, and were in tradable sectors such as mining, agriculture, food processing, chemicals, and even finance.

#### **Trade Facilitation**

Trade facilitation is a second area of aid for trade at the country level. With the lowering of traditional market access barriers, high trade transaction costs have become one of the most important obstacles that developing countries face in benefiting from globalization. The ability to move goods and services across borders rapidly, cheaply, and predictably is a critical determinant of export competitiveness. Facilitating trade and improving logistics performance address supply chain fragmentation and sources of costs that prevent the delivery of reliable and affordable services to traders. In most situations there are profound linkages between the various dimensions: market structure of services is key but not independent of the quality of infrastructure or

## BOX 3

**DTISs Provide a Flavor of Diverse Aid-for-Trade Needs and Requirements**

The DTISs highlight both common problems and country-specific needs that aid for trade could meet. A sampling:

**Trade facilitation and infrastructure.** This was the category with the most frequently cited actions, noted in all 27 countries. The category had the highest number of total actions (564) and the actions with the highest urgency—some 56 percent of actions were rated as high priority. Most countries had widespread reforms, including enhanced technology, and important details such as systems to disseminate data collected at the border to government ministries. Other actions related to trade facilitation included assessing the state of trade logistics, training private sector transport operators, and managing regional transport issues. Seven countries included specific infrastructure projects, including building or improving roads between trade facilities or trading areas, airports, and railways.

**Business climate.** Improving the business climate was a focus of 26 of the 27 countries analyzed and was one of the two largest need areas identified in the action matrices, with a total of 512 actions, or an average of nearly 19 per country. These covered investment promotion, investment security, competitiveness, export promotion, special economic zones, and access to finance. A deeper analysis of five action matrices (Angola, Benin, Burundi, Burkina Faso, and Cambodia) reveals a heavy emphasis (57 of 107 total actions) on proposed legal reforms, including improving contract enforcement, passing other judicial reform, drafting new legislation covering a wide variety of topics, and ensuring land rights.

**Trade policy.** Actions to enhance trade policy were included in 25 of the 27 countries. The most common specific proposal (20) was to enhance capacity of government officials who create policy or manage and negotiate trade agreements. Sometimes new units within existing ministries were proposed, and improving interagency or interministerial coordination was also mentioned frequently. Seven countries proposed restarting, managing, or monitoring WTO accession or membership issues, and others presented regional trade agreement (RTA)-related issues.

**Tourism.** Seventeen countries included actions to enhance tourism. Several countries appear to propose starting an industry where no tourist activity or only minimal activity exists (for example, Angola, Djibouti, The Gambia, and Sierra Leone). Many countries are seeking to implement a tourism master plan. Some propose developing niche markets such as ecotourism, adventure tourism (Mali, Mozambique), community-based tourism (Mozambique), or special-interest travel such as music or art festivals.

**Poverty-related activities.** Although reducing poverty is an overarching goal of the DTIS process, six countries included a separate category in the action matrix specifically identifying actions to address poverty. Many proposed infrastructure projects that would build roads to connect economically distressed and/or remote areas with domestic markets. Other proposed reforms included promoting handicrafts through technical training and fair trade links (Lao PDR), improving price information for farmers (Mali, São Tomé and Príncipe), and improving access to finance (São Tomé and Príncipe, Vanuatu). Actions to assist small farmers were included in the action matrices for Mali (to reduce vulnerability). Vanuatu was the only country to mention women in this category (proposing a study on women entrepreneurs). Mozambique specifically included adjustment issues among 23 proposed reforms organized into five broad actions: make trade a mainstream feature in the PRS, facilitate broad-based gains from trade, mitigate the costs of adjustment, manage the risks of trade-related shocks, and monitor the impact of trade on poverty.

Source: Brady 2008.

procedural red tape. Hence, facilitation requires a commitment to investment and reform in three main areas: trade-related infrastructure (including roads, ports, and border stations); border processing and clearance systems and procedures (including modernization of customs and other border management institutions); and logistics services (including regulatory reform to

increase competition). In some cases, such as land border trade and transit trade for landlocked countries, the solutions need to be comprehensive and include bilateral and/or regional cooperation on trade facilitation reform.

In Africa, for example, nearly one-third of countries are landlocked. In East Africa, goods bound for land-

locked countries face the time equivalent of at least three clearance processes of coastal countries. The cost of being landlocked is driven up by the interaction of transport costs, logistics costs, and hedging costs incurred by shippers to cope with unpredictable delivery schedules.<sup>9</sup> More generally, on the basis of current trade flow among the Asia Pacific Economic Cooperation (APEC) members, bringing a member country with below-average capacity halfway to the average for all members could increase intra-APEC trade by US\$254 billion.<sup>10</sup> Improvements in port efficiency and the customs environment, that is, across-the-border barriers, represent about US\$117 billion of the total gain, and reducing inside-the-border barriers would lead to gains of about US\$116 billion.

The World Bank Group helps countries lower trade costs through support for effective transit regimes, improved border management, streamlined trade procedures, and improved customs institutions. This assistance takes the form of policy advice and technical assistance. Bank staff have worked closely with the WTO in the Trade Facilitation negotiations and with other external partners, including the World Customs Organization. The following are some recent examples of those efforts:

- The World Bank has helped countries conduct trade facilitation “needs assessments” as part of the WTO Trade Facilitation negotiations (see chapter 4). These have now been conducted in over 60 countries.
- The IFC–World Bank Trade Logistics Advisory Program is helping countries simplify and harmonize trade procedures.
- The Bank created a Logistics Performance Index to help countries understand their strengths and weaknesses across five dimensions of trade facilitation (see chapter 4).
- Trade and Transport Facilitation Audits have been conducted in over 40 countries over the past five years.
- The Bank launched a new Trade Facilitation Facility in May 2008, which will provide additional resources for technical assistance and advisory work to reduce trade costs.

In addition to policy analysis and technical assistance, the WBG extended credits and loans of US\$2.4 billion in 2008 to low- and middle-income countries for trade facilitation (table 3), up from US\$1.2 billion

annually in 2002–05. IDA/IBRD investment projects integrate institutional reforms with improved border management systems. Some recent examples include the following:

- Cameroon and the Economic Community of Central African States established a new transit system to facilitate the trade of landlocked Chad and the Central African Republic.
- Indonesia set up a National Logistics Team and developed an action plan to facilitate national and regional trade.
- The Greater Mekong Subregion (Cambodia, China, Lao PDR, Thailand, and Vietnam) is streamlining regional border procedures and automating customs administration.

### Trade-Related Infrastructure

Inadequate physical infrastructure constrains many in developing countries from exploiting the possibilities offered by international trade by lowering economy-wide productivity and raising trade costs. Aging transportation systems separate the poor—many of whom live in remote areas—from global markets. Cold chains and other specialized infrastructure are requirements for exporting many high-value agricultural and food products. Telecommunications and energy systems must be upgraded to meet the demands of modern economies. Both infrastructure and institutions matter for trade volume—and even for the probability that trade occurs.<sup>11</sup>

Infrastructure constitutes the largest single component of World Bank Group trade-related investments in developing countries. In low-income and middle-income countries alike, more than half of World Bank loans now are going to infrastructure. More than one-quarter of IFC investments in trade-related activities have been in infrastructure (table 4). These investments combine financial investments, diagnosis of infrastructure adequacy, and improved infrastructure planning and management policies. In the transportation sector, for example, World Bank-approved investment projects include Northern Delta transport development in Vietnam, road reconstruction and improvement in Honduras, and the future Abidjan–Lagos Transportation/Transit Project.

As with other areas, the Bank also helps mobilize technical assistance for country-level infrastructure management. For example, the Public-Private Infrastructure Advisory Facility provides technical assistance

<sup>9</sup> Arvis, Raballand, and Marteau 2007.

<sup>10</sup> Mann, Otsuky and Wilson 2003.

<sup>11</sup> François and Manchin 2006.

**Table 4: World Bank Group Trade-Related Activities, by Region, 2008 (US\$ millions)**

	Africa	East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	Middle East and North Africa	South Asia	Total
<b>Low-income countries</b>							
<b>Improving competitiveness</b>	<b>938</b>	<b>216</b>	<b>250</b>	<b>70</b>	—	<b>986</b>	<b>2,461</b>
Trade-related budget support	293	—	15	3	—	286	596
Trade policy and regulation	—	—	—	—	—	—	—
Productive capacity	646	216	236	67	—	700	1,866
<b>Trade facilitation</b>	<b>528</b>	<b>251</b>	—	<b>50</b>	—	<b>18</b>	<b>848</b>
<b>Economic infrastructure</b>	<b>792</b>	<b>449</b>	<b>111</b>	<b>117</b>	<b>16</b>	<b>1,221</b>	<b>2,707</b>
Total low-income countries	2,258	916	361	238	16	2,225	6,016
<b>Middle-income countries</b>							
<b>Improving competitiveness</b>	<b>100</b>	<b>733</b>	<b>2,005</b>	<b>2,439</b>	<b>559</b>	—	<b>5,835</b>
Trade-related budget support	10	136	100	648	—	—	894
Trade policy and regulation	5	—	300	152	—	—	457
Productive capacity	84	597	1,605	1,639	559	—	4,485
<b>Trade facilitation</b>	—	<b>54</b>	<b>750</b>	<b>650</b>	<b>73</b>	—	<b>1,527</b>
<b>Economic infrastructure</b>	<b>26</b>	<b>2,130</b>	<b>778</b>	<b>1,904</b>	<b>414</b>	<b>1,420</b>	<b>6,672</b>
Total middle-income countries	125	2,917	3,533	4,993	1,046	1,420	14,035

Source: World Bank, project portfolio database and IFC internal database.

Note: This table uses the OECD/WTO definition of sectoral coverage for aid for trade.

and shares best practices on planning infrastructure investments.

### World Bank Group Country Programs: Distribution around the World

In general, countries that need aid for trade have requested it, and donors have supplied it. In work undertaken for the WTO's Experts Meeting on Aid for Trade, Gamberoni and Newfarmer (2009) created a measure of the need for aid for trade based on 10 indicators of poor trade performance and low trade capacity. In general, and not surprisingly, countries with the poorest performance and weakest capacities are low-income countries. Among regions, Sub-Saharan Africa has the greatest need for aid for trade.

As mentioned earlier, more than one-third of the WBG's concessional lending and private investment for trade goes to low-income countries in Africa, about US\$2.3 billion of US\$6.0 billion total (table 4). South Asia receives about the same amount. The rest is spread across East Asia, and to a lesser extent in Europe and Central Asia and the non-oil exporting states of the Middle East and North Africa. Latin America gets almost no concessional aid for trade; however, it receives about a fifth of the WBG's total lending and

investments in trade. Other large recipients were East Asia (including China) and Europe and Central Asia.

Of concessional lending to the public sector in low-income countries, more than half is destined for Africa. The large portion of concessional aid for trade for Africa goes to infrastructure—more than half in 2007–08. The rest is about evenly divided between trade facilitation, budget support, and trade policy and regulation. In 2008, borrowing for trade facilitation and budget support increased substantially while infrastructure borrowing declined somewhat. Part of this may have been a reflection of increased budgetary needs in light of the financial crisis, and part may have been the natural fluctuation of lumpy infrastructure investments.

Conversely, most trade-related resources in middle-income countries go to advanced regions of East Asia, Latin America, and Eastern Europe; almost none goes to Africa. Here too, infrastructure accounts for about half of overall lending. Several large infrastructure projects were launched in 2008 in East Asia, South Asia, and Latin America, causing infrastructure lending to middle-income countries to increase from US\$4.9 billion in 2007 to US\$8.2 billion (table 2). Several trade facilitation projects in Eastern Europe and Latin America pushed up lending for that category in 2008.

The services available from the WBG's Aid for Trade Program can best be illustrated with a few examples from country programs. Each has used distinct forms of support from the World Bank Group, often in combination and partnership with other donors and aid providers.

### *Afghanistan*

Afghanistan's domestic revenue-to-GDP ratio—excluding the drug economy—is still one of the lowest in the world. In 2007, this ratio stood at a mere 7 percent. Not surprisingly, greater mobilization of revenues has been one of the government's highest priorities. As customs collections account for a substantial part of domestic revenues—in 2006–07 they made up about 55 percent of total revenues—the Afghan government, with donor assistance, has focused on reforming and modernizing the customs administration. The aim has been to improve the valuation of goods, reduce leakage of revenues, and decrease the waiting time at major border crossings.

To assist the government in this endeavor, the World Bank's US\$31.2 million Emergency Customs Modernization and Trade Facilitation Project has been helping to computerize the customs processes at four major border crossings, through which a wide variety of essential goods—including wheat, rice, sugar, tea, vegetable oil, cement, scrap iron, and motor vehicles—are imported into Afghanistan. Moreover, the introduction of the Automated System for Customs Data (ASYCUDA) at these points has tightened controls and removed the human interface in customs transactions, thereby increasing the speed of clearance and reducing the opportunities for corruption.

Since 2004, when the project began, customs revenues have soared from US\$50 million to over US\$399 million in 2008, an increase of over 700 percent in just five years. The waiting time for trucks at the major border crossings has also decreased. For example, at the eastern border with Pakistan at Torkham, over 90 percent of trucks are now cleared in less than one and a half hours, down from 18 hours in 2003. At the Kabul Inland Clearance Depot (ICD), the average waiting time for trucks is now a quarter of what it was before computerization.

Despite these gains, concerns remain that considerable potential customs revenues are being lost owing to interference by other entities. Political interference is common, with allegations of political appointments, rehiring of dismissed staff under pressure from influen-

tial people, and preferential treatment of those who have a nexus with political parties. The tighter controls at these points have also led to some trade being diverted to border crossings where systems are not yet automated, causing loss of revenue.

To prevent this leakage of revenues, the World Bank is providing additional financing to extend computerization to customs check posts at all the trade corridors in the country. For this purpose, on May 26, 2009, the World Bank's Board of Executive Directors approved additional financing of US\$6.8 million to further the rollout of computerization and complete the ongoing construction at the Jalalabad ICD.

### *Bangladesh*

At the time of appraisal in 2000, Bangladesh had one of the lowest teledensity rates in the world: 0.26 telephones per 100 inhabitants. The fixed-line incumbent, the Bangladesh Telephone and Telegraph Board (BTTB) had only 350,000 lines in service for a population of 125 million. The waiting list for a fixed line totaled 200,000 subscribers, with a waiting time of over 10 years. The challenge was to increase access to telecommunications services and improve the quality of service being offered, and to increase connectivity to rural areas, which, in turn, would promote the economic development of rural Bangladesh.

Drawing on its experience in other countries, IDA support and policy dialogue focused on establishing a regulatory framework that allows competitive private wireless operators to flourish and provide rapid services. Through the Telecommunications Technical Assistance Project, IDA is helping the government of Bangladesh to (i) separate the policy and operational roles of the government by restructuring the state-owned carrier, BTTB, to operate as an independent commercial entity; (ii) strengthen the policy function of the ministry, MOPT; and (iii) strengthen the regulatory capacity of the Regulatory Commission BTRC, including its spectrum management function. The work of the World Bank in all of these important areas fostered competition, reduced the regulatory risk, and eventually facilitated the emergence of a major competitor, GrameenPhone. In 2000, the IFC provided an initial loan of US\$16.7 million and made an equity investment of US\$1.6 million in exchange for 3 percent of the company's shares. This investment funded the initial installation and operation of the company's GSM 900 network. IFC provided the company with two additional loans in 2004 and 2007.

Nowadays, GrameenPhone has become the leading wireless operator in Bangladesh, with a network covering over 90 percent of the population. The Village Phone Program has had a significant impact, especially on the rural population of this low-teledensity country. The Village Phone Program, operated by GrameenPhone, currently provides mobile phone services to approximately 50 million people in villages across the country. It leverages microloans from the Grameen Bank, providing women with credit to buy cell phones from GrameenPhone. The women then provide mobile pay phone service in their shops, the local market, and elsewhere, charging a markup agreed on with GrameenPhone. Extended cell-phone coverage in poorer areas has had a tremendous social and economic impact on the operators—mostly rural, poor women for whom income-generating opportunities are rare. GrameenPhone has also established 500 Community Information Centers (CICs) where citizens in rural areas have access to the Internet and information services. GrameenPhone currently has 6,000 sites in all 64 Districts, covering approximately 95 percent of the total population and 80 percent of the country. As a result, prices have fallen considerably.

### *Cambodia*

Cambodia piloted the first Diagnostic Trade Integration Study (DTIS) in 2002 as part of the Integrated Framework (see chapter 4). The Royal Government of Cambodia has integrated trade into its national development strategy. Along with other donors, the World Bank provided trade-related technical assistance. It later created two major country trust funds, with the support of the European Union, Danish International Development Agency (DANIDA), and UNIDO.

The government and development partners have joined forces on the trade front by assembling the various themes of their individual assistance strategies into one Trade Sector-Wide Approach (Trade SWAp). Through the Trade SWAp, each development partner contributes specific activities within its area of expertise. For example, the Japanese aid agency JICA contributes to trade investment, the U.S. Agency for International Development (USAID) to legal reforms, and the ADB to technical barriers to trade. The Trade SWAp reduces the duplication of efforts between development partners and allows the government to maintain a clear view of progress across a broad range of activities. Government and development partners gather on a quarterly basis to review the progress in each area and inform each other

of new initiatives. The Trade SWAp has been formulated across three objectives: (i) enact cross-cutting reforms, (ii) overcome sector-specific constraints, and (iii) develop capacity. A Sub-Steering Committee on Trade Development and Trade-Related Investment oversees the SWAp under the leadership of the Ministry of Commerce.

Two World Bank programs support the Trade SWAp: (i) the Trade Development Support Program (TDSP) which is a multidonor trust fund managed by the World Bank to finance Trade SWAp activities; and (ii) the Trade Facilitation and Competitiveness Project (TFCP), which is a lending operation. The work of the TDSP and the TFCP take place within the context of the Trade SWAp, which provides a framework for individual donors to focus on a particular aspect of trade-related technical assistance without losing sight of the overall trade development agenda. The World Bank's TFCP integrates advanced information technology to border management, process reengineering, export promotion, legal and judiciary framework, capacity building, and trade infrastructure. A central feature is the installation of the ASYCUDA project, which allows Cambodia to practice risk management and postclearance audit. The system has been successfully installed and is operational in Sihanoukville port, with the option to roll out this modernization to five other ports over this year.

### *Lao PDR*

Before the road maintenance project started, Road 13, the backbone of the road system in Lao PDR, was in serious need of improvement. Its gravel surface limited travel speeds to around 35 km per hour. Other provincial and district roads were also in a state of disrepair, with road maintenance only rarely undertaken across the network. The project upgraded a 200-km section of Road 13 and introduced a periodic maintenance program using competitive bidding. It also set out to improve the government's capacity to better manage its national road assets. IDA contributed US\$45.4 million out of US\$63.7 million and played a catalytic role in reforming the country's road sector and improving the institutional capacity. In addition, IDA encouraged the development of a long-term solution to funding road maintenance and was instrumental in bringing other donors to the table. The road sections supported under the project were included in the government's long-term maintenance program, partially funded by follow-up support from IDA's Adaptable Program Loan, the Road Maintenance Program. The upgraded section of Road

13 now provides all-weather access to important agricultural areas in southern Lao PDR. Travel time for transportation of key commodities to markets has decreased from an average of five hours to less than three, which has boosted local economic activity.

Through a new cost-recovery mechanism the government is now raising close to half the annual funds needed to maintain the road system. Through all-weather access, the new roads have increased economic activities in areas that were once hard to reach. Savings in vehicle operating costs have been estimated at US\$39 million a year. The project has helped create a sustainable framework for road maintenance. About 23,000 km of road across the country are now subject to periodic maintenance. The government embraced a competitive bidding system in the roads sector. At the end of the project, 70 percent of routine maintenance and all periodic maintenance were subject to competitive bidding. The number of private contractors increased from 30 in 1997 to 130 in 2003 (70 of which are well-performing and financially stable), and their capacity to undertake civil works has increased dramatically.

The project played a key role in strengthening the government's capacity to maintain and preserve its infrastructure assets. It helped establish the Road Maintenance Fund in 2001 with a road users' funding mechanism as a sustainable source of income. The fund's current estimated revenues of US\$8 million in 2006 represent 40 percent of estimated annual need. The government has adopted the project's monitoring approach to oversee all donor-related projects.

### *Mauritius*

The World Bank helped the government of Mauritius define its trade reform program with a combination of analytical work, technical assistance, and a loan. In February 2006, the government asked the World Bank to work with it on aid for trade. A mission in April delivered a report in the field and discussed it with the minister of finance. In June, the minister announced a new reform program, with key elements to improve competitiveness. The government had asked for Bank support with lending, which resulted in the first in a series of programmatic loans, disbursed in December 2006. This was cofinanced by France's Agency for International Development. Each loan in the three-year program has changed in tandem with the government's efforts at institutional reforms. The program has reduced trade barriers, made the investment board less discretionary and more efficient, aligned price incentives to export with the government's objectives for export and

employment growth, and established an empowerment program to help low-income unemployed workers, SMEs, and women entrepreneurs. The program was rewarded with more rapid export and economic growth. Although the financial crisis has hurt Mauritius, as with other countries, the island is better positioned to withstand the global recession as a result of the reform program.

### *Mozambique*

The World Bank has been supporting Mozambique in its export competitiveness program. An ongoing Competitiveness and Private Sector Development Project (US\$25 million) is largely motivated by analytical work conducted in 2008. It benefited from the export competitiveness framework developed by the World Bank's International Trade Department. The key recommendations were that Mozambique should (i) overcome inefficiencies in the overall incentive regime, including factor market issues such as its land and labor laws; (ii) reduce time and costs of transport and customs; (iii) undertake proactive measures to expand its export base; (iv) improve management of megaprojects for development; and (v) support business skills and services. The government picked up several of these recommendations, especially those directly relevant to the private sector, and the Bank supported this program with project finance. Mozambique is now developing comprehensive programs on in-country capacity building for quality and standards. It has taken measures to improve customs procedures and transport logistics, and it is providing direct enterprise support in key industries—namely, horticulture and tourism—through a range of skills development programs.

### *Tunisia*

The World Bank has been engaged with Tunisia on trade promotion and facilitation for many years. Among the various projects conducted in Tunisia in partnership with the government, the Bank introduced the first Export Market Access Fund (FAMEX), an innovative matching grant scheme that targets emerging firms with export potential, firms exporting new products, and exporters seeking to penetrate new markets. It provides, on a demand-driven basis, 50 percent nonreimbursable cofinancing to help individual firms implement investments in market research and precompetitive programs (for example, establishment of export service offices abroad, search for partnerships, export plan-related training, and product design modifications). The program has already surpassed its per-

formance target of supporting 500 individual firms, and additional financing of US\$6 million is approved by the World Bank to assist 200 additional firms and maintain the momentum.

The World Bank also implemented the Preshipment Export Finance Guarantees (PEFG) program to encourage financial institutions to provide preshipment working capital financing to emerging exporters with viable export contracts. Small and medium enterprises (SMEs) often face a market failure resulting from an asymmetry of information between banks and exporters regarding the ability of the latter to execute export orders according to buyers' standards of quality, cost, and delivery. Tunisia's PEFG was designed to help alleviate this market failure by bearing a part of the nonperformance risk while the banks learn about the abilities of the exporters and the seriousness of the buyers.

In May 2009, the government of Tunisia signed a Development Policy Loan (DPL) aimed at improving the competitiveness of the country. The following are expected outcomes of the US\$600 million DPL, which is jointly supported by the World Bank, the African Development Bank, and the European Union:

- Reduced trade transaction costs and deeper integration by reducing tariff barriers, simplifying the tariff

regime, and increasing trade diversification through reduction of tariff gaps between preferential and non-preferential partners; convergence to EU product and quality standards; and selection and streamlining of technical controls of imports, computerization of trade procedures, and more effective logistics services.

- Further improvement in the business climate by simplifying business registration requirements and improving access to industrial land, and by increasing competition through regulatory and assessments of competitive practices by the Competition Council.
- Strengthened financial sector through stronger regulation and a higher rate of provisioning for nonperforming loans; strengthened venture capital firms through amendment of the laws that govern their functioning; deeper and more liquid stock market, by channeling more privatization of public enterprises to the stock market and partially opening the capital of state-owned enterprises to the public.

The DPL helped Tunisia finance its budget deficit and maintain macroeconomic stability in the current difficult and volatile international economic environment. Tunisia has decided not to seek financing from the international bond market in 2009.

## 3.

## SUPPORTING REGIONAL INTEGRATION

The WTO's Aid for Trade Task Force in 2006 identified "limited support for regional, sub-regional and cross-border trade-related programs and projects" as one gap in aid-for-trade financing. The IMF and World Bank staff, in their joint report in the fall of 2006 and again in 2007, seconded these concerns. These papers emphasized that the potential benefits of regional cooperation can be large, particularly for small, very poor, landlocked countries.<sup>1</sup> Country competitive-



ness can be greatly enhanced by regional integration. Cross-border coordination of infrastructure and policy (mutual recognition and adoption of common regulatory systems) can help lower trade costs, and for landlocked countries, corridor access may be essential to trade. However, weaknesses in regional institutions hamper the channeling of aid-for-trade funds for regional concerns. Moreover, most regional bodies in the developing world do not earn revenues and thus cannot borrow from donors without country guaran-

tees. At the same time, weak incentives for individual countries to initiate projects with large regional benefits, along with difficulties in securing effective coordination among countries, limit the introduction of regional transport issues into country strategies.

Efforts to promote regional integration have often focused on the expanding scope of regional trade agreements. However, arguably more important are efforts to reduce administrative barriers, consolidate regulatory regimes governing transport and transit, and improve logistics as well as invest in transport systems. One indication of the combined effect of these tariff and nontariff barriers is given in the map in figure 5. The thickness of the borders is calculated from an index that incorporates transportation, trade barriers, and access to technology. As this map shows, it is much harder and more time-consuming to cross a border in Africa than in Europe.

The World Bank has been supporting regional integration through analysis; capacity building via publica-

<sup>1</sup> In the paper for the Development Committee, three options were put forward: (i) to improve existing bilateral and multilateral facilities, (ii) to provide access to dedicated grant financing to facilitate regional coordination and support regional policy and regulatory reforms, and (iii) to create a dedicated fund to cover a share of the costs associated with large-scale infrastructure projects or other joint regional facilities. An appropriate balancing of the need to strengthen regional coordination and the desire to avoid the establishment of a large dedicated fund that could distort country priorities would argue for adoption of the second alternative.

**Figure 5: Borders in Africa Are Much “Thicker” Than Borders in Europe Because of Barriers**



Source: World Bank, World Development Report 2009.

tions, workshops, and training on the design of RTAs; technical assistance to trade officials involved in negotiations; and lending for trade-related infrastructure projects. The strategy of the World Bank is to promote regional integration through targeted aid-for-trade investments in trade facilitation and transport infrastructure and to promote “open regionalism” in regional trade agreements (see below).

### Trade Facilitation and Investment in Regional Infrastructure

Experience shows that collaborative governmental efforts to reduce trade costs by improving customs procedures and border management can minimize the trade-distorting impact of regional arrangements and facilitate regional trade. Logistical, institutional, and regulatory barriers are often more costly than tariffs and generate no offsetting revenue. Moreover, reducing transport costs may have a higher payoff than reciprocal reductions in overt trade policy barriers. Through efforts to raise awareness and build analytical and administrative capacity on RTAs, the World Bank has been supporting regional integration through concessional and nonconcessional lending for trade-related infrastructure projects.

In 2007–08, the World Bank provided to low-income countries an annual average of about US\$600 million for trade lending operations aimed at facilitating regional integration (see chapter 1, table 1). The bulk (90 percent) of these operations was concessional lending for IDA countries in Africa. Infrastructure projects (energy and transport, followed by communications) accounted for more than 80 percent of total commitments,<sup>2</sup> and many of the Bank’s engagements to assist regional integration have been in partnerships with other donors.<sup>3</sup> However, concessional regional funds do not allow for grants to supranational bodies, restricting the Bank support for capacity development of Regional

<sup>2</sup> Projects include the West Africa Power Pool Project to build an efficient power market in six countries; the East Africa Transport Project to reduce transport costs by 20–35 percent through improved roads; and the Southern Africa Power Market Project (US\$179 million) to connect the electricity grid of the Democratic Republic of Congo to that of Zambia, with the aim of eventually integrating all southern African countries into a regional energy market.

<sup>3</sup> The African Development Bank has become a close partner, sharing in the development of complex infrastructure programs and cofinancing most large regional investments. Other significant partners include the European Union, the Islamic Development Bank, the Development Bank of Southern Africa, DfID, AfD, USAID, Germany, Japan, and Nordic countries.

Economic Communities. Limited support has been provided through the Institutional Development Fund (IDF), partnerships, and bilateral trust funds.<sup>4</sup> This fragmented and limited funding has made it somewhat difficult for the Bank to provide assistance commensurate with the strategic importance of regional capacity development.<sup>5</sup> However, the WBG was able to meet some of these needs through the investment made by the IFC at about US\$500 million per annum in 2007–08.

Looking forward, demand for resources for regional projects is expected to be much higher than available financing. Already, demand for regional assistance in Africa in 2007–08 was approximately US\$1 billion (based on requests for regional projects), of which two-thirds was required as regional funds.<sup>6</sup> Africa's demand for regional IDA projects is estimated at over US\$700 million annually (including one-third cofinancing) during IDA15.<sup>7</sup> A strong replenishment of regional resources under IDA15 should help respond to rising demand.

In May 2009, the World Bank launched the Trade Facilitation Facility (TFF) to further increase support for trade and to provide advisory services on (and speed up) the implementation of infrastructure projects that foster trade, including the design and improvement of regional trade facilitation and transit regimes, and lower transaction costs associated with moving goods and services across borders. For example, the TFF will fund technical assistance to help design a regional bond-carnet system for use along southern Africa's North-South Corridor. The TFF aims to mobilize an initial US\$40 million in trust fund resources over the next four years (2009–12; see chapter 4).

The Bank has regional projects in every region. The following sections describe some of the highlights.

### *Sub-Saharan Africa*

In 2008, trade-related lending in infrastructure included regional projects in Africa, such as Central Africa Transport and Transit Facilitation and Mozambique–Malawi

Transmission Interconnection. It also included the World Bank-supported West Africa Power Pool to establish a well-functioning, cooperative mechanism to increase citizens' access to stable and reliable electricity at affordable costs. A similar power pool project is also under way for Southern Africa.

The World Bank also supports transit and transport corridor projects in the major regions of Sub-Saharan Africa. These aim to improve access of landlocked countries to export markets and to reduce trade costs and transit times for all participants. For example, the **East Africa Trade and Transport Facilitation Project** aims to improve the trade environment through the effective elimination of tariff barriers in the East African Community Customs Union Area to enhance efficiency of logistics services along key corridors. Bank lending and technical assistance for the **Central Africa Multimodal Corridor** have helped Cameroon and the other countries design a streamlined transit procedure—based on the European Common Transit—bringing down the number of procedures from seven documents to only one. The World Bank is also financing projects to improve transport services in the North-South Corridor in southern Africa (see box 4).

More recently, the Bank has been engaged in policy dialogue on the development dimensions of the Economic Partnership Agreements (EPAs) with the European Union, including through the publication of a major report, *EPAs between Africa and the EU: What to Do Now?* on the extent to which EPAs will help to accelerate export growth and diversification in Africa. The report helped inform the implementation of the interim EPAs and further negotiations of full EPAs. The Bank has also had a long-term dialogue with the EU and U.S. government on rules of origin in their preferential trade regimes. The Bank is advocating extending the third-country fabric rule of the African Growth and Opportunity Act (AGOA) and pushing for reform of the EU rules of origin for clothing in the EPA negotiations. This helped lead to the eventual adoption by the EU of

<sup>4</sup> The Institutional Development Fund (IDF) is a World Bank grant facility designed to finance discrete, and generally innovative, upstream capacity-building activities that are identified during (and closely linked to) the Bank's policy dialogue and ESW. The IDF is considered a fund of last resort, financing eligible activities for which no alternative source of financing is available—including IBRD/IDA lending, UNDP, and other loans or grants.

<sup>5</sup> Several regional organizations have approached the World Bank to request assistance to strengthen regional coordination of trade issues. Although the Bank is hampered by a lack of a grant instrument to provide financing to regional bodies, it undertook several regional diagnostic studies in FY2006 and FY2007, including reviews of implementation of customs unions and analyses of gaps

in regional infrastructure, and it is currently analyzing the major impediments for improving the business climate in the Common Market for Eastern and Southern Africa (COMESA) that should be addressed at the regional level.

<sup>6</sup> The emphasis remains on power, transport corridors, trade facilitation, and support for telecommunications. Additional assistance is also anticipated for environmental protection, management of shared natural resources, regional initiatives to raise agricultural productivity, combating migratory diseases, and capacity development.

<sup>7</sup> IDA15 is the 15th replenishment of the International Development Association. See IDA 2007.

## BOX 4

**North-South Corridor in Southern Africa**

The North-South Corridor is the main artery supporting international and intraregional trade in southern Africa. The corridor, broadly defined, extends from Dar es Salaam, Tanzania, to Durban in South Africa. It comprises both road and rail arteries, connecting the landlocked countries to major regional ports. At present, around 80 percent of cargo goes by road and the remaining 20 percent goes by rail. While most of the infrastructure is in place, currently approximately 1,127 km of road and 2,000 km of rail are in poor condition and require rehabilitation. It is estimated that a total investment of US\$700 million would be needed to rehabilitate road and rail infrastructure on the core corridor. The needs are greater when the interconnecting links are taken into consideration.

In recognition of these challenges, the World Bank is financing projects to improve transport services in the corridor countries. Total Bank commitments to trade and transport projects in the corridor countries are US\$1.6 billion, of which US\$0.5 billion is directly related to the corridor when broadly defined, and US\$300 million is related to the core North-South Corridor. The projects include substantial investments in road improvements in Botswana, Tanzania, and Zambia. In order to provide a comprehensive approach, the Bank is also in the early stages of preparing a major multicountry trade facilitation project for southern Africa that is similar to projects in other parts of Africa.

In addition, the Bank is working with other donors to tackle issues related to policies and procedures along the North-South Corridor, especially at the border posts. By far the most problematic road border crossings where delays are experienced are those at Beit Bridge (Zimbabwe/South Africa) and Chirundu (Zambia/Zimbabwe). Crossing these borders takes altogether at least four days, or up to 50 percent of transport time between Durban and Lusaka. The Bank is therefore collaborating with other donors, including the UK Department for International Development (DfID) and Japan International Cooperation Agency (JICA) in supporting the introduction of one-stop facilities at the main border crossings, starting at Chirundu. Chirundu is the regional pilot one-stop border post and is scheduled to open in September 2009. Recently, and at the request of the government of Zambia, the Bank reviewed the state of readiness of the Chirundu border post and offered practical guidance on making the launch a success. The review became the first TFF-related activity, executed within four weeks of the launch of the facility. The speed with which the Bank responded is intended to be typical of how future requests for TFF support will be treated.

Source: World Bank staff

a single-stage processing requirement for clothing in the interim EPAs.

The World Bank supports the Regional Economic Communities (RECs) through analysis and technical assistance (i) for COMESA, on expanding the free trade area and moving toward a customs union, including analysis of the revenue implications; (ii) for the South African Development Community (SADC) on regional trade performance, the trade protocol, and rules of origin; and (iii) for the East African Community on trade policy harmonization. There has also been sector-focused support to RECs. For example, the Africa Agriculture Market Program partnership with COMESA has just been launched, with the core objectives of (i) strengthening the institutional capacity of COMESA to implement a regional marketing and trade program for food staples and inputs; (ii) enhancing knowledge of national decision makers by providing analysis on issues

facing agricultural input and output markets; and (iii) creating a regional network for dialogue.

The World Bank has also been supporting the COMESA Secretariat team and the 16 member states to calculate the revenue losses from tariff and tax reforms by member states. The COMESA Secretariat chose to use the World Bank **Tariff Reform Impact Simulation Tool (TRIST)** with each country's specific tariff reform scenarios. This tool has helped inform decisions regarding allocations to countries under the COMESA fund.

***Middle East and North Africa***

To foster regional integration, the Bank has provided knowledge and technical assistance, including in the context of (i) the *2008 MENA Economic Developments and Prospects* and related conferences, including that held in Muscat, Oman, in 2008 on "Strengthening the Pan Arab Free Trade Area"; (ii) a regional study on

export diversification that discusses the constraints to the innovation process and to diversification of exports in five MENA countries; (iii) a report on strengthening MENA's trade and investment links with China and India; and (iv) a subregional report on the impact of the Multi-Fiber Agreement (MFA) removal on Egypt, Jordan, Morocco, and Tunisia, and options for maintaining competitiveness in a post-MFA world. This study advocated moving up the value chain and enhancing trade logistics as a way to maintain competitiveness.

The Bank has also been active in the context of the Arab World Initiative to achieve faster growth, better jobs, lower social disparities, greater social inclusion, and better management of natural resources—especially water. The Bank is supporting the Cairo-based Economic Research Forum for the Arab countries, Iran, and Turkey in the design and implementation of a multiyear work program aimed at fostering greater integration of Arab product and factor markets. The Bank also supported a survey of firms in nine Arab League members of the Pan-Arab Free Trade Area (PAFTA), which indicates that PAFTA has had a positive impact as a result of tariff liberalization and implementation of trade facilitation actions; but nontariff measures are still significant for many countries.

### *Europe and Central Asia*

Although tariff rates among Europe and Central Asia countries are among the lowest in the world, many of these countries, particularly those of the former Commonwealth of Independent States (CIS) and those in the Balkans, face challenges to international competitiveness stemming from poor business environments. Across a number of these countries, Development Policy Loans (and PRSCs) have continued to support efforts to reduce barriers to entry and lower regulatory and administrative burdens (Armenia, Georgia, Tajikistan, and Ukraine, for example). At a time when these countries are facing severe external financing constraints and large balance-of-payments financing gaps, these quick-disbursing loans have provided much-needed support (including in Poland and Romania). The region is also providing financing to directly support export activities through the provision of credit lines (Moldova). In other instances, the Bank's efforts have focused on providing financing to SMEs whose activities have been particularly harmed by the global credit crunch (Armenia). In addition, projects like the Customs Development Project in Kazakhstan is supporting efforts to undertake customs reform aimed at improving revenue collection and trade facilitation, among other things.

At a time when protectionist pressures are mounting, ongoing policy dialogue has been instrumental in ameliorating pressures to raise tariff rates in response to balance-of-payments pressures (Azerbaijan and Tajikistan). The Bank is advising and supporting a number of countries (Georgia, Moldova, and Ukraine) in their discussions with the EU on an enhanced trade agreement, as well as helping them understand the costs and benefits of deeper free trade agreements with the EU. The Bank has promoted deeper integration among the Southeastern European (SEE) countries by bringing the existing network of bilateral agreements into a new multilateral framework (Central European Free Trade Area [CEFTA] 2006). Recent analytical work has aimed at deepening further integration among these countries, including the free movement of labor. In Central Asia, the Bank has supported the Central Asia Regional Economic Cooperation (CAREC) initiative through its analytical work covering cross-border trade and its implications for employment and growth. Analytical work on CAREC has continued analysis on the role of bazaars in foreign trade in member countries. To support Central Asian countries' efforts to expand and diversify their trade, the Bank has launched a Trade and Transport Facilitation Study covering Kazakhstan, Kyrgyzstan, and Tajikistan.

The Bank supports regional integration in Central Asia (and also Africa), mainly through the Almaty program for landlocked developing countries (box 5). For instance, the Bank South West Roads Project for Kazakhstan, approved in April 2009, seeks to rehabilitate the national road network and expand infrastructure, particularly along the CAREC corridors, totaling 8,920 km. This project includes the corridor linking Western Europe to western China, to improve transport efficiency and safety, and to promote development along one of Kazakhstan's main strategic road transport corridors.

### *East Asia and the Pacific*

The World Bank has been working to support regional integration in the Association of Southeast Asian Nations (ASEAN) through advisory work and capacity building, reduction of technical barriers to trade, improved regulations governing financial services, and assistance to the ASEAN Secretariat on services trade agreements. The Bank is working with the ASEAN Secretariat and AUSAID—the Australian government agency responsible for the country's overseas aid program—to conduct needs assessment studies in the ASEAN countries in the context of the ASEAN Frame-

## BOX 5

**The Almaty Programme of Action**

The Almaty Ministerial Conference, in 2003, was the first global venue to specifically address the problems of landlocked developing countries. It brought together landlocked and transit developing countries, donor countries, and international financial and development institutions. The program of action adopted at the conference addressed the access problem of these landlocked countries, with the following seven objectives:

- Secure access to and from the sea by all means of transport, according to applicable rules of international law
- Reduce costs and improve services to increase the competitiveness of their exports
- Reduce the delivered costs of imports
- Address problems of delays and uncertainties in trade routes
- Develop adequate national networks; reduce loss, damage, and deterioration en route
- Open the way for export expansion
- Improve safety of road transport and security of people along the corridors

To reach those objectives, the Almaty Programme of Action highlighted five priority policy areas for landlocked and transit countries.

**Transit policy and regulatory frameworks.** Both landlocked and transit countries could review their transport regulatory frameworks and establish regional transport corridors.

**Infrastructure development.** Landlocked countries could develop multimodal networks (railroad, air, and pipeline infrastructure projects).

**Trade and transport facilitation.** Landlocked countries could implement the international conventions and instruments that facilitate transit trade (including the WTO).

**Development assistance.** The international community could assist by providing technical support, encouraging foreign direct investment, and increasing official development assistance.

**Implementation and review.** Plans could include monitoring the implementation of transit instruments and conducting a comprehensive review of their implementation in due course.

Halfway into implementation, the program is showing results, with partners coordinating their efforts and contributing to the implementation of the various program components, notably for the improvement of the corridor infrastructure.

Source: United Nations 2003.

work for Services Trade Liberalization and plans to provide technical and financial assistance to selected countries to help implement the liberalization agenda. In addition, the Bank is leading a collaborative effort with the ASEAN Secretariat and the Asian Development Bank on a regional food staples market study to examine options to develop regional food trade and attract private investment in food supply chains.

Another development in regional integration is the **Greater Mekong Subregion (GMS) Trade and Transport Facilitation Project**, which is supported in cooperation with the ADB and other donors and involves Cambodia, China, Lao PDR, Thailand, and Vietnam. This sup-

port is structured as a two-phase program. The first phase will identify the constraints to seamless trade in the GMS, with a focus on three main regional transport corridors that have been constructed with ADB assistance. These constraints will likely differ by country, but in general they cover regional trade-related information issues; customs clearance and modernization at the country level and approaches to border management; standards regimes throughout the region; regional transit regimes; and development and harmonization of business visa requirements, transport and logistics issues, and issues related to the mandate and clearance procedures of all agencies involved in trade transaction.

The second phase of the work will identify the constraints that could be addressed in the short run and will package an assistance program, if warranted, in the form of a Bank project. This will be followed by a series of follow-up projects, again if warranted, that would include constraints that require deeper reforms. So far, the Bank has been actively involved in terms of technical support and coordination among country governments and donors.

In response to the current financial crisis, the Bank is supporting the government of Indonesia through a trade **finance diversification project** to strengthen the financial and technical capacity of trade agencies in the country, specifically the Indonesian Export Import (EXIM) bank and the export promotion agency. In addition, the Bank is considering the establishment of a **regional facility for financial stability**, which would support trade finance issues in the region. Finally, the Bank is working with United Nations agencies and other donors to promote trade facilitation in the region through workshops and forums.

### *South Asia*

South Asia is the least integrated region in the world, the World Bank's trade assistance program in the region focuses on increasing intraregional trade. The World Bank's support of the **South Asian Association for Regional Cooperation Business Conclave** aims to improve intraregional dialogue within the business community. At the government level, the World Bank is working with Bangladesh, India, and Nepal to improve regional cooperation on infrastructure for water, transport, and energy. In the northwest region of South Asia, the Bank is helping the governments of Afghanistan and Pakistan improve transit and trade facilitation arrangements through lending and analytical work.

In the aftermath of the global food crisis and the introduction of export restrictions on rice and wheat by some South Asian countries, several regional seminars on the food crisis have been held in South Asia with the support of the World Bank to facilitate an exchange of views between countries and improve the understanding of the food crisis, such as how removing restrictions on agricultural trade in South Asia will benefit the poor, especially in adversely affected net food importing countries such as Afghanistan and Bangladesh, as well as promote a regional food security agenda. The Bank also helps promote south-south cooperation and regional programs in South Asia with the support of donors. Examples include the facilitation of a large ministerial delegation to India to learn more about modern service

exports and India's experience in information technology service exports. South-south cooperation is also being promoted in areas such as energy (between Afghanistan, Pakistan, and Central Asia), dairy farming, and services-led growth.

### **Regional Trade Agreements: Promoting Open Regionalism**

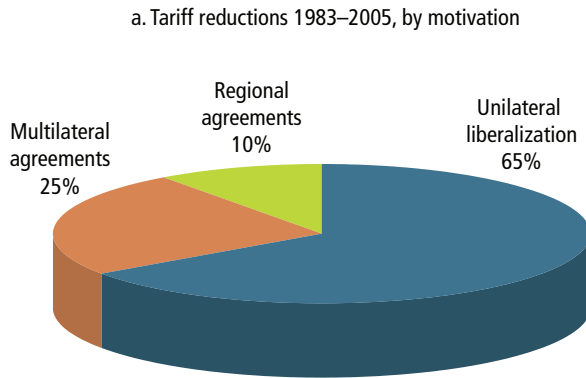
Even though multilateral initiatives have arguably led to much greater increases in market access for developing countries, the number of regional trade agreements (RTAs) has been increasing (figure 6). Though many arrangements can be beneficial, proliferation of RTAs has brought concern about incoherence, confusion, unnecessary business costs, instability, and unpredictability in trade relations. Also, countries have several motives to enter into arrangements; therefore, final designs have varied widely in terms of scope, depth, rules, and timeline. Research has shown that RTAs can have positive or negative effects on trade, depending on their design and implementation.<sup>8</sup> Moreover, even in agreements with positive impacts on average incomes, not all members are assured of increases. For these reasons, it is important to look at the manner in which regional agreements operate, and what effects they have on trade openness and on the creation of new economic opportunities.

With nearly all countries belonging to at least one RTA and some to a large number, the World Bank has long been engaged in support of an open regionalism conducive to growth and economic and social development in developing countries. The Bank has also been receiving many requests from developing countries for advice on RTAs, including those currently being negotiated, in terms of understanding of the legal obligations and the possible economic and development implications of various provisions. For example, the Bank has an ongoing dialogue with the EU on the design and implementation of the Economic Partnership Agreements, particularly with respect to restrictive rules origin and sequencing of tariff reductions. The Bank has also provided assistance to the Eastern and Southern Africa group and the Caribbean group in their EPA negotiations with the EU, and to the Central American and Andean countries as they negotiated RTAs with the United States. The Bank is also assisting Morocco and Tunisia on the prospects for deeper regional integration, in particular in the context of the

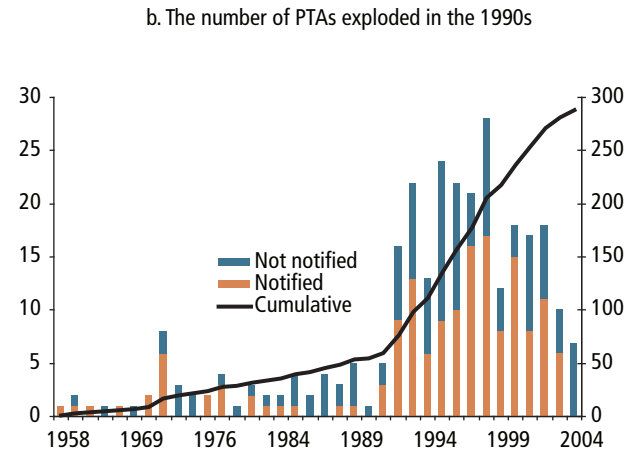
<sup>8</sup> See, for example, Schiff and Winters 2003.

**Figure 6: Regional Trade Agreements Have Mixed Success**

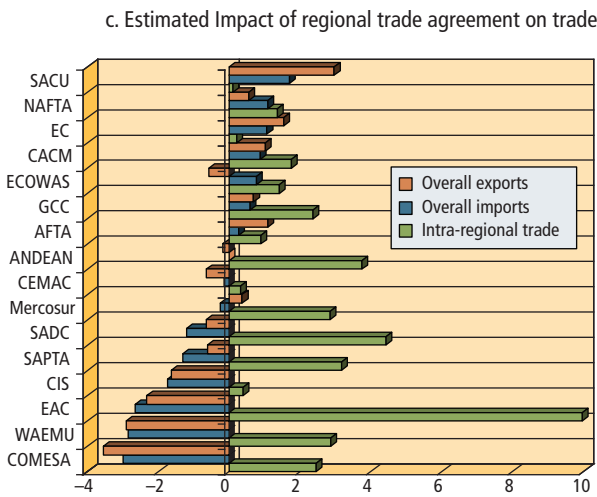
**RTAs are not major drivers of new market access...**



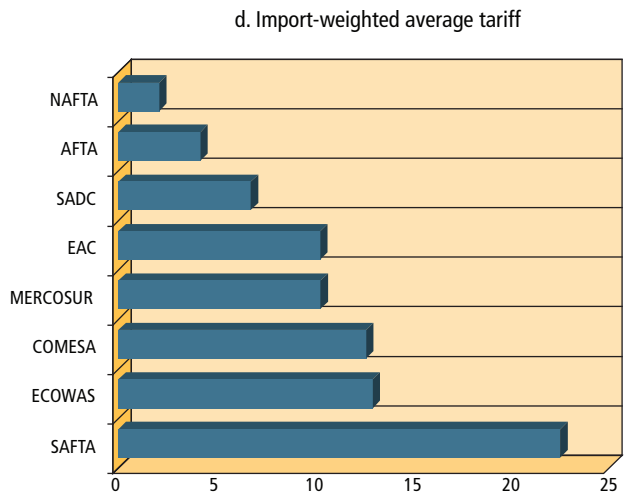
**but RTAs are proliferating**



**Not all RTAs create trade...**



**and in general open regionalism creates more trade**



Source: World Bank, *Global Economic Prospects 2005*.

European Neighborhood Policy. Work on RTAs was undertaken for Indonesia and China as well.

In light of these requests and growing but fragmented knowledge on RTAs, the Bank seeks to contribute to bridging the gap and to provide a useful global public good in informing the policy debate in this area. World Bank reviews of past RTAs and research conducted by the Bank and academia, suggests the key to making RTAs complementary to a nondiscriminatory multilateral system and supportive of development is to strive for “open regionalism”—agreements with low external barriers to trade, nonrestrictive rules of origin, liberalized service markets, and a strong focus on reducing

transaction costs at borders. However, in practice, it is often difficult for policy makers and trade negotiators, especially in least developed countries, to know whether and to what extent RTAs meet these prerequisites. Multilateralizing RTAs to help generate an outcome superior to the current situation can therefore be a powerful complement to the Doha Round negotiations.

Against this background, the Bank is developing a **regional integration portal** to allow trade policy makers, researchers, and practitioners, among others, to better understand and navigate the world of RTAs. In particular, the Bank intends to inform and assist policy makers and trade negotiators in developing countries

## BOX 6

**World Bank Capacity Building in Support of Regional Integration**

As part of the World Bank Group's response to the growing importance of preferential trade agreements (PTAs), the World Bank Institute (WBI) invested in **a new course on Preferential Trade Agreements for Developing Countries**. The course was first delivered to an audience of 50 policy makers from 27 developing countries in May 2009. The course provides original material conveying the most recent analysis on regional trade integration. An important portion of the course focuses on regulatory issues such as intellectual property rights, standards, and trade facilitation, which are more frequently included in PTAs. It aims to provide participants with the knowledge to analyze and design PTAs and ensure that entering into PTAs helps maximize the benefits from more open trade for developing countries.

WBI aims to foster peer-to-peer learning and experience sharing between regions by organizing videoconferencing using the Global Distance Learning Network (GDLN). Examples include (i) a series on **Regionalism in Developing Countries**, connecting participants in Uruguay, Peru, India, and the Philippines with experts on selected issues related to regionalism; and (ii) a course on **Trade policy and WTO accession for CIS countries** reaching CIS/Central Asia provincial officials, academics, and business representatives to enhance the capacity of countries to put in place sound national trade policies and institutions and help them participate effectively in multilateral and regional trade negotiations. Through the GDLN, WBI is also conducting a multiyear program to train senior government officials on a range of trade topics and promote dialogue within South Asia.

WBI also contributes to courses organized by the WTO, a long-standing partner, aimed at trade ministry officials. Examples include: a WTO workshop aimed at African negotiators covering **country and regional experiences with services trade reform**, and a course on **regional trade policy** targeted at African policy makers.

In partnership with UN-IDEP, an awareness raising event on "Regional Integration in Africa and the Economic Partnership Agreements," was delivered in Dakar, Senegal, for mid-level trade officials from various African countries and RECs. WBI also provided support to the consensus-building workshops on **Trade in Services, EPA Negotiations, and Development in Africa** and **Trade Negotiations and pro-poor services reforms: Focus on EPAs** organized by ILEAP to assist in the formulation of negotiation positions in services in the proposed EPAs. WBI launched the work program **Regional Integration and Agricultural Trade Policy: Learning Program for the Africa and MENA** Regions. It aims at contributing to a better understanding of the agricultural aspects of regional integration in developing countries and entails (i) skills building for local researchers, (ii) encouraging a network of researchers, (iii) establishing a link between research and policy makers, and (iv) capacity building for policy makers.

on the legal, economic, and development implications of different approaches for provisions in RTAs. The ultimate objective of this project is to help developing countries use RTAs as instruments to bolster trade competitiveness and leverage the global economy. A secondary objective of this project is to help identify potential areas for technical assistance and financial

support, including under the aid-for-trade agenda, and to mainstream trade into country development strategies. In parallel, WBI has developed a new course on RTAs for Developing Countries. The course was first delivered to an audience of 50 policy makers from 27 developing countries in May 2009 (box 6).

## 4.

## ENHANCING MULTILATERAL COOPERATION

Trade is one of the most important arenas where countries can do more collectively than they do individually. If countries reduce trade barriers and in so doing create an incentive for their partners to do so at the same time, the gains are multiplied. Similarly, aid for trade is an area in which multilateral cooperation can produce synergies—through consensus building on aid for trade as a priority, through investments and reforms on both sides of a border at the same

time, and through better coordination of donor activities at the country level. Beyond this, multilateral cooperation in the provision of “public goods” such as data, analytical tools, research, and capacity building can pay large dividends in providing negotiators and trade policy makers better information, analysis, and policy options. The financial crisis and global recession have created a new set of multilateral activities associated with the G-20—monitoring trade policy to avoid a downward protectionist cycle and creating new global mechanisms to reactivate trade finance.

This chapter reviews WBG activities in support of the Doha Development Agenda, means of reviving trade finance, special programs for low-income countries, and the provision of public goods that benefit the whole international community.



### The Doha Development Agenda

The collapse of the mini-ministerial of Doha Round negotiators in July 2008 led to a hiatus in multilateral negotiations that has lasted well into 2009. This is despite the fact that the negotiating texts for agriculture and nonagricultural market access are nearly complete and contain the promise of a robust arrangement. As Bank staff wrote on the eve of the ministerial, “The headline conclusion is that the Doha round, though perhaps not as ambitious as Ministers had hoped . . . compares favorably with the Uruguay round in terms of market access and surpasses it in terms of breadth of coverage and tangible benefits for developing countries.”<sup>1</sup> Even so, contentious issues remain, including caps on sensitive products, special products, the special safeguard mechanism, domestic support, cotton, and

<sup>1</sup> See Hoekman, et al. 2008.

the nonagricultural market access (NAMA) coefficients and flexibilities.

With the sudden onset of the financial crisis, attention turned away from cutting existing protection to avoiding more protection. The G-20, in November 2008 and again in April 2009, issued a standstill pledge. The Bank contributed an early analysis to monitoring of those pledges, and the WTO began doing regular detailed monitoring reports.<sup>2</sup> Moreover, the members themselves gathered in May 2009 to explore ways of orchestrating a binding standstill for all WTO members.

From the inception of the Doha Development Agenda in 2001, the World Bank Group has worked intensively in the provision of analysis on various aspects of the trade round. The Bank staff have produced numerous books and articles on Doha-related topics.<sup>3</sup> This work was instrumental in contributing to the policy discussion by putting forward fact-based analysis of timely policy issues.

That work continues. The major elements of the current program on Doha—as well as other aspects of trade policy—include work on the following:

- ***Distortions of agricultural incentives.*** Because most of the poor are located in rural areas and are heavily dependent on agriculture, large-scale poverty reduction requires increasing profitability in farming in addition to the creation of alternative employment opportunities. Earnings from farming are depressed in many low-income countries partly because national policies have an anti-agricultural bias, and/or because richer countries assist their farmers with import barriers and subsidies. This project is measuring the changing extent of policy bias against agricultural production, the effects of current and alternative policy regimes, and the political economy forces explaining reforms and resistance to reforms.
- ***Services trade policies and nontariff measures (NTMs).*** The objective of this project is to develop a better picture of services policy, and eventually market structure and performance across sectors and time. A cross-country survey is being used to collect information on impediments to international integration. Better data on services trade and investment policies are a precondition for policy advice in this

area. Data on applied policies are also needed to leverage recent investments in improved analytical modeling techniques that require information on foreign direct investment and services policies. With the world decline in tariff barriers, countries are more concerned with streamlining NTMs to facilitate trade. Work on NTMs aims to improve the collection of information from firms and governments, and to provide guidance on how to address measures that have been identified as barriers to trade.

- ***Regulation, trade costs, and trade performance.*** This work focuses on how regulatory policies—such as product standards and their enforcement, or internal trade costs associated with bureaucratic red tape—affect trade performance. The focus of the analysis is to identify policy reforms to facilitate trade, enhance export competitiveness and diversification, as well as measure the effects of product standards and compliance systems on exports.
- ***Trade and poverty.*** Assessing the impacts of trade and trade policy on poverty and on inequality requires using a mix of microeconomic techniques and general equilibrium modeling. Research is focusing on domestic complementarities to trade policy (the effects of so-called behind-the-border factors such as market structure and competition in distribution services, as well as access to—and quality of—infrastructure) and on household-farm-enterprise adjustments to trade shocks.
- ***Trade agreements.*** In addition to assessments of the Doha Round, in the spirit of promoting an early ambitious conclusion, work here centers on the study of RTAs and their implementation.

### Trade Finance

As the financial crisis unfolded after September 2008, the availability of trade finance decreased and its cost increased because of growing liquidity pressure in mature markets and the general scarcity of capital, unprecedented increases in the cost of funding, and a perception of heightened country and counterparty risks. The contraction in trade finance was also fueled by the loss of critical market participants such as Lehman Brothers, a drying up of the secondary market for short-term exposure (as banks and other financial institutions deleveraged),<sup>4</sup> and the volatility of commodity prices. Implementation of the Basel II Accord

<sup>2</sup> See Gamberoni and Newfarmer 2009b.

<sup>3</sup> These include, for example, Hertel and Winters; Anderson and Martin 2006; Mattoo, Stern, and Zanini 2007; Finger and Schuler 2004; Newfarmer 2006; and the synthesis analyses in the *Global Economic Prospects* series (2002–07) and in the *Global Monitoring Reports* (2005–09).

<sup>4</sup> The secondary market plays a key role in helping banks undertake transactions that are larger than their current credit and cross-border limits.

**BOX 7****Support to the Doha Round: Trade Facilitation Negotiations**

The World Bank Group, working closely with other international organizations, has supported the Doha Round negotiations on trade facilitation in three key areas: analyzing the potential benefits of a positive outcome on trade facilitation for developing countries; sharing relevant tools, instruments, and international standards so countries have a concrete understanding of any obligations and can mobilize technical assistance to ensure implementation; and providing assistance to members to determine their individual needs and priorities for technical assistance.

After consultations with least developed countries, the Bank launched the Trade Facilitation Negotiations Support Program in February 2005. The first phase developed a Trade Facilitation Negotiations Support Guide to assist low-income developing countries with small missions in Geneva to establish networks of specialists in their own capitals who could provide real-time advice and support to Geneva-based negotiators. This was followed by several in-country workshops to link experts in home countries with the Geneva-based negotiators. In addition, the Bank organized regional workshops so that Geneva-based negotiators and capital-based specialists could discuss needs, priorities, and implementation issues.

In spite of positive progress in the negotiations, negotiators continued to be hampered by concerns about the potential difficulties they would face in implementing new commitments in a Trade Facilitation Agreement. To assess these challenges, the Bank, working with the IMF and World Customs Organization (WCO), undertook a study in 2006 to determine the implementation difficulties that developing country members were likely to encounter. The study reviewed experience in Egypt, Paraguay, the Philippines, Rwanda, Senegal, and Sri Lanka. A team of customs and trade facilitation specialists visited each of the countries to examine the systems and procedures currently employed and to compare these with the range of measures under consideration in the WTO negotiations. The results of the study, later published as a World Bank working paper, were presented to WTO members at a special information session hosted by the Bank in Geneva in early 2007.

The report led other developing countries to request similar studies in their own countries. In response, the Bank team, working with partner international organizations, created a needs assessment tool that could be used by any developing country to assess its readiness to implement the range of measures under negotiation. The tool has since been used in 65 countries and has underpinned the WTO Secretariat's trade facilitation-related technical assistance program. Moreover, the Bank participated in 14 of the national needs assessments conducted as part of the program. Finally, the Bank hosted a seminar to compare information from the studies across countries in Geneva in September 2008.

Developing country members have recently indicated that they would like assistance to prepare strategic action plans to guide implementation of new trade facilitation commitments. The Bank is developing a new guide to help countries develop their implementation action plans. The aim is to ensure that, regardless of the countries involved and/or which donor or donors ultimately provide support, the action plans would be comprehensive, based on a broadly common approach, and presented in a common format. The preparation of a common approach and reporting template would also provide an opportunity for bilateral and multilateral donors to contribute to implementation in ways that complement rather than replace or duplicate existing bilateral and multilateral mechanisms for implementing reforms of trade-related institutions. The development of the guide is benefitting from input from the WCO, IMF, UNCTAD, the United Nations Economic Commission for Europe (UNECE), OECD and the WTO Secretariat. It is scheduled to be completed and ready for testing in a least developed country by October 2009.

*Source:* World Bank staff.

on banking laws and regulations, with its increased capital requirements, also generally put additional pressure on banks to hold back on trade finance. The contraction of trade finance in late 2008 probably contributed only in small measure to the decline in world trade but was clearly important at the margin—

and to some degree amenable to policy intervention.<sup>5</sup> In a World Bank survey of 60 global buyers and suppliers in early 2009, 40 percent of companies indicated that foreign sales have been delayed or cancelled owing to

<sup>5</sup> Chauffour and Farole 2009.

drops in new orders and 30 percent owing to difficulties in obtaining trade finance.

Findings from two other World Bank surveys of firms and banks in 14 developing countries across six regions<sup>6</sup> indicate that, although a drop in demand played a central role in explaining the decrease in trade finance flows, a number of firms, especially SMEs, reported to be also constrained by lack of trade finance or pre-export finance. Most affected are firms that are generally highly exposed to the international financial market (e.g., Brazil); SMEs that are being crowded out by large firms in accessing trade finance (e.g., Chile and the Philippines); and firms that are highly integrated in global supply chains (e.g., India, Indonesia, Tunisia, and Turkey). Firms that are least affected are those in low-income countries with underdeveloped domestic banking system, especially in Sub-Saharan Africa (e.g., Ghana). Trade finance access and costs are more binding for capital goods exporters and intermediary suppliers within a global supply chain, and in commodity-exporting economies where foreign exchange reserves have dropped. The top concern of most firms surveyed is the global economic slowdown and poor export prospects for 2009, delays in payments, and pressure on cash flows, all of which weaken firms' financial position with banks.<sup>7</sup>

At the same time, the price of trade finance has skyrocketed, especially in emerging markets (figure 7). Tight credit conditions have allowed lenders to drive up interest rates for their loans in many countries, especially in emerging markets. When banks are under pressure, the capital needed for trade finance may be allocated elsewhere on balance sheets. With no secondary market to offload loans, balance sheets have been constrained. In addition, global currency volatility and more rigorous counterparty risk assessment has contributed to higher cost of trade finance for importers, exporters, and financial intermediaries. By the end of 2008, trade finance deals were offered at 300–400 basis points over interbank refinance rates—two to three times more than the rate a year earlier. The cost of let-

ters of credit was reported to have doubled or tripled for buyers in emerging countries, including Argentina, Bangladesh, China, Pakistan, and Turkey.

### *The International Community and World Bank Group Respond*

The international community has recognized the importance of dealing with trade finance concerns in a coordinated fashion. In early November 2008, the director-general of the WTO, Pascal Lamy, organized meetings of the multilateral development banks, the Berne Union, and several private banks at the WTO to call attention to the looming problem. This was followed by a second meeting in March 2009. At the G-20 meeting in London in April 2009, leaders reached agreement to ensure US\$250 billion of support for trade finance. This was to come from programs launched by multilateral development banks as well as additional funds from national governments to support domestic banks and export credit agencies (ECAs). G-20 leaders also asked their regulators to make use of available flexibility in capital requirements for trade finance under Basel II.

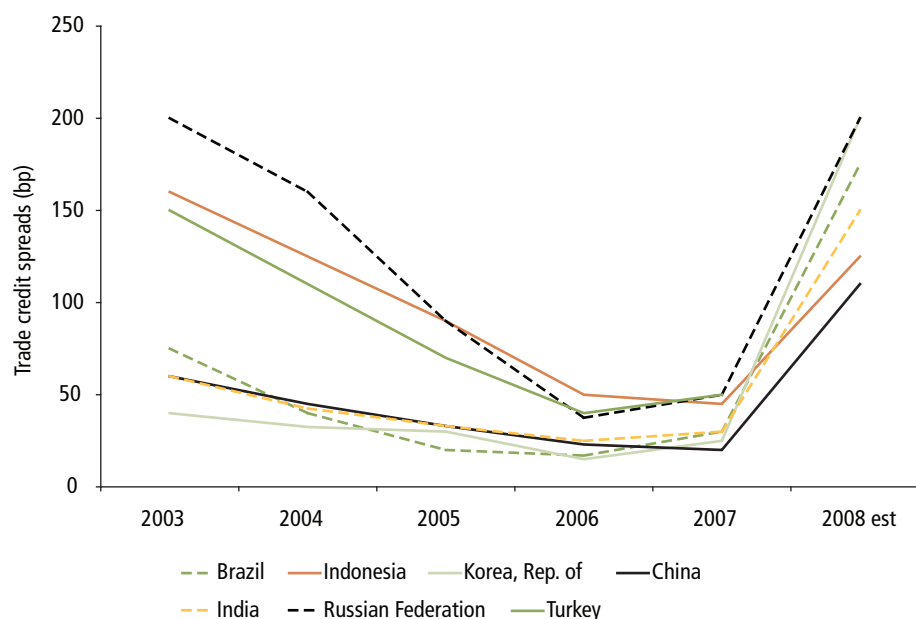
Along with other development institutions, the World Bank Group has contributed to mitigating the crisis and helping to ease access to trade finance. Since the beginning of the financial crisis, the IFC was authorized to double its Global Trade Finance Program (GTFP) to US\$3 billion to facilitate trade by providing guarantees that cover the payment risk in trade transactions with local banks in emerging markets. To deal with the liquidity constraint, the IFC has also introduced a Global Trade Liquidity Program (GTLP), which, in collaboration with official and private partners, is expected to provide up to US\$50 billion of trade liquidity support over the next three years. In addition, IFC is exploring possible modalities for a comprehensive ECA initiative to complement the strengths of the ECAs in long-term export finance. The principal components of this initiative are mechanisms to (i) promote local bank participation in ECA-backed financing, (ii) fund emerging-market ECAs, (iii) develop a program for export credit reinsurance, and (iv) offer assistance for the smaller developing countries that do not have their own ECAs.

### *WBG Activities in the Regions*

These worldwide efforts were complemented with increased IBRD and IDA lending through quick-disbursement budget support operations. Though not

<sup>6</sup> Indonesia and the Philippines; Turkey and Ukraine; Brazil, Chile, and Peru; Egypt and Tunisia; India; and Ghana, Kenya, Sierra Leone, and South Africa.

<sup>7</sup> Evidence of liquidity pressure on trade finance has also been reported by the banks participating in the IFC's Global Trade Finance Program. Major international banks participating in the program have been unwilling to assume a portion of the risk in a particular transaction, leaving the underlying risk to the IFC alone.

**Figure 7: The Cost of Trade Shoots Up**

Source: Data collected by staff from private banks.

targeted specifically at trade finance, these operations have the effect of relaxing the financial constraints and bolstering foreign exchange reserves of recipient countries, including for trade finance purposes. Bank operations specifically targeted at trade finance are predominantly located in East Asia, Europe and Central Asia, and Africa. Various activities were initiated in the Regions (see box 8).

Partnerships have become increasingly important in the response to the trade finance problems. In addition to working with the WTO, the World Bank Group is continuing to liaise with regional development banks, the export credit agencies, and other trade finance actors to identify areas of possible synergies. To mobilize funds for the Global Trade Liquidity Program, IFC is partnering with a number of potential bilateral and multilateral private and official contributors. Beyond this, regional development banks such as the African Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank have also launched or expanded their trade finance programs to extend guarantee facilities to international banks confirming local banks' letters of

credit with a focus on the small transactions in low-income countries that have little access to international markets and no or low international ratings.

#### Special Programs for Low-Income Countries: Grants and Trust Funds

The WBG participates in or manages a number of trust funds that are designed to help low-income countries link to the global market. While most are not strictly to promote trade, grants meeting the general OECD definition of aid for trade included some 57 projects in 2008, mainly through the Global Environment Facility. Two examples of regional projects that are financed in part by grants are the COMESA Technical Assistance and Capacity Project for the Africa Agricultural Market Program and the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA) Trust Fund, which aims at enhancing regional collective action in agricultural research for development, extension, and agricultural training and education to promote economic growth, fight poverty, eradicate hunger, and enhance sustainable use of resources in Eastern and Central Africa.

## BOX 8

**Governments in Various Regions Move to Relieve the Trade Finance Constraint**

Several countries have taken unilateral measures to provide access to trade finance, as in the following examples.

**East Asia.** In **Indonesia**, the US\$2 billion Public Expenditure Supplemental Facility DPL approved in March 2009 will help open a rediscount window for trade finance through Bank Indonesia and create an export financing agency. The Bank is also contemplating a US\$200 million trade finance project with the objectives of (i) recapitalizing the EXIM bank and providing a backstop facility to enhance underwriting capacity of the Export Insurance Agency; and (ii) putting in place marketing schemes for emerging exporters and pre-shipment guarantees to help diversify the export base and trade finance instruments.

**South Asia.** In **India**, the Bank has in place a US\$120 million line of credit for SMEs and a small guarantee fund. This project was set to close in June 2009, but as a crisis response, the Bank negotiated a US\$400 million Additional Financing project extending the original project by four years. In **Bangladesh**, the Bank has a smaller line of credit (US\$10 million) for SME funding through Bangladesh Bank, under a larger US\$200 million Enterprise Growth and Bank Restructuring Project. The line is exhausted, but discussions are ongoing with the government to substantially increase this line of credit (up to US\$50 million), in particular to the benefit of the ready-made garment industry.

**Europe and Central Asia.** In **Turkey**, the Bank is implementing a US\$300 million loan with Turkish EXIM bank and another US\$300 million loan with the local development bank (TSKB) to finance working capital as well as investment for exporters. In addition, the Bank implemented a €200 million SME credit line mostly in support of exporters' working capital or trade finance. A second SME credit in the amount of US\$400 million is confirmed for fiscal year 2010 (starting in July 2009). Similar credit lines for SMEs were approved or are under preparation for **Armenia** (US\$50 million), **Bosnia** (€100 million), **Bulgaria** (US\$500 million), **Croatia** (€100 million), and **Poland** (US\$500 million).

In **Ukraine**, the Bank is implementing a US\$150 million export development project with Ukraine Eximbank, and discussions are under way with Ukrexim bank for a follow-up export development project in the next fiscal year. A US\$250 million export development facility to augment financing support for exporters is also confirmed for the fiscal year starting July 2009.

**Africa.** A US\$65 million **Regional Trade Facilitation Project** is being prepared to strengthen the Africa Trade Insurance Agency (ATI) to facilitate the provision of insurance guarantees, including coinsurance and reinsurance, and other financial instruments and services to promote regional integration, trade, and investment. In **Tunisia**, the ongoing export development project (US\$40 million) has two trade finance components: an Export Market Access Fund in the form of a matching grant program that provides cofinancing to firms, and a Pre-shipment Export Finance Guarantees Facility.

Source: World Bank Group staff.

Aside from these activities with ancillary trade-related components, the Bank participates in two trust funds designed to help least developed countries: the Enhanced Integrated Framework for Least Developed Countries (EIF) and the Standards and Trade Development Forum.

*The Enhanced Integrated Framework.*

The successor to the Integrated Framework, the EIF is a special program for trade-related technical assistance for least developed countries. Housed in the WTO, it is a partnership that brings together donors, LDCs, and six agencies (the World Bank, the IMF, UNDP, the

International Trade Center, UNCTAD, and the WTO).<sup>8</sup> The new EIF governance structure will emphasize country ownership by reinforcing and enlarging the involvement of the EIF national bodies at the country level, linking the WTO-based EIF Secretariat to in-country processes, and encouraging recipient countries to lead projects. In September 2007, a pledging confer-

<sup>8</sup> The enhancement of the IF was recommended by a WTO task force to improve governance as well as communication and coordination among the Geneva-based trade representatives, country-based trade and customs officials; private sector stakeholders; and officials within the finance development and planning ministries.

ence was held for the EIF Trust Fund in Stockholm, with 22 donors pledging US\$170 million over a five-year period. With the selections of the trust fund manager and head of the EIF Executive Secretariat, the EIF is now fully operational. It is intended have a size of about US\$240 million over five years. The program continues to oversee the Diagnostic Trade Integration Studies discussed in chapters 2 and 5.

*The Standards and Trade Development Facility (STDF).* Meeting tough safety and food standards is a key obstacle for many countries seeking broader participation in global markets. For that reason, the World Bank, together with the WTO, World Health Organization, World Bank, World Organization for Animal Health, and Food and Agriculture Organization of the United Nations, set up a program in Geneva to help developing countries learn about standards and ways to satisfy them. The STDF funds small technical assistance projects in specific countries and commodities, and it links clients to other sources of technical assistance. The World Bank is a member of the STDF board, which also includes representatives from the donors and developing countries' communities. The board meets three times a year to discuss project proposals, project preparation grants, and ways to increase coordination in the provision of sanitary and phytosanitary-related assistance. Total funds for SPS projects, including projects related to SPS evaluation and planning tools plus capacity-building projects, amounts to US\$5 million per year.

In addition to participating in these global partnerships, the World Bank also collaborates with other development partners by managing donor trust funds. Trust funds have played a vital role in expanding the World Bank's trade assistance programs during the past decade, funding projects ranging from upstream research to downstream technical assistance.

*The Trade Facilitation Facility (TFF)*

The TFF is a multidonor trust fund that was launched in April 2009 and will begin disbursing funds in July 2009. The TFF will help developing countries improve their competitiveness through concrete improvements in their trade facilitation systems and reductions in trade costs. Lead donors include the Netherlands, Sweden, and the United Kingdom, with a projected initial size of US\$40 million. The TFF will respond rapidly to government requests for assistance in improving infrastructure, institutions, services, policies, procedures, and market-oriented regulatory systems that enable firms to

conduct international trade on time and at lower costs. The TFF will bring together expertise from across the World Bank Group and external partners to scale up the institution's trade facilitation-related activities to support trade for development. The TFF will also play an important role in helping developing countries implement trade facilitation provisions of international trade agreements, including a WTO Trade Facilitation Agreement, and in supporting regional trade institutions across the world. This new program makes an important contribution to assisting developing countries in this time of economic crisis.

*The Multidonor Trust Fund for Trade and Development (MDTF-TD)*

This trust fund was launched in November 2007 and supports global, regional, and country-level activities that help to mainstream trade into country policies. The fund is financed by contributions from the governments of Finland, Norway, Sweden, and the United Kingdom, who are contributing US\$28 million over three years. The program supports work on a wide range of trade topics, including issues such as trade policy and agreements, export competitiveness, trade facilitation, behind-the-border constraints on international trade, and distributional effects of trade and trade policy reform. Eligible activities include technical assistance, capacity building, diagnostics, research, and project preparation. The bulk of the fund's resources—70 percent—are devoted to activities at the country and regional levels (the majority of which is earmarked for Sub-Saharan Africa), and the balance focuses on global analytical and capacity-building activities.

*Trade Data for Low-Income Countries*

This grant was established in 2008 for three years and aims to improve the quality and availability of global trade and FDI data and indicators for decision makers and researchers in developing countries. A lack of access to trade data and market information has consistently proved to rank among the most commonly cited challenges faced by trade policy makers, trade support institutions, and exporting enterprises in developing countries. This project will make such relevant data available to all countries free of charge. The program is managed by the ITC in close coordination with strategic partners, with guidance by an Advisory Council comprising representatives from internationally acknowledged experts from the WTO, UNCTAD, the World Bank, UNSD, partner countries, and academia. The US\$600,000 annual funding provided by the Bank

has been supplemented with US\$2 million in annual funding from the ITC.

#### *The Bank Netherlands Partnership Program (BNPP)*

This program was established in June 1998 to promote a more coordinated and prioritized approach in the use of Dutch trust fund resources for non-country-specific activities. The BNPP Trade Window delivers supports for the Bank's work on trade and has the overall objective of advancing the state of knowledge and capacity building to allow developing countries to use trade as an effective lever for growth and poverty reduction. The trust fund supports global and regional activities with an emphasis on upstream research and analysis. The BNPP Trade Window has allocated US\$16 million since 2005.

#### *UK DfID Trade Trust Funds*

DfID has supported the World Bank's trade assistance programs through a number of bilateral trust funds. The Trade Policy Development Project played a major role in generating policy-relevant research output on the Doha Development Agenda as well as analytical outputs to help mainstream trade into country programs. The Global Trade and Financial Architecture Project supports policy-oriented research programs and international events that advance dialogue on global trade and financial architecture by offering concrete policy advice that can be translated into political action and reform. The Trade Costs and Facilitation and the Transparency and Competitiveness projects are expanding the frontiers of knowledge about the relationships between trade costs, private sector growth, and export competitiveness in developing countries. These funds have provided over US\$15 million in recent years.

### **Public Goods: Research, Data, and Tools**

The World Bank undertakes research to better understand the role of international trade in development and poverty reduction. It is also a major developer and provider of databases and policy tools for analyzing the impact of trade policy reforms.

#### **Research**

The World Bank invests in developing research and knowledge on how to harness globalization for growth and poverty reduction. The Bank's trade-related research is an important source of information and analysis, helping to inform developing countries of the implications of trade policy choices and options—on such themes as trade and poverty, trade costs and facilitation, agriculture and impacts of food price

increases, foreign direct investment and growth, export diversification, and trade in services and trade agreements, and both multilateral and regional integration. Research work falls into various areas including poverty impacts of trade and adjustment policies; country competitiveness analyses; analysis of proactive policies to enhance export supply response; analysis of national trade policies; the ongoing Doha Round of WTO negotiations; and the design and impact of regional trade agreements.

For example, the Bank's analysis of agricultural trade barriers has highlighted the importance of market access relative to domestic support or export subsidies in the WTO Doha Round. In 2009, Bank research on trade covered, for example, agriculture, services, trade and poverty, WTO/Doha, the overall trade restrictiveness index (OTRI), and investment and technology transfer. Recent research on regional arrangements has highlighted a stronger tendency for members of regional trade agreements (RTAs) to continue reducing their tariffs after joining the agreement.

In conducting its research programs, the Bank is collaborating with research networks and institutes based in developing countries, such as the African Economic Research Consortium (AERC) and the Economic Research Forum (ERF) for the Arab countries, Iran, and Turkey.

#### **Data and Tools**

Knowledge and access to information are two ingredients to good policy and two prerequisites for successful, enduring negotiated agreements. Absence of data impairs policy makers' ability to provide policy insight and recommendations. An example is the current climate during the financial crisis, where up-to-date information is essential to monitor implemented trade measures worldwide. The World Bank has been engaged in the development of critical databases, including the following:

- Working in partnership with the ITC, UNCTAD, and the WTO, the World Bank has been working for a full modernization of the World Integrated Trade System (WITS). When it becomes available in 2010, this software and data improvement exercise will make a wider array of online integrated data sets available to policy makers all over the world.
- The World Bank is part of a multi-agency effort to define a new classification for nontariff measures and collect more comprehensive and timely data on such measures. This initiative will enable governments to discuss with each other ways to make trade regula-

tions less discriminatory and more uniform where appropriate, ways to dismantle barriers to trade that may be overly restrictive, and assess costs and benefits of particular restrictions.

- A recent trade-related database, developed in conjunction with Brandeis University, includes a global data set on safeguards and antidumping. The information provided in this detailed database will cover over 95 percent of the global use of these particular import-restricting trade instruments.
- The forthcoming Service Restrictiveness database, which provides a comprehensive repository of regulatory barriers to international trade in selected services sectors and covers services trade policies of 76 developing countries and 24 OECD countries in 2007–08.
- The Bank also calculates and provides detailed data on an overall trade restrictiveness index. This database also makes available 377,000 import demand elasticities for 4,900 products across 117 countries, with a summary measure of the trade policy stance of some 100 countries broken down by product category and type of policy (tariffs and nontariff measures).
- The World Bank provides analytical software, such as the Tariff Reform Impact Simulation Tool (TRIST) to equip policy makers, negotiators, and researchers with the tools they need to develop negotiating strategies and evaluate their implications. The Bank also produces practical guides and handbooks on negotiating in areas such as global trade, customs reform, and services trade and standards.

Finally, The Bank also provides global benchmarking data, including the World Trade Indicators, the Logistics Performance Indicators, and the Doing Business database.<sup>9</sup>

#### *World Trade Indicators*

The WTI database is an interactive online tool managed by the World Bank Institute. It is designed to benchmark a country's trade policy and institutions and to help policy makers, advisers, and analysts identify the main border and behind-the-border constraints to trade integration in both goods and services. The database contains 305 performance indicators, mostly drawn from ITC, UNCTAD, and World Bank data-

bases, but also including new indicators constructed by the World Bank Institute. The indicators are organized into five categories: trade policy, external environment, institutional environment, trade facilitation, and trade outcome. Countries' trade performance can be examined individually as well as over time and in relation to other countries or country groupings. The accompanying Country Briefs and Trade-at-a-Glance tables capture the key insights from both the WTI database and country-level trade-related analytical work. An overview report summarizes the global patterns in trade policy and trade outcomes, focusing mainly on regional and income-level variations.

#### *Logistics Performance Index (LPI)*

The LPI is an interactive benchmarking tool that measures performance of countries' trade logistics. The logistics supply chain performance is measured by scoring countries according to key indicators of trade facilitation: the efficiency of the clearance process by customs and other border agencies, the quality of transport and information technology infrastructure for logistics, the ease and affordability of arranging international shipments, the competence of the local logistics industry (transport operators, customs brokers), the ability to track and trace international shipments, the domestic logistics costs (local transportation, terminal handling, warehousing), and the timeliness of shipments in reaching their destination.

#### *Doing Business*

This database offers a collection of quantitative indicators representative of a country's business regulatory environments. The quantitative indicators cover the regulatory framework of key stages in the life of a business, including dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, enforcing contracts, and closing a business. Of particular relevance to trade is the indicator on the cost of trading across borders

#### **Programs to Build New Capabilities: Geneva-Based Training**

Knowledge programs in Geneva are an important component of the World Bank's trade assistance. In the November 2007 Global Aid for Trade review meeting, President Robert Zoellick reaffirmed the World Bank's commitment to expanding its Geneva-based training in cooperation with the WTO.<sup>10</sup> The World Bank Institute has expanded its efforts in Geneva and around the world to offer new training, capacity building, and knowledge

<sup>9</sup> The WTI database can be accessed at <http://www.worldbank.org/wti2008>; the Logistics Performance Indicators database is at <http://www.worldbank.org/lpi>; and the Doing Business database can be accessed at <http://www.doingbusiness.org>.

exchanges. The interventions span a varied array of contents and delivery modes, aiming chiefly at offering a tailored proposition to a diverse community dealing with numerous and sophisticated trade policy issues.

The WBI has focused on low-income countries to further empower them in the trade negotiations and in their own policy making at home. The range of trade policy issues handled by country delegations and Geneva-based experts goes well beyond the already heavy content of the Doha Round negotiations, but it also includes diverse trade topics such as environment, intellectual property, or labor, as well as regional and national trade policies and complementary policies. The multidimensionality of trade-related problems, the number of actors, and a limited demand saturated

by many offers means that there is no single and simple answer to the challenge of trade capacity building in Geneva.

WBI's engagement in Geneva is the continuation of several years of presence in Geneva with a focus on interventions in areas where the World Bank can provide specific added value:

- Economics-based content, including growth and poverty linkages
- Capacity to respond rapidly to emerging issues
- Areas in which the Bank is generating new knowledge (e.g., trade facilitation)
- General ability to draw on the vast pool of expertise and experience (internal and external).

Partnerships are an essential dimension of all programs, along with close dialogue with client countries. Working in partnership with the several Geneva-based organizations allows the Bank to tap into the expertise of each.

---

<sup>10</sup> Remarks of World Bank President Robert B. Zoellick at the WTO Ministerial Meeting—Global Review for Aid for Trade, November 20, 2007. <http://go.worldbank.org/UZU3FDQEJ0>.

5.

## GAUGING SUCCESS: THREE QUESTIONS

Assessing progress in aid for trade can involve multiple metrics: Are countries demanding more aid for trade, are donors supplying it, and is aid for trade therefore increasing? And are the countries that need aid for trade receiving it? Are countries incorporating trade concerns into their national development strategies? Are aid-for-trade projects effective in achieving their stated goals? Is the portfolio of aid-for-trade projects helping countries to harness globalization for more rapid growth and, ultimately, poverty reduction? Similar questions can be asked for regional and multilateral levels. Although this chapter cannot aspire to answer all of these questions, it does assemble some evidence, summarizing recent studies and using the rather narrow lens of the WBG's programs to answer three questions.

### Are Countries Requesting More Aid for Trade and Are the Right Countries Receiving It?

Examining the overall trends as well as their reflection in changing country programs of the World Bank Group can provide some insight into these questions.

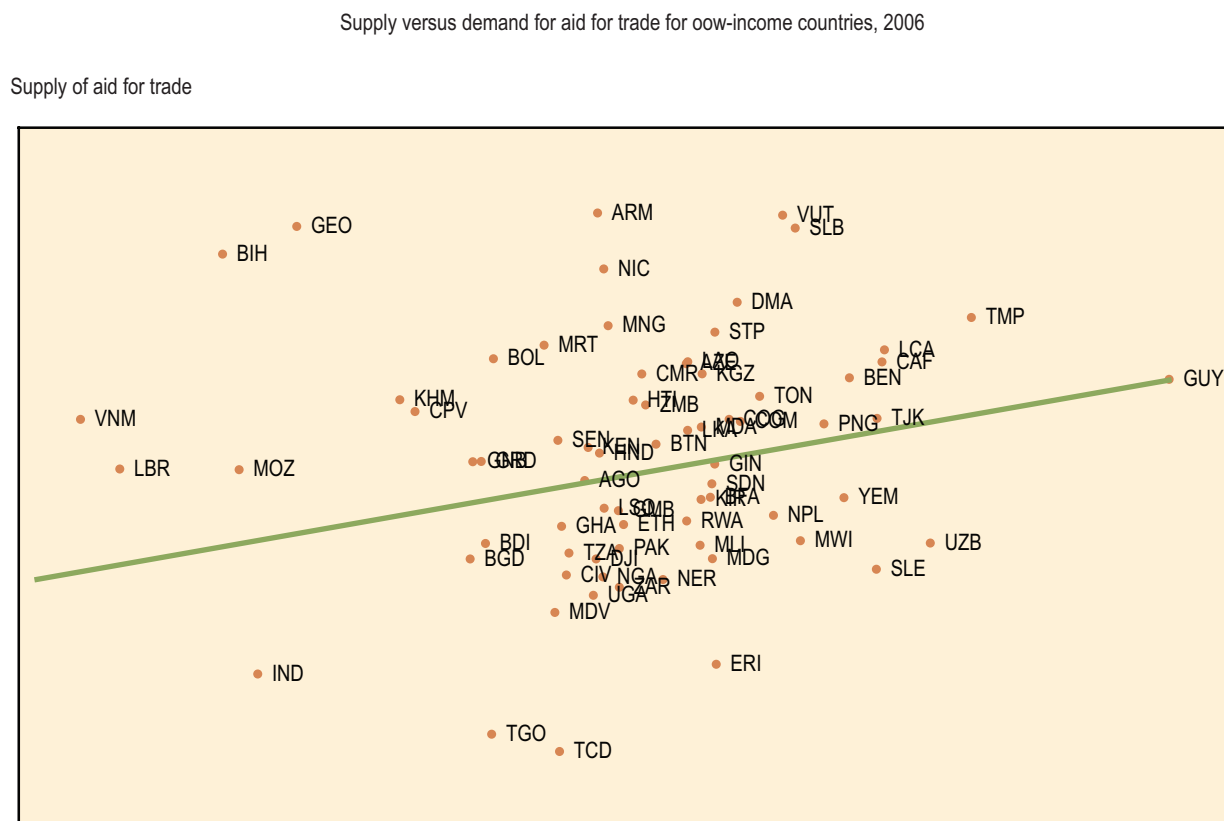
#### *Overall Trends Suggest the Answer Is Yes, But...*

The OECD's Second Global Aid for Trade Review in 2009 found that aid for trade was indeed increasing relative to the pre-Hong Kong Ministerial period of 2002–05. But is aid flowing to countries that need it the most? A paper presented to the WTO's Experts Meeting



on Aid for Trade created a measure of *potential demand* for aid for trade based on 10 indicators of trade performance and trade capacity.<sup>1</sup> It went on to examine whether the countries with the highest potential demand for aid were actually receiving it. The good news is that, controlling for other factors, countries with the greatest potential demand are those that, *in general*, need it the most (figure 8).

<sup>1</sup> See Gamberoni and Newfarmer 2009. The 10 indicators included trade performance and trade capacity variables. Trade performance variables include five dimensions: rate of growth of exports (1995–2005); change in global market share; change in competitiveness; location in slow- or fast-growing products; and an index of diversification. Trade capacity variables included those that were statistically significant in predicting trade performance in a gravity model, and included measures of infrastructure adequacy, two measures of institutions, and two measures of policy (controlling for other factors, such as country size and distance, and conditions of market access).

**Figure 8: Aid for Trade Goes to Those That Need It, on Average**

Source: Gamberoni and Newfarmer 2009.

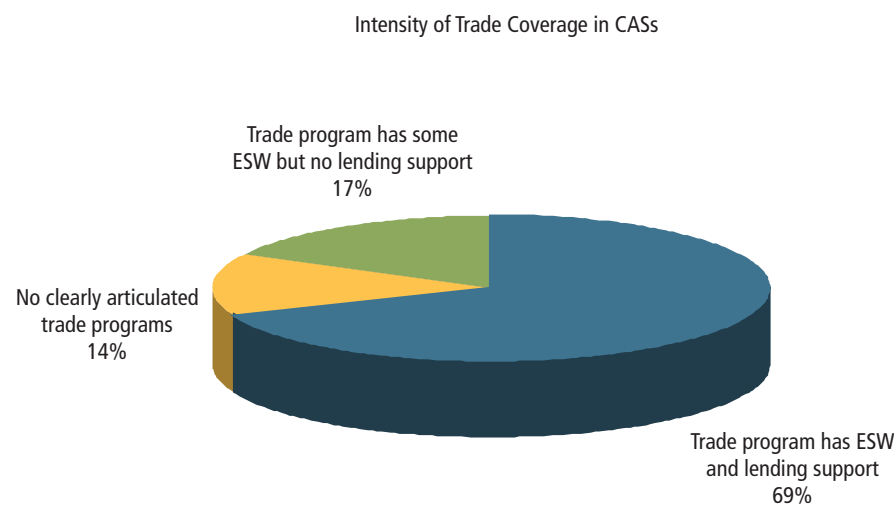
However, even though aid for trade correlated broadly with potential demand, the match was far from exact: some countries received far less aid for trade than their potential demand would otherwise indicate, based on their trade performance and capacity. In some cases, the gap occurs because the countries are receiving little total development assistance because of macroeconomic and/or political instability; in other cases, countries may need to use scarce development assistance for other priorities. However, it seems likely that a significant minority of potential aid-for-trade demand still goes unsatisfied. Whatever the reasons, these findings suggest that both governments and donors in countries where the need is high but underserved may wish to review their programs to see whether the balance is appropriate to country needs.

#### *Trade Is Increasingly Central to World Bank Group Country Programs*

The OECD/WTO global report noted that the World Bank has been a leading contributor to aid for trade. As discussed throughout this report, over the past several

years, the Bank has worked with clients to introduce trade and competitiveness into their aid-for-trade strategies. For the World Bank Group, these concerns find expression in Country Assistance Strategies (CASs), Country Partnership Agreements, and interim strategy notes and sectoral strategies.

A recent review of trade in World Bank CASs found that trade—using the World Bank’s narrow definition that excludes most basic infrastructure (see box 2 in chapter 1)—is now on the agenda of the majority of the Bank’s clients, some two-thirds of CASs. Though coverage and intensity vary (see figure 9), CASs generally identify trade as an important priority and present assistance programs in one or more thematic areas: regional integration, export diversification, trade facilitation, and market access. The country strategies are translating into increased operational support through economic and sector work (ESW), aid-for-trade lending, and, in some cases, technical assistance to help countries achieve their medium-term objectives. If the broader definition were used, the inclusion of infrastructure would likely produce a similar conclusion.

**Figure 9: Trade is Increasingly Prominent in WBG Country Assistance Strategies**

Source: World Bank staff.

Trade programs in CASs, narrowly defined, have primarily focused on trade facilitation and export promotion. Few CASs present activities focusing on core trade policy, in the traditional sense of tariffs and other market access barriers. International trade agreements do seem to play a catalytic role, however, by focusing attention on broader economic policy and on institutional reforms that increasingly accompany modern trade agreements.

Despite these improvements, there is still some variation across and within Bank Regions (see figure 10). CASs in Europe and Central Asia and in East Asia and the Pacific tend to have more comprehensive operational programs than other Regions, including plans for lending and technical assistance, in addition to economic and sector work. Within the South Asia Region (SAR), CASs tend either to have minimal attention to trade or to present very comprehensive operational programs. The Europe and Central Asia Region stands out in the attention given to regional integration in operational programs. More than 66 percent of African CASs recognize trade as a policy priority and have supported this vision with an operational trade program, although to varying degrees. Across all regions, there was less trade engagement for countries covered by interim strategy notes compared with countries with a full CAS. In countries such as Comoros, Eritrea, Timor-Leste, Somalia, and Zimbabwe, the Bank has not been able to fully

engage on trade issues through the standard CAS.

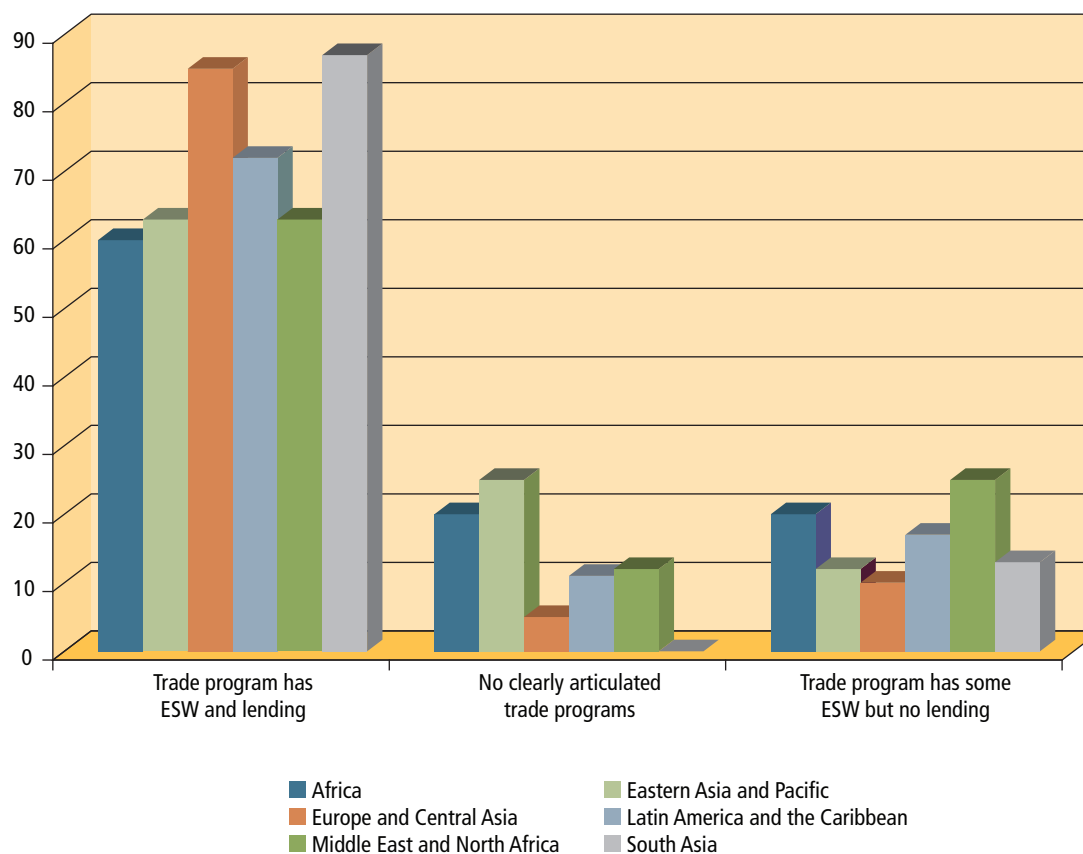
In addition to recognizing trade as a priority, most CASs (65 percent) include plans for operational work on trade to support the country's development objectives. At a minimum, these plans involve economic and sector work; however, CASs with more intensive trade programs often contain a number of planned policy notes on specialized topics that are specifically tailored to meet clients' needs. Just under half of CASs with operational trade programs include plans for trade-related lending (both policy-based and investment lending). A smaller number of CASs (18 percent) also contain technical assistance activities that range from macro-level competitiveness and private sector development programs to targeted activities on transport and agriculture. Box 9 summarizes recent CASs representative of those that have articulated a comprehensive trade program that is directly influenced by the government's Poverty Reduction Strategy.

#### *Trade Programs in CASs Are Tailored to Country Priorities*

Some notable examples of CASs in the Africa Region include the strategies for Burkina Faso, Lesotho, Nigeria, and Rwanda. For these countries, trade is clearly identified as an element of one of the CAS pillars, which are based on each government's own priorities. The rationale for supporting trade is provided through

**Figure 10: Aid for Trade is Prominent in Most Regions**

Intensity of trade programs in CASs by region (percent)



Source: World Bank staff.

a discussion of trade and growth linkages as well as of challenges and risks to competitiveness. Programming of new trade activities is assessed according to their potential for achieving the outcomes sought. In contrast, some African CASs give little attention to trade issues, particularly the smaller African countries such as São Tomé and Príncipe and Swaziland, but also Cape Verde, Gabon, Liberia, and Sierra Leone. In these countries, there seems to be a dearth of analytical work that could identify issues for an operational trade program.

### Are Countries Integrating Trade into Their Development and Poverty Reduction Strategies?

Beyond simple demand for services, the next question is whether countries are incorporating the policy and institutional advice into national development strategies—or, in the case of low-income countries, into Poverty Reduc-

tion Strategies. Needless to say, success by this measure belongs equally to the countries themselves as they become aware of the importance of trade to their growth performance (the demand side) and to the international community of aid providers for making resources available to countries for trade (the supply side).

The UNDP has conducted the most comprehensive survey of PRSPs.<sup>2</sup> The study reviewed 72 PRSPs and found that 50 included a section devoted exclusively to trade (see figure 11). Moreover, trade appears with increasing frequency in PRSPs. In 2000, for example, only about 25 percent of completed PRSPs had a section relating to trade; by 2007 and early 2008, more than 85 percent of the eight completed PRSPs did. PRSPs as a group are

<sup>2</sup> Kosack 2008.

## BOX 9

**Examples of the Role of Country Assistance Strategies in Integrating Trade into Development Plans**

**Ukraine.** Ukraine's CAS presents a comprehensive trade program to improve competitiveness. As a recently acceded member of the WTO, Ukraine's agenda has a strong focus on both regional and multilateral integration through export diversification and capitalization on Ukraine's status as a transit country. Export development and infrastructure improvement projects, in addition to DPLs, form the Bank's support for these goals.

**Mali.** Mali's CAS articulates a comprehensive trade program as part of the government's Growth and Poverty Reduction Strategy. The focus is on regional integration efforts, transit and trade facilitation, and exports. The CAS has a strong component of planned analytical work on export competitiveness in the form of growth policy notes on agriculture, mining, and tourism sectors. There is also ongoing and planned investment lending for the West African Power Pool, West Africa Trade and Transport Facilitation Project, transport corridors improvement, regional airports, and agriculture competitiveness and diversification, among others. There will also be support for trade in the Poverty Reduction Strategy Credits (PRSC) series.

**Lao PDR.** The Bank's 2005–08 strategy for engaging with Lao PDR is firmly grounded in the government's National Growth and Poverty Eradication Strategy. One of the four key objectives of the CAS is to use regional integration as a driver for sustained economic growth. The Bank has supported the government's desire to join the WTO and its membership in the ASEAN and the ASEAN Free Trade Area (AFTA) by providing analytical work and policy lending. The analytical cornerstone was the DTIS, which developed an integrated strategy and action plan to enhance Lao PDR's global integration. Budget support facilitated critical policy and institutional reforms related to adoption of AFTA tariffs, WTO accession, and regional integration. Investment lending in GMS power and infrastructure projects provided further support to deepening regional integration.

**Bangladesh.** The government's CAS is closely aligned with its Poverty Reduction Strategy. It focuses on trade policies to improve the investment climate and accelerate growth. The CAS outlines a program of dialogue about lowering trade protection and barriers and enhancing the competitiveness of the textile and garment sectors. The PRSCs support liberalization by phasing out supplementary duties. The World Bank will also help the government through activities related to trade logistics, trade transport infrastructure, revenue administration, and a program aimed at building negotiation skills for handling trade agreements and the related trade negotiations.

**Dominican Republic.** The CAS identifies activities aimed at fostering competitiveness and facilitating the implementation of WTO agreements, including adjustment of the free trade zone tax regime, the elimination of export subsidies by 2010, and the Multi-Fiber Agreement phaseout. The Bank completed reviews of trade and labor competitiveness issues and the implications for agriculture of CAFTA-DR. A country economic memorandum assessing the implications of the CAFTA-DR and the phaseout of the MFA was under way at the time of CAS publication. A series of just-in-time policy notes was programmed to follow up on specific findings and recommendations of core economic and sector work, including the memorandum.

**Egypt.** The Egypt CAS includes a detailed discussion of trade-related reforms for maximizing the advantages of free trade and partnership agreements through simplification of customs procedures, standards compliance, improved transport infrastructure, assistance to SMEs in foreign marketing, and insurance against export risks. The expected outcomes are an increase of the export growth rate and a reduction in cargo dwell times and in the number of days to clear customs. The Bank support to this agenda includes a planned Development Policy Review, programmatic ESW on free zones, and a Ports Sector Development Project.

Source: World Bank staff.

consistent with the World Bank's *Sourcebook* chapter on trade (Klugman 2002), and 52 of the 72 PRSs relate their trade policies in some way to their analysis of their nation's poverty profile, a trend that became even more common in later PRSs. Perhaps most encouraging in the countries that have completed two PRSs (18 of the 54),

in most cases in the second-generation PRSPs, the biggest measured difference between the two was that the second was far more likely to include nonincome poverty, "a trend that suggests that at least some countries are developing a deeper sense of the subtler linkages between trade and poverty reduction." These findings are similar

## BOX 10

**Evaluation of World Bank Lending Conditionality by the Independent Evaluation Group (IEG)**

According to the IEG, the focus of Bank trade conditionality has varied over time and across regions, but some general patterns can be discerned:

- The average number of trade-related conditions per loan and the incidence of trade conditionality have fallen significantly since 1987.
- Trade conditions have focused on four main areas: imports, exports, exchange rates, and supporting policies.
- The actual path of trade reform was less frequently prescriptive than is commonly perceived.
- Evidence suggests that while the Bank did not follow a one-size-fits-all approach for all countries, a sizable number of projects focused on import liberalization over export promotion.
- The most difficult recent areas of compliance concern regulatory framework.
- Countries largely met trade conditions, which were better implemented than other adjustment loans.
- Despite above-average project implementation, economic outcomes were mixed.

The IEG also noted that the record of the appropriateness of Bank conditionality on core trade issues was mixed. Conditionality may be neither necessary nor sufficient.

In **Indonesia**, four trade policy loans implemented between 1987 and 1996 were devoid of legally binding conditionality. They were given by the Bank in general support of Indonesia's ongoing trade and investment reform program, reflected the Bank's confidence in the credibility of the authorities, and were informal precursors of what is now known as "expost conditionality."

In **Zambia**, despite conditions repeated in three successive loans, the government procrastinated on the privatization of the mining parastatal, the Zambia Consolidated Copper Mines, because of political concerns. The phenomenon of Zambia continuing to receive high levels of assistance in the absence of reform has been dubbed "the nonreform" paradox: more and more conditions lead to less and less effective conditionality.

Source: World Bank Independent Evaluation Group 2006.

to other studies.<sup>3</sup> This increased acceptance of the importance of trade policy for achieving higher economic growth was also found in the IEG's evaluation of World Bank lending conditionality (box 10).

Even with these relatively positive findings, it is important that both governments and aid providers be aware of a few caveats. Trade and poverty reduction interact in sophisticated ways, and the standard employed in the study was necessarily minimal. "Most

PRSPs exhibit some understanding that trade can grow the economy and a belief that this growth will in turn reduce poverty. But there is far less understanding of the direct connections between trade and poverty." In fact, most of the PRSPs, as the UNDP study notes, "seem to view trade like a pill—medication that must be swallowed whole, and that will eventually strengthen the economy, but the side-effects of which must simply be accepted" (Kosak 2008).

For LDCs, the Enhanced Integrated Framework program also seems to be gaining some traction for trade in PRSPs. Since April 2005, 11 PRSPs were published for countries that had already completed DTISs. Seven of the nine strategies (Benin, Ethiopia, Lao PDR, Lesotho, Malawi, Maldives, and Zambia) incorporated DTIS findings and recommendations into the development agenda. Among earlier PRSPs, four of eight integrated the findings from the DTISs (table 5).

<sup>3</sup> A recent review of PRSPs indicated an improvement in the percentage of PRSPs (from 71 percent to 85 percent) that contain a well articulated growth strategy. Similarly, PRSPs with growth strategies that include trade have increased from 67 percent to 93 percent. Compared with earlier PRSPs, newer PRSPs (published between April 2005 and September 2008) have increased their attention to trade facilitation, export promotion, and regional integration. Among new PRSPs, trade reform continues to be an issue that is seldom addressed in the strategies. For an analysis of trade in earlier PRSPs, see Diop, Gust, and Khandelwal 2005.

**Figure 11: Trade is Increasingly Central to Poverty Reduction Strategies**

Evolution of PRSPs for selected questions, 2000–08 (percent)



Source: Kosack 2008.

### Do Aid-for-Trade Projects Achieve Their Objectives?

#### *Evaluating Aid for Trade*

Evaluation is critical to discovering ways to improve the effectiveness of development assistance, and aid for trade is no exception. The OECD undertook a comprehensive evaluation of concessional aid for trade (2006a and 2006b). Researchers were hampered by unclear project documents, many with insufficiently clear measurable objectives, and by an absence of quantitative links to overall trade performance. However, the report concluded that, in half of the evaluations, trade-related assistance contributed to raising awareness of the importance of trade and knowledge of trade issues, while helping to strengthen country dialogues on trade policy. But the effectiveness of projects depended critically on the overall investment climate and the determination of political leaders to promote trade.

Major project weaknesses included inadequate needs assessments, weak project management and governance, projects that were not integrated into an overall

trade strategy or development program, weak links to poverty reduction, inadequate donor coordination, and inadequate communication to, and expertise in, field missions. Ensuring country ownership of trade programs as a key to economic development remains an important challenge in designing effective aid-for-trade programs.

The World Bank undertook an impact evaluation for export development projects targeted on specific export products.<sup>4</sup> On average, the evaluation found that these projects (i) have coincided with, or predated, stronger export performance in the targeted commodities; (ii) have had a greater impact on export growth for products with initially high export levels than on products with low export levels (although this may be because technical assistance is directed toward industries that are already set to take off); and (iii) were likely to be more successful if they addressed specific market failures or

<sup>4</sup> Brenton and von Uexkull 2007.

**Table 5: DTISs Tend to Improve Trade Inclusion in Poverty Reduction Strategies**

Country	First PRSP	Second PRSP	DTIS	Measured Change in Trade Content (net change in "yes" responses, excluding process questions)
<b>Countries that undertook a DTIS</b>				
Benin	2002	2007	2006	Improved (+5)
Burkina Faso	2000	2004	2007	Improved (+3)
Cambodia	2002	2005	2001 (updated 2007)	
Madagascar	2003	2007	2003	
Malawi	2002	2006	2003	Improved (+2)
Mali	2002	2006	2004	Improved (+1)
Mauritania	2000	2006	2001	
Mozambique	2001	2006	2004	No Change (0)
Rwanda	2002	2008	2004	Improved (+8)
Senegal	2002	2006	2002 (updated 2005)	Improved (+1)
Tanzania	2000	2005	2005	Improved (+1)
Uganda	2000	2005	2006	Improved (+13)
Zambia	2002	2006	2006	Improved (+3)
<i>Proportion that Improved</i>				<i>9/13 (69%)</i>
<b>Countries that did not undertake a DTIS</b>				
Guinea	2002	2007		Improved (+3)
Nicaragua	2001	2005		Improved (+5)
Vietnam	2003	2006		
The Gambia	2002	2006		Improved (+6)
Ghana	2003	2005		
<i>Proportion that Improved</i>				<i>3/5 (60%)</i>

**Notes:**

\*"Process questions" are Questions 6 and its subsidiary questions: "Is there any discussion of how the content of any trade policy in the PRSP was formed?"; "If so, who participated in, or was consulted, in drafting the text?"; "Who was responsible for the final draft text?"; and "To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on trade?"

\*\*The impacts of DTISs on PRSPs were provided by the UNDP.

**Source:** Kosack, 2008.

policy shortcomings in activities in which the country had a long-run capacity for global competitiveness (as was the case in Rwanda's donor-supported strategy to move into the high-quality, specialty end of the coffee market). The evaluators concluded that, done well, export development programs can succeed: cut flowers had been a growing export industry in Uganda for a decade when an export development program was started in 2003. Following the program, export value almost tripled within one year. Although other Ugandan exports also rose strongly at this time, cut flowers significantly increased their export share. Furthermore, Mongolia had traditionally been an exporter of wool products, but exports had declined and lost share in the export portfolio in the late 1990s and early 2000s. After

the export development program in 2003, exports of wool products entered a steady growth path, outperforming overall export growth in 2005.

This literature tends to validate central Paris Principles: aid for trade can be effective, provided that countries own the programs and incorporate them thoroughly into their development strategies. Nearly all bilateral and multilateral organizations are working to improve effectiveness, but not all have recent, comprehensive evaluations of their programs.<sup>5</sup> With more than

<sup>5</sup> Six important donors have undertaken evaluations relatively recently: U.S. Agency for International Development, DfID, Canadian International Development Agency (CIDA), the Netherlands, the World Bank, and the IMF.

**Table 6: Share of Aid-for-Trade Projects with Satisfactory Outcomes—IEG Evaluation**

	Total number of projects	Weighted by loan size	Unweighted
Average 2002–05	99	80.9%	79.4%
2006	74	89.8%	86.5%
2007	74	91.3%	86.5%
2008	19	95.0%	78.9%

Source: World Bank, IEG evaluation.

Note: Percentages are calculated excluding unrated projects. Projects considered satisfactory include all projects whose outcome was considered as highly satisfactory, satisfactory, and moderately satisfactory.

40 bilateral and multilateral agencies involved in trade-related technical assistance, the scope for learning from each other is presumably great.<sup>6</sup>

### *Evaluating World Bank Group Programs and Projects*

The Independent Evaluation Group's 2006 evaluation of World Bank support for trade called on the Bank to focus the attention of its trade work on mainstreaming trade and competitiveness into operations at the country level.<sup>7</sup>

Regarding project outcomes, the IEG report found that, in general, trade-related adjustment loans performed better than other adjustment loans (86 percent satisfactory versus 78 percent for nontrade loans), while trade-related investment loans performed slightly worse (69 percent versus 72 percent satisfactory). First, the report recommended that projects incorporate systematic treatment of cross-sectoral issues such as economic policy, gender, and private sector development so as to place trade in a broader context. It recommended further that the Bank put in place at the institutional level a program to cope with trade-related shocks. Second, it recommended rebalancing the global and country agendas, to strengthen emphasis on country programs. Third, it emphasized strengthening the knowledge management of trade within the Bank. The Bank has acted on these concerns, including moving vigorously to inte-

grate activities that support workers and the poor by, among other things, helping governments to strengthen social safety nets, provide resources to SMEs, and invest in infrastructure (see box 11).

More recent evaluations are also insightful. The IEG completed its comprehensive review of trade promotion projects and programs in 2007. Because projects take several years to implement, virtually all of projects that are now closed were begun a few years before 2005. This review of recently completed investment projects shows an improvement compared with the 2002–05 average. In 2007, more than 85 percent of projects were evaluated to have had moderately satisfactory, satisfactory, or highly satisfactory outcomes (table 6). Moreover, these trade-related projects generally performed better than projects that were not aid-for-trade projects (figure 12).

Governments and task managers also rate their projects at closing. Projects that closed in 2006–08 also were generally rated higher than non-aid-for-trade projects. The World Bank estimates the economic rate of return for a sample of projects.<sup>8</sup> The importance of the economic rate of return in the public sector can be explained better with an example. In the period 2002–08, the average economic rate of return for aid-for-trade projects at completion was about 32.4 percent compared with the average 23.7 percent for projects not related to trade.

### *Evaluating the Usefulness of Trade Studies*

Until 2007 the World Bank was the principal implementing agent for the Diagnostic Trade Integration Studies. A review commissioned by the World Bank, though favorable, also found shortcomings.<sup>9</sup> Perhaps

<sup>6</sup> Donors involved in providing assistance for trade-related analysis or programs include the International Monetary Fund, the International Trade Commission, the United Nations Conference on Trade and Development, the United Nations Development Programme, the World Bank, the World Trade Organization, the Bank for International Settlements, the Food and Agriculture Organization, the International Organization for Standardization, the United Nations Industrial Development Organization, the World Customs Organization, the World Intellectual Property Organization, several regional groups, and many bilateral donors. See Suwa-Eisman and Verdier 2007.

<sup>7</sup> World Bank Independent Evaluation Group 2006.

<sup>8</sup> The economic rate of return represents the discounted interest rate that would keep an agent indifferent between the choice of either undertaking or not undertaking the projects.

<sup>9</sup> Brady 2008.

## BOX 11

**Country Programs Must Include Social Safety Nets as Well as Aid for Trade**

With the financial crisis, incomes in low-income countries have declined, and the fiscal squeeze resulting from reduced fiscal revenue threatens social services. Sound macroeconomic policies and a favorable investment climate are essential to mitigating the impact of the crisis on household vulnerability. But they are not enough. Even as they design programs to improve competitiveness, governments and donors have to ensure the capacity of low-income countries to maintain basic services and existing social programs.

Low-income countries have fewer policy options than middle-income countries and must rely on less administratively intensive approaches that contain an important self-targeting component. In response to the crisis, households may be forced into pulling children out of school and investing less in health and nutrition. In general, the poorer the country, the more likely an economic shock will lead to adverse impacts on human capital accumulation. Therefore, maintaining access, quality, and affordability of public services and providing incentives for their use are therefore essential to avoid severe long-term consequences. The reduction or abolition of school and health care fees, for example, could keep children in school and support family health, potentially mitigating the long-term impacts of sudden income declines. However, how pro-poor such measures are depends on the extent to which the most vulnerable households draw on the relevant public services, and on the extent to which these services are able to respond to potential increases in demand caused by increases in their affordability. Providing cash transfers conditional on use of services may be a more effective way of reaching the poor.

Supporting household income through public transfers is often the first line of defense. Direct cash transfer programs are the single best option, provided they have adequate coverage and generosity. They generally have low administrative costs and do not distort prices. Conditional cash transfer programs may improve on the performance of unconditional cash transfers in channeling help to the most vulnerable, that is, children and women, who often bear the brunt of economic crises. Another major line of defense to boost employment and earnings of the most vulnerable workers in low-income countries is through direct public work programs.

The World Bank is mobilizing up to US\$3.1 billion in health financing in 2009 to help poor countries battle threats to their social services during the global economic crisis. This effectively triples Bank support from US\$1.0 billion last year and will be used to strengthen health systems in poor countries; boost their performance in preventing and treating communicable diseases; and improve child and maternal health, hygiene, and sanitation. The Bank is also doubling its education financing in low- and middle-income countries to US\$4.1 billion. The new health and education numbers follow the Bank's announcement that its investments in social protection programs, including social safety nets, are expected to rise dramatically for 2009–10 to US\$12 billion.

The World Bank is also contributing to a major effort by the largest multilateral investors and lenders in Africa to provide at least an additional US\$15 billion to Africa to promote trade; strengthen the financial sector; and increase lending for infrastructure, agribusiness, and small and medium enterprises in the region. The IFC will contribute at least US\$1 billion to facilitate trade, strengthen the capital base of banks, improve infrastructure, increase microfinance lending, and promote agribusiness companies. The Multilateral Investment Guarantee Agency will provide up to US\$2 billion of investment guarantees to prioritize investor demand for African infrastructure investment, support for small and medium investments, and support for the African financial sector, including banks and microfinance institutions.

Source: World Bank Group.

the most important criticism was the lack of adequate prioritization of actions. Only 11 of the 27 DTISs set clear priorities in the actions listed in the matrix. Nonetheless, explicit prioritization recently has improved. Of the 13 DTISs that were finalized before 2005, only 2 prioritized the reforms within the action

matrix, whereas 9 of the 14 that were written beginning in 2005 included clear priorities. The 2007 Aid for Trade review described prioritization as an important aspect of the DTIS. In his summary, the director general of the WTO, Pascal Lamy, put it well when summarizing the First Aid for Trade Review Meeting in 2007: