What is the World Bank doing on Aid for Trade?
Acknowledgements

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I. The World Bank’s New Trade Strategy outlines the Group’s priorities on Aid for Trade

Major changes have transformed the global trade landscape over the past decade, driven by large reductions in trade barriers and technological changes that have lowered trade costs. This has contributed to the increased globalization of production, with its associated ‘fragmentation’ of the supply or value chain, leading to unprecedented inter-linkages and inter-dependencies among countries. Developing countries have become beneficiaries of this transformation and are now major drivers of world trade. However, this greater integration has also increased their vulnerability to shocks.

In order to respond effectively to the changing trade landscape and increased demand by developing countries for trade support, the World Bank Group has prepared its first Trade Strategy. The strategy fulfills a commitment made by President Zoellick’s announcement at the first Global Aid for Trade Review in 2007 that the World Bank Group would not only remain engaged in trade issues, but it would intensify its work through expanded country programs on trade and competitiveness; increased lending for trade infrastructure; trade finance services; assistance in trade facilitation and logistics; training and technical assistance in strategic areas; provision of benchmarking indicators; and, research into globalization and poverty.

The strategy signals a change in focus for World Bank trade activities by broadening the scope of its work from programs once anchored predominantly on trade liberalization and infrastructure investments towards providing greater support for diversification; lowering transport and other trade-related costs; improving access to trade finance; and maximizing the poverty-reducing and employment impacts of trade and trade policy. It focuses on actions to improve the effectiveness of such support while re-orienting activities in some areas to address key concerns and priorities that were identified as part of a six month global consultation process. The strategy maps out where there are gaps in World Bank Aid for Trade (AfT); where the World Bank has a comparative advantage in providing support; and, establishes a framework for monitoring and evaluation of results. A major objective of the strategy is to improve how the World Bank Group organizes itself to help its clients make better use of existing knowledge and deliver assistance in real time. It will do this through setting up new instruments, including better use of external partnerships with other development partners and the private sector, and new coordination and collaboration mechanisms that aim to better exploit internal synergies among its staff.

The Trade Strategy identifies four strategic pillars:

**Trade Competitiveness and Diversification.** The objective of this pillar is to leverage global trade opportunities for poverty reduction by increasing the range and value of developing country exports; the number of export markets reached; and, the survival rates of exporting firms. It will also support domestic reforms needed for poor farmers and small firms to grow out of the informal sector and move into the formal one.

The activities in this area will center on the economy-wide incentive framework created by prevailing policies and regulations, including trade policy (restrictions on imports and foreign direct investment); trade in services as a means to access higher quality inputs at lower cost and expand exports; and, the design and implementation of specific actions to address market and information failures. The emphasis will remain on the creation of enabling policy environments that are conducive to the emergence of
successful firms in the production of goods and services for both export and domestic markets, but greater attention will be given to identifying and addressing specific constraints that impede private sector investment in tradable activities.

**Trade Facilitation, Transport Logistics and Trade Finance.** The objective of this pillar is to reduce the costs associated with moving goods along international supply chains and transport networks, whether these are measured in terms of time, money, or reliability. Trade facilitation lowers import costs and therefore has a direct impact on the prices paid by the poor for the goods they consume and the profits of small firms and farmers when selling their output. The trade costs confronted by producers are partly determined by access to and the price of trade finance and associated export credit insurance products, a factor that has become more important for developing country exporters, especially small and medium enterprises (SMEs), following the recent crisis and the higher financing costs that are expected to prevail in the medium-term. Priorities are to enhance the performance of the trade corridors used by landlocked developing countries, especially in Africa; regional trade facilitation frameworks; improve markets for logistics services; increase the efficiency of border management; facilitate the cross-border movement of service suppliers; and, improve access to trade finance and related insurance and guarantee products for SMEs.

**Support for Market Access and International Trade Cooperation.** A country’s ability to use trade to advance its development objectives depends in part on the market access conditions that confront its exports and on the policies affecting imports of goods and services. The trade policies of developed countries, in particular, can have especially negative effects on developing countries – prominent examples include the domestic support policies for agriculture in a number of developed countries. Advocacy to remove such distortions and make international trade rules and institutions more supportive of the needs of developing countries can help result in greater policy coherence and have a beneficial impact on the ability of poor households in developing countries to benefit from trade opportunities. There are three priorities in this area: (i) continued analysis by the World Bank of the impacts on developing countries of policies implemented by developed countries and other large trading nations as well as identification of international trade rules and actions that would benefit economic development prospects; (ii) assisting governments to remove tariff and non-tariff barriers to market integration; and, (iii) supporting international cooperation on trade-related regulatory reform (including for services trade and investment).

**Managing Shocks and Promoting Greater Inclusion.** Making the gains from globalization more inclusive and beneficial to poor households while addressing the needs of the unemployed during transition periods is the final priority area identified in the strategy. This is a cross-cutting pillar, in the sense that it connects closely with the other priorities of the Trade Strategy, with the objective of dealing with the impacts of trade-related shocks and to allow greater participation of poor households in the benefits of trade. Informal trade, in particular, often plays an important role in many developing countries, particularly in linking producers of food staples to regional markets. The magnitude of such trade is highly sensitive to the conditions faced by traders. Supporting informal traders in growing their businesses through lowering trade costs, including improving conditions they face at borders, and allowing them to grow to more formal modes of exchange is crucial if the potential for cross-border trade is to benefit the poor. The adjustment processes associated with trade openness contribute to skill and gender differentiated inequalities in labor market opportunities and outcomes. Similarly, the benefits from trade are often concentrated in the largest metropolitan areas, further exacerbating inter-regional inequalities. Promoting internal trade, as well as exports, therefore also matters through helping to connect lagging and more remote regions to high growth areas within countries as well as
between them. The main priorities in this area include: (i) assisting the most vulnerable to manage trade shocks; (ii) making trade a more prominent part of the solution to global food price volatility, as opposed to part of the problem; (iii) doing more to address the gender dimension in trade support activities; and, (iv) extending the benefits of trade to lagging regions within countries by ensuring poor people in these areas can better connect to those places where agglomeration occurs.
II. The World Bank is the largest multilateral provider of Aid for Trade and its portfolio is growing

The global economic crisis underscored the value of World Bank support to promote economic diversification, trade facilitation and finance and international trade cooperation to support growth and poverty reduction. The crisis led to a three-fold increase in the Bank’s trade lending and also gave rise to demands for new types of assistance, such as products to help firms in emerging markets access trade finance.

The AfT program of the World Bank Group is multifaceted, encompassing concessional lending to low-income countries and non-concessional lending to middle-income countries for trade-related projects; investments by the World Bank’s private sector arm, the International Finance Corporation (IFC), in private sector activities such as trade finance; political risk insurance through the Multilateral Investment Guarantee Agency (MIGA); and, the provision of policy advice and technical assistance embodied in analytical work such as Diagnostic Trade Integration Studies (DTIS) undertaken in the context of the Enhanced Integrated Framework for Trade-Related Assistance for Least Developed Countries (EIF).

The World Bank Group is the largest multilateral provider of AfT\(^1\) and has significant country presence with offices in 125 countries. Its AfT contributions have increased steadily over the past few years. Based on the OECD/WTO definition of AfT,\(^2\) the Bank provided an average of US$15 billion per year in AfT to low-income and middle-income countries over FY02-FY10 (see Figure 1). The absolute amount of loans and credits on the basis of this broad definition of AfT has risen steadily since FY03, and increased more rapidly since FY07. The falling share of trade-related lending after FY08 reflects the surge in support to countries in response to the financial crisis. Of the total amount of AfT lending in FY10 of US$27 billion, non-concessional IBRD lending amounted to some US$18 billion (this includes IFC but not its trade finance programs which are excluded from the OECD/WTO definition).

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\(^1\) According to OECD statistics on Aid for Trade. See http://www.oecd.org/dac

\(^2\) The OECD/WTO definition of AfT excludes trade finance and includes infrastructure. The 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 non tradable or tradable sector, the OECD/WTO considers the entire loan in these sectors as AfT, a convention followed in this report. The exception is budget support, for which the World Bank, like the OECD/WTO, have included that portion associated with trade-related activities as defined in the loan itself.
Lending for transport infrastructure is a critical component of the World Bank’s efforts to help developing countries achieve their trade integration and policy reform objectives. Almost two-thirds of World Bank support for transport is for roads and highways (see Table 1) with the South Asia Region being the largest recipient of World Bank support for transport projects.

**Table 1: World Bank Transport Projects FY11**

<table>
<thead>
<tr>
<th>US$ millions (% of total)</th>
<th>Africa (AFR)</th>
<th>East Asia &amp; Pacific (EAP)</th>
<th>Europe &amp; Central Asia (ECA)</th>
<th>Latin America &amp; Caribbean (LCR)</th>
<th>Middle East &amp; North Africa (MNA)</th>
<th>South Asia (SAR)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aviation</strong></td>
<td>57.0 (0.7%)</td>
<td>-</td>
<td>-</td>
<td>5.5 (0.1%)</td>
<td>-</td>
<td>-</td>
<td>62.5 (0.7%)</td>
</tr>
<tr>
<td><strong>General transport sector</strong></td>
<td>95.5 (1.1%)</td>
<td>326.8 (3.9%)</td>
<td>7.3 (0.1%)</td>
<td>293.7 (3.5%)</td>
<td>136.7 (1.6%)</td>
<td>22.8 (0.3%)</td>
<td>882.7 (10.5%)</td>
</tr>
<tr>
<td><strong>Ports/water/shipping</strong></td>
<td>13.8 (0.2%)</td>
<td>100.0 (1.2%)</td>
<td>-</td>
<td>0.4 (0.0%)</td>
<td>-</td>
<td>-</td>
<td>112.3 (1.3%)</td>
</tr>
<tr>
<td><strong>Publicly administered transport</strong></td>
<td>7.1 (0.1%)</td>
<td>62.3 (0.7%)</td>
<td>3.4 (0.0%)</td>
<td>42.4 (0.5%)</td>
<td>-</td>
<td>138.7 (1.6%)</td>
<td>253.8 (3.0%)</td>
</tr>
<tr>
<td><strong>Railways</strong></td>
<td>1.4 (0.0%)</td>
<td>200.0 (2.4%)</td>
<td>-</td>
<td>-</td>
<td>330.0 (3.9%)</td>
<td>975.0 (11.6%)</td>
<td>1,506.4 (17.9%)</td>
</tr>
<tr>
<td><strong>Roads &amp; Highways</strong></td>
<td>360.2 (4.3%)</td>
<td>1,283.3 (15.2%)</td>
<td>218.4 (2.6%)</td>
<td>819.8 (9.7%)</td>
<td>15.8 (0.2%)</td>
<td>2,798.2 (33.2%)</td>
<td>5,495.7 (65.2%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>535.0 (6.3%)</td>
<td>1,972.3 (23.4%)</td>
<td>229.1 (2.7%)</td>
<td>1,161.7 (13.8%)</td>
<td>482.5 (5.7%)</td>
<td>4,047.0 (48.0%)</td>
<td>8,427.6 (100.0%)</td>
</tr>
</tbody>
</table>

*Notes: Provisional as of 14 June 2011.*
For its internal purposes, the World Bank defines trade-related lending more narrowly than the OECD/WTO definition of AfT and excludes infrastructure projects. Using its definition, IDA\(^3\) and IBRD\(^4\) provided a total of US$1.8 billion in trade-related lending in FY10, representing a three-fold increase from FY03 levels of US$566 million (see Figure 2). The peak in FY09 was the result of a large loan to Kazakhstan to benefit trade infrastructure in the region. Almost half of IBRD and IDA AfT (46 percent) is dedicated to trade facilitation and market access projects. For instance, a US$260-million project in East Africa has supported the development of the Northern Transport Corridor. This is followed by support to regional integration (accounting for 29 percent) and export development and competitiveness (22 percent).

Since 2007, the World Bank has approved 216 trade-related lending operations in 90 countries. Africa is the largest recipient of World Bank AfT, and now accounts for more than one-third of these operations (see Figure 3).

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\(^3\) The World Bank’s internal definition covers only lending that is coded to the World Bank’s Trade and Integration themes, namely: export development and competitiveness; regional integration; technology diffusion; and trade facilitation and market access. It excludes infrastructure projects and trade finance.

\(^4\) International Development Association.

\(^5\) International Bank for Reconstruction and Development.
IFC lending has focused on building competitiveness through investments in the productive capacity of firms, economic infrastructure and support for trade finance. In 2010, the IFC made equity and lending investments of around US$4.1 billion to enhance developing countries’ trade competitiveness. During the recent crisis, trade finance was among the first lines of business from which banks retrenched due to its shorter-term nature, which made it possible to rein in exposure. The IFC’s Global Trade Finance Program (GTFP) was able to respond to the resulting market gaps providing a measure of stability in times of credit constraints. The GTFP is a vehicle to facilitate the provision of trade finance to banks in emerging markets, with particular emphasis on IDA countries and smaller institutions which serve SME clients. The GTFP has been operational for over five years, with a strong track record of development results: since its inception, 51 percent of the dollar volume of guarantees issued has been to banks in IDA countries; 34 percent South-South (i.e. between emerging market banks); one-third related to agribusiness; and, 83 percent of underlying trade transactions have benefitted SME trade under US$1 million. To date, more than 8,400 guarantees with a median value of US$164,000 have been issued without loss. Building on the success of the GTFP, the Global Trade Liquidity Program (GTLP) was created in 2009 as a specific crisis response initiative to support trade on a portfolio basis for commercial banks. Acting as an agent for risk-sharing arrangements, IFC leverages its own support with that of other governments and development finance institutions. As of April 2011, the program supported US$14 billion of trade involving 8,500 trade transactions (81 percent of which were with SMEs), in collaboration with twenty partners, both public and private. The GTLP is now being phased out as the financial crisis has come to an end and the global economic recovery has begun.

The IFC has designed a number of new and innovative short-term products to assist SME exporters/producers in developing countries as well as producers in agricultural-commodity dependent countries and Fragile States. These instruments are important as at least two-thirds of an estimated US$2 billion financing gap for SMEs in developing countries is estimated to be short-term.
Examples include:

i) The Global Trade Supplier Finance (GTSF) program which benefits emerging market exporters/SMEs by providing self-liquidating, short-term financing by discounting buyer-approved invoices. The target size of SMEs reached through this program will be smaller than those IFC can usually reach directly.

ii) Distributor Finance Programs which work with local banks (e.g. in Nigeria) to provide financing for SME distributors that form a critical link to emerging market value chains.

iii) SME Liquidity Facility which leverages IFC’s extensive local bank network in emerging markets to encourage working capital loans to SMEs in developing countries (e.g. Bangladesh).

iv) The Global Warehouse Finance program which increases working capital financing to agricultural producers by guaranteeing or lending to banks for specific warehouse receipt-backed loans to agricultural producers or providers.

v) MENA Agri which leverages IFC’s banking network to quickly respond to financing needs for pending agricultural harvests and food supply.

vi) Soft commodity facilities in Sub-Saharan Africa, such as distributor finance.

Complementing these efforts by the IFC, and in close cooperation with them, MIGA is in the process of developing a Conflict Affected and Fragile Economies Facility which seeks, among one of its two main pillars, to support longer-term trade finance guarantees to this set of countries. The second pillar is to support domestic investments through the provision of guarantees, thus complementing MIGA’s traditional cross-border guarantees program. MIGA’s support to trade has focused on building competitiveness through providing political risk insurance coverage for private sector investments in productive capacity of firms, economic infrastructure and support to bank investment and lending (much of this has supported foreign exchange financing used for import and export financing for investment projects and working capital). Notable MIGA projects that support trade competitiveness are linked to efficient customs systems and inventory management (through projects like SGS Nigeria and Algeria, Cotecna Nigeria and Senegal and Intertec Sierra Leone). MIGA has also supported trade-related infrastructure development, including telecommunications services in many countries throughout Africa (Benin, Burundi, Central African Republic, Ghana, Mauritania, Nigeria, Guinea and Sierra Leone) as well as in other regions (Afghanistan, Pakistan and Syria); ports (Djibouti) and airports (Peru, Ecuador) and energy. MIGA has also provided coverage for investments to help firms improve their productive capacity (e.g. in agro-food processing and manufactures including pulp and paper for export; and, cotton projects in Mozambique and Côte d’Ivoire).

In addition to financing, the World Bank Group provides services to help developing countries design comprehensive trade strategies through programs of policy analysis, technical assistance and capacity building often in partnership with other development agencies such as the IMF, African Development Bank, the International Trade Commission, United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), and the World Trade Organization. The
World Bank’s country level policy work is defined in Country Assistance Strategies (CAS) and aims to support the operational priorities and projects of developing countries on a variety of topics, including trade integration and facilitation, WTO accession, regional trade agreements, the WTO Doha Round of multilateral trade negotiations, agricultural and services trade, export diversification, standards and customs modernization.

Research and analytical work remains an important asset of the World Bank. Our understanding of conventional trade (cross-border transactions in complete goods) and conventional trade policy (tariffs and quotas) has improved. But other dimensions of international integration and policies affecting international trade, such as trade facilitation and export promotion, are less well understood. Support by the World Bank in these areas is beginning to remedy gaps in knowledge and facilitate informed policymaking.

To improve national competitiveness and diversification, the Bank has undertaken numerous trade-related Economic and Sector Work (ESW) and Technical Assistance (TA) programs. Of all the ESW and TA that the World Bank has delivered since FY02, about 12 percent (1,038 pieces of work) focused specifically on trade (see Figure 4). The large increase in trade-focused ESW and TA between FY02-FY06 is attributable to a substantial effort to conduct comprehensive country trade diagnostic studies in LDCs and other low-income countries. To date, the Bank has completed, or is leading the preparation of, 36 DTIS and DTIS updates under the EIF and the Integrated Framework for Trade-Related Technical Assistance for Least Developing Countries that preceded it.

Figure 4: Deliveries of Trade-Focused ESW and TA, 2002 - 2009

Just under half of the trade-focused ESW and TA addressed trade facilitation, market access and regional integration issues, while one-third addressed export development.

The International Trade Department at the World Bank provides trade expertise and advisory services that support an array of World Bank Group activities in developing countries worldwide. Its main roles and responsibilities include (i) developing knowledge products with an operational perspective; (ii)
providing support to World Bank country/regional teams in their trade programs; (iii) forging effective partnerships to advance a pro-development trade agenda; and, (iv) disseminating knowledge on trade through training and learning activities. The International Trade Department’s portfolio currently encompasses activities in three main areas: (i) trade competitiveness; (ii) trade facilitation; and, (iii) trade policy and regional integration.

Its work on trade competitiveness includes the development of a range of indicators, diagnostic toolkits and analytical work that focus on building competitiveness and diversifying sources of export-led growth through supporting the design and implementation of policies that overcome government and market failures. In recent years, the agenda to support trade growth has moved beyond trade policy narrowly defined to embrace a wider set of behind-the-border constraints, focused on establishing an environment conducive to the emergence of firms that are competitive in both export and domestic markets. In this context, the International Trade Department has developed a Trade Competitiveness Diagnostic Toolkit that facilitates a systematic assessment of a country’s position, performance and capabilities in export markets. It enables countries to identify which aspects of their competitiveness matter most for specific sectors and which factors have the biggest impact on competitiveness, allowing for actionable policy responses. The toolkit has been piloted in Qatar, Indonesia, Senegal and Russia with ongoing projects in Pakistan, Peru, Botswana and Kenya. The International Trade Department has also been leading work on Special Economic Zones (SEZs) with a primary emphasis on the experience of SEZ programs in sub-Saharan Africa. Based on the knowledge developed as part of this research, the World Bank is also looking at the potential role and impact of China’s investment in African industrial zones on the development prospects of the region.

Activities on trade facilitation include a range of data, toolkits and diagnostic tools which help developing countries improve their transportation and supply chain performance, thereby enhancing their overall competitiveness. Perhaps the best know example is the Logistics Performance Index which was launched in 2007 and has gained rapid acceptance in measuring logistics performance and identifying priorities for logistics reforms and investments. Another example is the Trade and Transport Facilitation Audit Toolkit which provides a comprehensive diagnosis of constraints to trade and trade-related transportation services.

Finally, the International Trade Department’s trade policy portfolio comprises support to all levels of dialogue and cooperation on trade at the national, regional and multilateral levels. Its work in this area focuses on integrating trade policy analysis into global policy debates to foster more development-supportive outcomes; and, fostering effective partnerships with international organizations and non-governmental organizations to promote development-friendly trade policies. For example, work has started on helping developing countries better understand the nature of non-tariff measures (NTMs) through improved data collection and policy analysis as well as promoting good governance in the design of trade-related regulations.

World Bank research has also been an important instrument through which it has engaged at the global level to analyze global trade issues from a development perspective. The current focus of trade research at the World Bank is on the implications of international economic integration for developing countries and how this can be managed to promote economic development. Research covers national policies and international agreements that affect international trade in goods and services, as well as foreign investment and migration. The specific policy research questions are defined by demand from Bank operational units and developing countries, addressed by collecting new data which are rigorously analyzed and widely disseminated, studied in collaboration with researchers from developing countries.
and other development institutions, and the results implemented in cooperation with staff both from
the Bank and developing countries.

Recent highlights from World Bank research include:

**Trade has recovered after the crisis because protection remained dormant.** New estimates of the
overall trade restrictiveness indices (OTRIs) developed by the World Bank for a range of countries,
revealed no evidence the crisis had led to a widespread increase in protection via tariff policies. Only a
handful of countries, such as Argentina, China, Malawi, Russia and Turkey imposed tariffs on products
with significant trade flows. But the crisis did accentuate a longer-term trend across countries of
increasing recourse to antidumping, safeguard and countervailing duty policies. These barriers are
increasingly affecting South-South trade with China, in particular, facing actions by other developing
countries. The rise in tariffs and antidumping duties is estimated to have jointly caused trade to fall by
US$43 billion (equivalent to 2 percent of the global trade collapse during the crisis).

**Trade facilitation efforts must target delays as well as infrastructure.** As tariffs have fallen, it has
become increasingly evident that weaknesses in infrastructure – both hard (e.g. ports, roads) and soft
(e.g. customs and other regulations) – also adversely affect trade. Apart from explicit trade costs, trade
delayed is also trade lost. Using newly collected data on the days it takes to move cargo from the factory
gate to the ship in 98 countries, it is estimated each additional day that a product is delayed reduces
trade by more than one percent.

**Firm-level insights on exporting.** Understanding what drives and sustains success in exporting has
proved elusive to policymakers, but new data is providing important insights. For example, firm-level
data on the non-traditional agricultural sector in Peru, which grew seven-fold between 1994 and 2007,
reveals new products are typically discovered by large, experienced exporters. Discovery provokes
tremendous firm entry and exit in the export sector especially among small firms. The results imply high
 sunk costs of entry are more of a concern for product discovery than subsequent entry.

**Returns to labor are strongly influenced by trade.** The impact of international trade on the labor market
is a central concern for policymakers. New research suggests that the impact of exports depends on
their destination. One reason is that exporting to developed countries requires skill-intensive quality
upgrades. A World Bank study of Argentine manufacturing firms for the period 1998-2000 reveals that
firms induced by the Brazilian currency devaluation of 1999 to shift from the Brazilian market to higher
income ones hired a higher proportion of skilled workers and paid higher average wages than exporters
to developing countries and domestic firms.
III. Country Examples: World Bank Aid for Trade is showing results

The World Bank has undertaken a series of case studies on the trade impacts of several of its projects, including some of those funded under the Multi-Donor Trust Fund for Trade and Development and the Trade Facilitation Facility, which showcase the Bank’s contribution to the AfT initiative. These case studies encompass a multitude of themes and sub-topics within the ambit of the World Bank’s new Trade Strategy, covering the spectrum of trade lending, technical assistance, capacity building and advisory programs in client countries. The case studies provide illustrations of the World Bank’s approach to demand-driven trade assistance, designed to meet common development challenges in a rapidly evolving trade environment and delivering concrete results in beneficiary countries. They illustrate how the World Bank has already been engaging in the four pillars set forth in the Trade Strategy.

A. Trade Competitiveness and Diversification

Ghana: Improvements to the Quality and Standards of Services Delivered to Investors and Exporters

Between 1995 and 2005, the Ghanaian Government provided land in Tama with off-site infrastructure and investment incentives as part of an Export Processing Zone (EPZ) with the aim of attracting investments for job creation. Unfortunately, instead of serving as a thriving hub of economic activity, an industrial ‘ghetto’ sprung up. Only one company was attracted to the EPZ while others were operating in the country with little regard for processing local materials and manufacturing products. Supply chains were developed, but they were not appropriately linked to the domestic economy. Access to global markets was also limited.

With support from the World Bank, the Ghana Trade and Investment Gateway Project made strategic infrastructural investments to retrofit the EPZ in 2005. Transportation linkages between the EPZ, the dry port and the port were found to be insufficient, so a 4.5 km flyover bridge and a network of arterial roads were created to link these economic hubs with existing routes. This created a Multi-Purpose Industrial Park from which a multitude of enterprises emerged to service the ports and the EPZ. Economy-wide, the structured interventions supported by the project resulted in US$12.6 billion of investments, with the creation of 305,874 jobs for Ghanaians and 10,994 jobs for foreigners. At the local level, the targeted investments in physical and institutional infrastructure reduced congestion, dwell times and logistics costs at the port; and, created direct employment for 8,000 people and indirect employment for an additional 30,000.

Lesotho: Improving Competitiveness through Training

Lesotho’s manufacturing sector is dominated by its garment industry, which has blossomed due to favorable market access in the United States afforded under the African Growth and Opportunity Act (AGOA). Lesotho’s exports of clothing products performed remarkably well during the early years of the accord, increasing almost five-fold in six years and reaching US$456 million in 2004. However, with the expiration of the WTO Agreement on Textiles and Clothing in 2005 and intensified global competition
from large Asian countries, Lesotho’s textile and garment industry became in imminent danger of succumbing to lower-cost exporters despite its preferential access to major markets.

A key constraint to the development of Lesotho’s private sector, including the garment industry, was its low labor productivity compared to both Africa’s most productive countries and its major competitors in the garment sector. In response, the World Bank initiated a *Private Sector Competitiveness and Economic Diversification Project* (PSCED) to increase the skill levels of the workforce in Lesotho with the objectives of increasing competitiveness through higher labor productivity; encouraging a shift towards higher quality and value-added products; and, improving compliance with labor standards.

The PSCED project established worker training centers in Lesotho’s capital, Maseru, and in Maputsoe. The initiative had both public and private sector participation with management councils in both centers. The training centers were aimed at meeting buyers’ demands to add more value to products and at supporting new investors’ efforts to differentiate products. Training ranged from pre-employment skills development in such areas as basic sewing to more advanced areas such as quality control, merchandising, and export documentation and marketing.

In the two years they have been in operation, the center at Maseru has trained 625 workers (of whom 491 were women) and the center at Maputsoe region has trained 401 workers (including 225 women). The latter includes 58 supervisors (including 40 women). Three line managers who participated in the
training were promoted. Overall, placement rates for those trained have been high (75 percent), which has also demonstrated the program’s success.

**Tanzania: Scaling up Trade for Growth and Competitiveness**

Export-led growth has played a significant role in the success of the Tanzanian economy in recent years and increasing competitiveness is seen as a necessary step to sustaining this good performance. A World Bank project, launched in 2007 and supported by the Multi-Donor Trust Fund for Trade and Development, has produced a series of reports and fostered other trade-related activities that have aided this effort.

Support from the World Bank was undertaken in response to a request from the Government of Tanzania for policy advice and analysis on key trade issues. The US$670,000 *Scaling Up Trade for Growth and Competitiveness* program has included identifying trade and competitiveness priorities.

The findings of the project include recommendations for a trade and competitiveness strategy to promote growth. The report outlines a series of actions aimed at expanding export markets, integrating Tanzania into existing global production networks, and improving access to affordable services inputs. The report includes specific recommendations for increasing support for exporters to raise quality and meet international standards; improving market access; reviewing tariffs, taxes and other regulations; developing export processing zones (EPZs); and, lowering the costs of essential backbone services such as electricity, water and information and communications technology.

The project also supports the development of market information systems which remain inadequate to the task of providing timely, accurate and cost effective market information to the government and private sector.

A report undertaken as part of the project notes the inadequacy of trade information on overseas market prices within the country and calls for the development of a market information system to improve the flow of reliable information to businesses and farmers, in place of the existing systems which tend to reside in silos and where most businesses still rely on personal contacts or networks for information.

Other reports include an analysis on managing special economic zones, which aims to improve the country’s weak and fragmented institutional framework guiding its EPZ program. The analysis proposes the country make several changes to the Export Process Zones Authority’s role, responsibilities and structure, as well as to ensure lease rates in government-initiated zones are set at market levels. It also makes recommendations on relieving port congestion, the role of standards in facilitating trade and puts forward a strategy for reform and liberalization of services trade.

In addition, the project has provided training in other trade-related areas, including trade policy analysis, assessing the country’s export market competitiveness, trade negotiation and regional trade agreements, and promoting awareness and commitment of industries covered in services trade reforms.

Tanzania’s government has also implemented a number of recommendations indentified in the work, including integrating the country’s special economic zone and EPZ regimes, and working to increase private sector representation in the EPZ governing board. Moreover, the project has directly
contributed to government policy and strategy formulation including the export market information system development strategy, review of the country’s tourism policy and strategy, preparation of the Tanzania Trade Integration Strategy and review of the science, technology and innovation policy.

The project also facilitated a series of workshops and meetings on EPZs, trade and competitiveness, and related issues. These workshops were held in Tanzania, Egypt and Washington D.C.

A workshop to discuss the draft Export Processing Zone Authority’s strategic plan was the first time some of the key utility agencies related to the EPZ program had met together with operators and business representatives, which improved their networking and supported collaboration in addressing issues of common interest. Furthermore, the workshop played a significant role in encouraging cooperation and information exchange between the public utility agencies in EPZ operations. During another seminar on global innovation policy, held in Washington, D.C., the project funded the attendance of three key Tanzanian officials, who reported that the seminar changed their understanding of innovation policy, from being a highly technical subject to one in which more pragmatic approaches could be taken for a developing country such as Tanzania.

The efforts have also benefited civil society. The workshops and other meetings supported by the project attracted academics, donor organizations and the press, and facilitated more information-sharing and collaboration between civil society and the government and the private sector.

Promoting Trade in ICT Services in Nigeria

Nigeria could become an African economic powerhouse if it takes a number of steps, including working towards developing the information and communications technologies (ICT) needed to provide call centers and other services for foreign firms, World Bank studies have concluded. Offering offshore services to companies is a fast growing market, which generates both direct and indirect employment. Other benefits include a boost to education reform because offshore services firms require an educated workforce.

The World Bank appraised Nigeria’s attractiveness as an offshore services location and found mixed results. On one hand, the country has low labor costs. English is also widely spoken, and there are large numbers of unemployed graduates with good skills. In addition, the country has flexible labor regulations, a straightforward labor system and experience with EPZs. Moreover, contract enforcement is faster and less costly than that of many of its competitors, although the report argues further progress could be made.


With an eye towards creating a new economy, the World Bank study recommends a series of educational changes, including the development of an education system focusing on lifelong learning, improvement of education - especially vocational training and expanding access to tertiary education. The study calls for transparent admission procedures, merit-based graduation, qualified teachers,
public funding of basic education and the promotion of modern tools and techniques such as computers and the internet. The analysis also stresses the importance of private sector efforts in improving education.

By generating a critical mass of educated people whose skills are continually refined through lifelong learning and the progressive upgrading of the education system, Nigeria could build the foundations of a knowledge-driven economy.

Nigeria should also take steps to improve its business environment which, according to the study, faces challenges arising from frequent power outages; inefficient licensing and registration; and, limited access to capital and new technologies. In information and communications technology, the report suggests that although Nigeria has made great strides, high prices, low penetration and limited competition mean more needs to be done such as increasing available bandwidth and lowering tariffs. A third undersea cable has recently landed in Lagos, and internet connectivity charges are dropping rapidly.

The government should also work to develop IT parks with reliable power, high bandwidth and security; focus on education, including developing needed service and information technology skills, as has been done in India and Egypt; create incentives for firms to offer appropriate worker training; and encourage development of an improved ICT infrastructure. Other government steps could include outsourcing certain government services such as data entry for health, education and land records.

The study advises the government to address the weak legal framework for offshoring, intellectual property rights and electronic commerce that is deterring outside investment, saying there have been positive steps, but more could be done with respect to reforms such as property registration and reducing the time taken to pay taxes.

Such reforms would go a long way to making Nigeria an attractive country for foreign investors and would considerably help Nigeria’s efforts to develop a strong offshoring industry.

**Mauritius: Success of Lending and Reforms in Emerging from Crisis**

After a period of high economic growth, Mauritius was under strain from three developments in 2005: the phasing out of the WTO Agreement on Textiles and Clothing; sharp reductions in the prices it received for its sugar exports to the European Union under the Sugar Protocol; and, rising energy prices. Timely action by the World Bank to highlight the ensuing threats to the country’s export sector, the disbursement of loans to counteract these adverse shocks and support to the implementation of policy reforms not only helped Mauritius to stave off an impending crisis but also helped the country emerge more resilient. The success of Bank assistance and the government’s reform agenda have been touted as possible lessons for some of the euro-zone countries as they struggle with their domestic debt crises.

A 2006 World Bank report outlined a series of trade competitiveness issues, particularly anti-export bias and impediments to FDI. The government approached the Bank and other development partners for assistance and immediately set to work on an ambitious and comprehensive reform program intended to raise the efficiency of the private sector and modernize the public sector. The budget included about 40 reforms, including the continuation of tariff liberalization and the acceleration of
the integration of the EPZ and non-zone sectors to eliminate a distinction that had imposed costs on exporters and effectively barred smaller firms from exporting.

The initiative was anchored on four World Bank loans and the provision of complementary on-time technical assistance. The first two lending operations, in 2007 and 2008, were for US$30 million each, while two loans made in 2009 were for US$100 million and US$50 million. The loans and technical assistance enabled the government to develop a stimulus package to support economic activity. It also created a platform for a social contract involving a commitment from the private sector to avoid layoffs while the government provided support to meet external shocks and accelerated deregulation. Such collaboration also set the stage for a partnership between government, civil society and the private sector to empower the bottom 10 percent of the population, with an emphasis on tackling high rates of female unemployment.

Four factors explain the success of the program: the government’s clear vision that it needed to undertake new policy initiatives to respond to the triple shock and its request for Bank policy analysis; the swift response of the World Bank team which was possible largely because of the staff’s accumulated knowledge of the trade-related sectors (especially services) in Mauritius; the follow-through of the Ministry of Finance and the economic team to design and launch new and coherent reforms simultaneously across several sectors; and, the government’s sustained effort in implementing reforms over a multi-year period, with the support of the World Bank and other development partners.

B. Trade Facilitation, Transport Logistics and Trade Finance

Tunisia: Promoting Exports by Reducing Logistics Costs

Exports are an important source of growth for Tunisian output and employment because of the country’s small domestic economy. Tunisian firms – mostly its apparel exporters – once relied on off-shore companies with limited ties between the market and the on-shore industry. Many of the goods were low-value added, and domestic industry was poorly prepared to compete internationally after the WTO Agreement on Textiles and Clothing expired. A new thrust was needed to sustain Tunisia’s export-led growth model by providing support to its on-shore companies.

The World Bank initiated a US$50 million export development project, which includes a market access fund that offers co-financing for firms and professional associations to spur investment in market research. Other programs to improve market access included acquisition of equipment and sponsorship of workshops. The matching-grant fund also helps professional organizations to support groups of firms operating under shared export plans.

As of May 2010, the market access fund had helped increase Tunisia’s exports by US$319 million. Approximately one-third of these exports were from new exporters, with shipments going to new destinations such as Mauritania, Benin, the United Kingdom, Sudan, Burkina Faso, Senegal, Mali, Congo, Togo, Ghana, Cameroon, Côte d’Ivoire, Malaysia, Indonesia, and China. Aside from the direct trade results, the fund has created jobs. It is estimated that approximately 98,500 jobs have been maintained or created, about half of which are permanent full-time positions.
A second major project component aims to encourage financial institutions to provide pre-shipment financing for new exporters through an export finance guarantee facility. This component has helped increased exports by more than US$98 million.

The third component includes an effort to increase the efficiency of Tunisian customs by cutting delays at the border while strengthening control processes. Tunisia Customs modernized its procedures, including automation of part of the customs declaration processing operation, under an earlier World Bank project. The new project builds on that effort to reform other customs procedures and add additional equipment. Consequently, shipments are now held at Tunisia’s main seaport, the port of Rades, for significantly less time than before. The average stay for cargo, including customs processing and other procedures, has dropped by two-thirds, from 10.1 days in 2003-2004 to 3.3 days by April 2010.

The program has laid the groundwork for future exports by both allowing new firms to become exporters and allowing a significant number of companies – 810 as of May 31, 2010 – to develop their abilities in gaining access to new export markets.

Uganda-Kenya Corridor: Lowering Logistics Costs and Increasing Access to Markets

Ameliorating delays along transit routes and reducing transport costs not only offers direct benefits to landlocked countries by improving access to global markets, but it is also crucial in linking poor and lagging regions to centers of demand. The US$260 million East Africa Trade and Transport Facilitation Project initiated by the World Bank in 2006 aimed to improve the movement of cargo along the Northern Transport Corridor. It links Uganda to the Mombasa Port in Nairobi, where 95 percent of the goods that are imported into, or exported out of, Uganda pass through. The corridor has one leg going to Kampala, Rwanda and the Democratic Republic of Congo, and the other to southern Sudan, and is a vital trade link for landlocked countries in the region.

There were a number of specific problems contributing to delays along the route. For example, cargo was taking three to five days for clearance at the Malaba border crossing because shipments were processed by Kenyan and Ugandan customs as well as other agencies. Although some of the high transport costs have been due to the poor state of infrastructure and rising fuel prices, much of the delays were caused by overly restrictive regulation, inefficient administration and corruption.

The World Bank project tackled these problems plaguing the corridor. It is being conducted alongside complementary projects supported by other agencies such as the European Union, African Development Bank, Japan International Cooperation Agency and the United Kingdom’s Department for International Development, mainly in road and other infrastructure improvements.

The World Bank project has supported a number of reforms, including developing systems for information sharing among agencies at the Mombasa port, which has lowered processing times. Efforts at the border have taken two tracks, both involving increased cooperation between Kenyan and Ugandan agencies. One involves joint inspections of cargo so these are only done once. The other involves exchange of electronic information, so that when cargo arrives at Mombasa its particulars are transmitted to the border and shared among all agencies there. Efforts are also underway to develop a one-stop border post.

Northern Transport Corridor transit times at the border have now been reduced from three days to three hours. Moreover, dwell time at the port of Mombasa is down from 19 days to 13 days, and transit time along the Mombasa-Nairobi-Kampala section of the route has dropped from 15 to five days. This
overall drop in transit times and the associated reduction in costs have eased the movement of cargo along the route.

Between 2006 and 2009, trade volumes at the port of Mombasa grew at close to 9 percent per year, increasing the capacity and efficiency along the corridor. Uganda’s trade grew over the same period; imports by 24 percent a year and exports by 23 percent. This has increased vehicle utilization. Previously where trucks were undertaking 1½ trips per month, they now carry out more than three trips a month, spreading the fixed-cost component over more trips, reducing the actual transport cost which also translates to reduced prices for the users of the transport system.

C. Support for Market Access and International Trade Cooperation

TRAPCA and WBI: A Win-Win Collaboration to Support Trade Policy Excellence in Africa

The World Bank Institute’s (WBI) Trade Program has established itself as one of the leading capacity building programs in the area of international trade policy and negotiations. Its primary objective is to strengthen the capacity of developing countries to design and put in place sound national trade policies and institutions to facilitate their integration into the global economy and spur economic growth.

Until recently, WBI’s Trade Program focused on directly targeting trade policymakers, raising their awareness of important trade issues and challenges, and enhancing their skills in analyzing, designing and formulating trade policy reforms. While this approach was highly successful, its reach was relatively limited. Consequently, WBI has adopted a complementary approach aimed at scaling up the program’s reach by partnering with selected regional “hubs” to strengthen their capacity to train trade officials. The new approach entails collaborating with the selected institution in the areas of joint curriculum and content development, as well as, training regional trainers to develop a core team of trainers in trade and trade policy.

To implement the new approach, a solid and credible partner institution was needed. It immediately became obvious that the Trade Policy Training Centre in Africa (Trapca) was a natural choice and complementary to the effort of the bilateral donor (Sida) that helped create it. Situated in Arusha, Trapca was inaugurated in December 2006 in partnership with the East and Southern Africa Management Institute (ESAMI), with the mandate of providing training and technical expertise on trade issues to professionals in Least Developed Countries and low income sub-Saharan African countries. Trapca offers a MSc. program in International Trade Policy and Trade Law (accredited by Lund University, Sweden) as well as a number of Certificates programs. The program has been successful in attracting qualified candidates from all over Africa. Notably, Trapca attracts policy makers: a large number of Trapca’s students are professionals actively involved in designing public policy.

The collaboration between WBI and Trapca began in December 2009 and quickly became a clear example of how a well-designed partnership could be leveraged to achieve better results for both institutions. With WBI’s input, Trapca has augmented and deepened its course offerings. In just 18 months, six specialized joint courses have been developed on preferential trade agreements (adapted from the new World Bank handbook on Preferential Trade Agreement Policies for Development); agricultural trade, export development and standards; and, services trade (using the WBI Handbook on International Trade in Services). Through its collaboration with WBI, Trapca has also had the opportunity
to offer new courses delivered jointly and is developing regional forums of policy makers and trade experts such as the Trapca COMESA-EAC-SADC tripartite forum organized in June 2010.

Harnessing Regional Integration for Trade and Growth in Southern Africa

New World Bank research makes practical policy recommendations on how regional trade integration in Southern Africa can be made to work better for both goods and services. Its premise is that regional integration offers opportunities for employment creation across the region, especially in South Africa where the unemployment rates is in excess of 25 percent; can address skill gaps between countries; and, boost productivity. Harnessing regional integration more effectively could help all countries lower their cost base thereby enhancing their global competitiveness.

The study presents new information on obstacles faced by firms that trade regionally. It finds that for goods trade, while tariffs have been lowered, significant barriers remain. For example, under the Southern African Development Community (SADC) free trade area (FTA), 85 percent of trade is now duty-free. However, just the limited set of non-tariff barriers (NTBs) reported by firms in SADC affect considerably more than one-fifth of recorded regional trade (US$3 billion). The costs associated with these barriers are high, impede competitiveness and limit opportunities for regional sourcing. Shoprite reports that each day one of its trucks is delayed at a land border costs US$500. And delays at the Port of Durban cost the South African citrus industry US$10.5 million per season. Different VAT systems applied on intra-SACU\(^6\) trade necessitate borders and cost up to 2 percent of the value of each transaction. And the largest retailers in the region spend up to half the value of tariff preference they receive under the SADC FTA administering overly complex certificates of origin.

Services are also a potentially important source of export diversification and a vital input into production, but progress in liberalizing trade and improving the efficiency of domestic regulation remains limited. Greater regional and global integration could alleviate the constraints on the development of key services sectors, such as professional services, due to limited endowments of capital and skills in Southern African countries, as well as the smallness of markets. Lowering costs for all firms also requires better access to quality services at low cost. However, despite the striking growth in tourism exports from some Southern African countries and the remarkable dynamism of the liberalized telecommunications sector, the gains for the region from international integration so far are small compared to the unexploited opportunities.

Unilateral reforms and regional cooperation could better integrate the Southern African market for goods and services. For goods trade, national level actions would include making domestic regulations more efficient through reforms to make them less trade restrictive while achieving their core public policy objectives such as for health and safety. For services, unilateral reforms would include relaxing entry requirements for services providers and eliminating restrictions on competition. At the regional level, trade barriers for both goods and services could be tackled through increased regulatory cooperation through mutual recognition of national standards or development of appropriate regional ones.

\(^6\) Southern Africa Customs Union.
D. Managing Shocks and Promoting Greater Inclusion

World Bank Funding Examines the Global Food Price Spike

The spike in world food prices in the second half of 2010 threw more than 40 million people into poverty, according to World Bank analyses supported by the Multi-Donor Trust Fund for Trade and Development. As demand grows, and resources become constrained, food prices may become more volatile. Unilateral trade policies that may make sense for individual countries – such as steps to limit exports to keep domestic prices down – may become ineffective if many countries follow them simultaneously. Instead, the solution to the food price problem may lie in multilateral action.

Compared to the food price rise in 2008, the 2010 surge was broader. In the more recent surge, supply side factors such as weather shocks, sometimes followed by export restrictions, contributed to the doubling of wheat prices in the second half of the year, while maize prices jumped 73 percent. Rice prices also rose, although more slowly. Other food prices have also increased, including those for sugar by 76 percent, and for soybean and palm oil by 54 percent. Food price increases hit the poor particularly hard because they spend, on average, 75 percent of their income on staple foods. While three-quarters of the world’s poor are rural and earn the majority of their income from farming, most poor farmers are net buyers of food staples and poverty rates generally rise when food prices increase.

To determine how much the 2010 price jumps increased poverty, the analysis examined 38 commodities for 28 low- and middle-income countries. It covered food products such as wheat, rice, animal products, eggs and meat, as well as other important food commodities such as sorghum and groundnuts.

In one measure of poverty impact of the increase in food prices, the analysis looked at the net change in the number of people living below the extreme poverty level of US$1.25 per day. It found the impacts varied widely among countries but, overall higher food prices increased poverty in all sample countries except for Vietnam. In that country, many poor households are net sellers of commodities whose prices had risen substantially. The study sorted the other countries into broad groups based on the net size of the change in the number of people driven into poverty, ranging from zero to over 1 percent.

The increase in poverty was small in Côte d'Ivoire, Cambodia, Ecuador, Panama, Niger, Peru, Timor Leste, Nepal and Rwanda. In some of these countries, like Cote d’Ivoire, there was substantial movement around the poverty line, with some households falling into poverty mainly because of higher rice costs, and a similar number of households escaping poverty mainly because of the higher prices received for their cash crops, such as cotton, coffee, tea and cocoa, yielding a close to zero net change in poverty. In Niger, rising sugar and wheat prices pushed some people into poverty, while falling prices for other grains brought a similar number of people out of poverty.

In comparison, the poverty changes were much higher in Zambia, Moldova, Indonesia, Albania and Nicaragua, and higher still in Armenia, India, Mongolia, Nigeria and Yemen. The biggest changes, with increases in poverty of more than a full percentage point, occurred in Belize, Uganda, Sri Lanka, Guatemala, Malawi, Bangladesh, Pakistan and Tajikistan.

Changes in food prices can also make already poor people worse off than they were before. This change, measured by the “poverty gap” in each country is generally, but not always, smaller than the shifts in the number of poor people. Extrapolating from its figures, the study indicates that the average
poverty change globally among low-income countries because of the food crisis was about 1.1 percentage points and about 0.7 percentage points among middle-income countries – implying the food price surge increased the incidence of poverty by 9.5 million people in low-income countries and 34.1 million among middle-income countries. With possibly more food price spikes looming, countries may be tempted to turn to trade policies to protect their domestic prices, but the analyses also show that this would not help if countries were to simultaneously adopt restrictive policies.

**Cambodia: Improving Work Environments and Integrating Women into Industry to Increase Exports**

The garment industry is Cambodia’s largest private sector employer and its most significant export, accounting for more than 70 percent of exports. It employs 5 percent of the country’s workforce, 80 percent of which are young rural women supporting their extended families. Among small firms, it is estimated around 70 percent of the owners are women. However gender-based discrimination, including cultural norms and inequalities in access to essential services that primarily affect women in these industries, have neither been articulated nor communicated effectively within the policy-making apparatus.

Using the lessons from a 2010 World Bank guide on *Gender and Investment Climate Reform*, the IFC through its coordination of the Government-Private Sector Forum, has helped women entrepreneurs in Cambodia increase exports of handicrafts and other products by providing a communication channel between Cambodian female-owned businesses and the government.

The forum has separate working groups dealing with agriculture and agro-industry; tourism; manufacturing and SMEs; legislation, taxation and governance; banking and financial services; export processing and trade facilitation; energy, transport and infrastructure; and, industrial relations.

(Seng Takakneary, who owns this silk shop is one of the women who has benefited from the forum. Photo Courtesy of Lili Sisombat)
The forum has benefited from the guidance provided by the World Bank’s study which has helped identify gender-specific constraints and has proposed the design of solutions and tools to overcome these. It includes sections on various aspects of business, such as business taxation, secured lending, alternative dispute resolution, special economic zones and trade logistics. The IFC was able to integrate the book’s indicators into the forum program.

The IFC’s work through the forum has been helpful in assisting the 2,000 members of the Cambodian Craft Cooperation with exporting. Members of this group are involved in silk weaving, ceramics, silver working, basket weaving and souvenirs. The program has helped members who were previously domestic traders become exporters, which included 50 silk weavers and five silver workers - all female entrepreneurs. With assistance for the forum, silver products are now exported to the United Kingdom, Germany and Thailand, while silk exports go to Europe, the United States, Japan and South Korea.

In addition to addressing the concerns of female entrepreneurs, the IFC has also partnered with the International Labor Organization (ILO) since 2006 on a program dubbed ‘Better Factories Cambodia’ (BFC) to improve working conditions in the garment industry so they meet international standards. The BFC program, which grew out of a Cambodian-U.S. trade agreement that promised Cambodia improved market access in exchange for better garment industry working conditions, monitors and reports on working conditions; helps factories to improve productivity; and, works with the government and buyers to implement improvements. The program entails unannounced factory visits to check on working conditions and training. There is an information management system for monitoring and reporting on working conditions that helps convince international buyers they can work with Cambodian suppliers without devoting an excessive amount of resources themselves to monitoring compliance.

IFC has supported measures to develop BFC’s business model, conducted financial modeling and taken other steps to ensure the program is viable and competitive and can continue into the future as an independent entity. The focus of IFC’s efforts has been to bring in more international buyers and convince them that having good working conditions in their suppliers raises their reputation and brand value. In addition, the IFC has worked to demonstrate to factories that better working conditions can lead to increased market access. The aim is for BFC to become an independent self-financing entity that will be sustainable over the long term and can continue to serve the industry. IFC’s impact has been the greatest in strengthening the program’s linkages to the market.

The BFC program has been touted by its supporters as an example of showing that compliance with good labor standards can work to the competitive advantage of industry. The IFC has also piloted a management training program in partnership with Gap, by developing a supervisory skills training program similar to one they have implemented in India and Indonesia. The training concentrates on soft skills, such as improving management and communications to boost relations between supervisors and workers.

An independent evaluation of the impact of the training program conducted by Harvard University shows that equipping line supervisors and middle managers with leadership skills has led to better job satisfaction for workers and higher productivity and efficiency. Participating factories have achieved on average 10 percent increases in output. These efforts have turned BFC into a model for other IFC/ILO programs being developed elsewhere.
Climate Change and Trade

For over ten years, international institutions including the World Bank and WTO have worked to mainstream climate change in trade policy through unilateral reforms and international negotiations. The Doha Round of WTO negotiations invited countries to negotiate the reduction or elimination of tariffs and non-tariff barriers (NTBs) on Environmental Goods and Services (EGS). The objective was a “triple-win”: increasing trade, aiding the environment and buoying development. Recent analytical work by the World Bank illustrates some of the gains already made, the potential for larger benefits that are emerging and the challenges developing countries face.

Taking a broad definition of Environmental Goods (EGs) that encompasses around 7 percent of global merchandise trade, and from which goods were identified where tariffs have been reduced by 5 percent or more during the first five years following the commencement of Doha Round (2002-2007), EGs saw an average increase in trade of around 79 percent (equivalent to an average US$10 million per tariff item in each country), providing a glimpse of the potential for trade generating impacts, significant business opportunities in EGs and the potential for encouraging the spread of technologies. Given that the countries that embraced these changes were mostly middle-income countries led by India and China, which had fairly high tariffs on EGs prior to the start of the Doha Round, their trade liberalization in these products reflects a progressive greening of their development strategies. It also shows their quest for developing technological leadership in EGs.

Notwithstanding these real successes, international agreement on a coordinated scheme for liberalizing trade in EGs has proved elusive. While the WTO provided impetus for negotiations, the incentives for individual countries to liberalize trade in these products were not always aligned with the inherent global value of freeing up trade on EGs. Partly, this was a coordination problem. For instance, countries have yet to agree not only on which EGs should be singled out for liberalization, but also how one should think about selecting them. There has also been selection bias in terms of those countries participating in the negotiations: only 11 countries participated in the discussions over lists, all high-income ones except the Philippines. This reflects the reality that environmental problems vary across countries.

If countries could coordinate on lower tariff and non-tariff barriers applied to EGs, the decrease in costs would encourage production, trade and ultimately the use of environment-friendly technologies thereby stimulating innovation and technology transfer. With the lowering of barriers in high-income countries, developing countries could more easily produce and sell EGs in the markets of high-income countries and also buy high quality EGs from global markets. Making environmental goods cheaper and more accessible to all would in turn raise global energy efficiency, improve water and sanitation in developing countries, and reduce emissions.

7 EGs range from products good for the environment such as biodegradable material those that go into the making of environmentally friendly products, e.g. components for the manufacture of a wind turbine.
IV. Looking forward

In line with the new Trade Strategy, the World Bank will build on its current package of AfT support but with a stronger focus on the “software” (regulatory) dimensions of trade, transport and facilitation projects; more emphasis on sector-specific interventions in the context of competitiveness projects, including services; and, greater focus on regional integration of markets. Greater support to improving connectivity will also be an essential part of World Bank AfT going forward with the objective of increasing the benefits of trade for the poor, including projects to reduce trade transactions and information costs (such as trade facilitation, infrastructure, etc.) that limit their integration with both domestic and global markets as well as supply chains. The costs of connectivity are often fixed, and so disproportionately affect small firms, farmers and the poor, prohibiting their participation in trade and limiting inclusiveness. Tackling trade costs is therefore crucial because they have a direct bearing on poverty reduction.

Much of this work has already started. For example, under the World Bank’s Trade Facilitation Facility (TFF), trade facilitation audits are being carried out by a number of African countries. In the Democratic Republic of Congo, an audit of procedures that applied to imports and exports was carried out together with an institutional review of all organizations involved in trade procedures. A remedial strategy was prepared that will be implemented over the next few years. The strategy has been integrated into the forthcoming PRSP and the findings of the work have been included in the Country Economic Memorandum which provides the basis for the World Bank’s policy dialogue with the country over the next 3-4 years.

In West Africa, the TFF is supporting the implementation of an Authorized Economic Operator Scheme for Côte d’Ivoire, Ghana, Togo, Benin and Nigeria to reduce cargo lead times for compliant traders as well as greater reliability which will reduce their inventories and lower costs.

Also under the TFF, the East African Community Financial Sector Development and Regionalization program (EAC FSDRP) is supporting the broadening and deepening of the financial sector through the establishment of a single market in financial services among EAC countries with a view to making a wider range of financial services available at competitive prices. The program aims to benefit financial markets in the member states by facilitating financial services trade between services providers and services buyers. The program will also facilitate cross-border trade by improving the interoperability of market infrastructure and will monitor the volume of cross-border payment transactions through its activities.

Finally, aid effectiveness remains a central issue for the World Bank’s trade support activities as well as in the wider AfT initiative. The World Bank Group will therefore continue to strengthen its focus on achieving results from AfT through providing more consistent monitoring and impact evaluation at the country level. Impact evaluations help answer crucial questions for evidence-based trade policymaking, namely, what works, what doesn’t, where, why and for how much? Indicators recently developed by the World Bank provide useful metrics to monitor progress in many areas. For instance, improvements in border modernization and trade facilitation can be assessed partly through better Logistics Performance Index scores. Reductions in non-tariff barriers to trade can be monitored through its services trade restrictiveness and NTM databases. Competitiveness outcomes can be monitored through transaction-level databases developed with customs administrations. Critical information on the contribution of trade to poverty reduction and gender can be garnered by linking trade data to household surveys. The
World Bank is devoting attention to further developing and refining the accuracy of these and other available metrics.

Impact evaluation methodologies, however, routinely employed in areas such as health and education, have yet to be mainstreamed in trade-related interventions. Preliminary work at the World Bank on impact evaluation is happening on two fronts.

First, assessments of the feasibility of impact evaluation are being carried out for a generic menu of trade-related interventions. A challenge to impact evaluation in the area of trade is that many programs and policy reforms are introduced at the country or industry level and are therefore not amenable to, for example, randomized experiments. However, it is also the case that some countries implement reforms gradually, starting in a small set of locations before extending to all. The impact of such staggered reforms can be rigorously evaluated by using locations where reforms are to be introduced later as a control group for the locations where reforms are introduced earlier. Similarly, ex-post evaluation of programs and policies is a possible approach provided that both information on which firms received support from a program, or were directly impacted by a policy, as well as on the entire (or a large portion of the) universe of firms are available.

Secondly, the World Bank is conducting impact evaluations. One example is an evaluation of its export development program in Tunisia (see Section III). Tunisia’s export promotion program (FAMEX) started in 2005 with the stated objective of providing export marketing assistance to help firms i) start exporting; ii) diversify their markets; and, iii) develop new products for export. Eligible firms were required to submit an export development plan to FAMEX which would evaluate it. If the plan was accepted, FAMEX would provide the firm with a matching grant covering 50 percent of its export development costs (up to a ceiling). FAMEX received 1,710 applications and accepted 1,231 of them from 1,060 firms. The evaluation of the FAMEX program – though still preliminary - has uncovered some surprising facts: the impact of export promotion assistance can be short-lived. Indeed, export diversification can lead to over-diversification with negative effects for some firms. And export promotion can have negative spillover effects for firms that do not benefit.

Impact evaluation of AfT is both desirable and feasible. It requires: i) a high degree involvement of staff from the World Bank, partner agencies and developing countries; ii) resources in support of baseline data collection prior to the launch of a program for the purpose of evaluation; and, iii) continued research into impact evaluation methodologies for trade-related interventions and actual evaluation of projects.