

Aid for Trade and the World Bank

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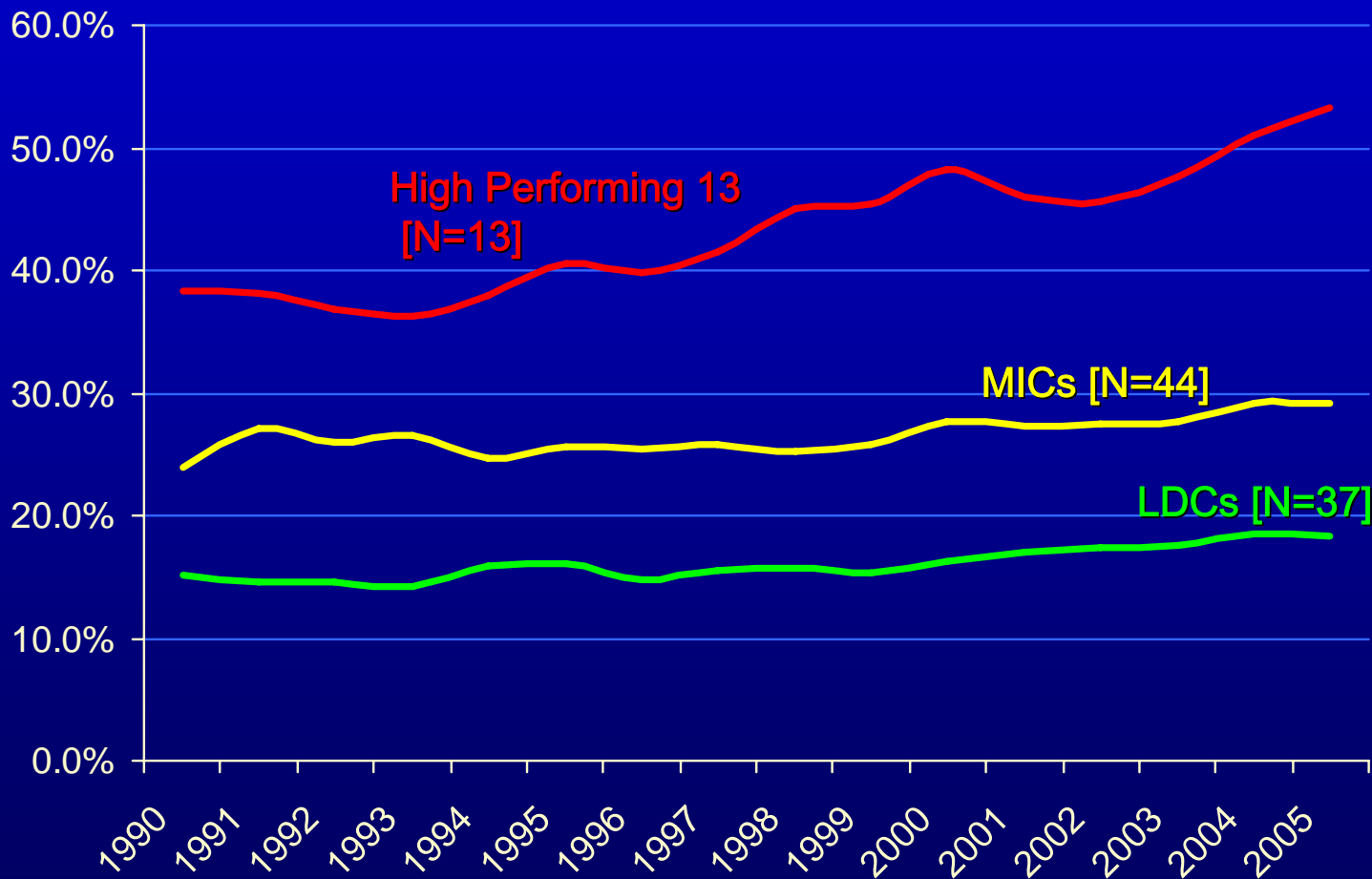
March 19, 2008

Central points

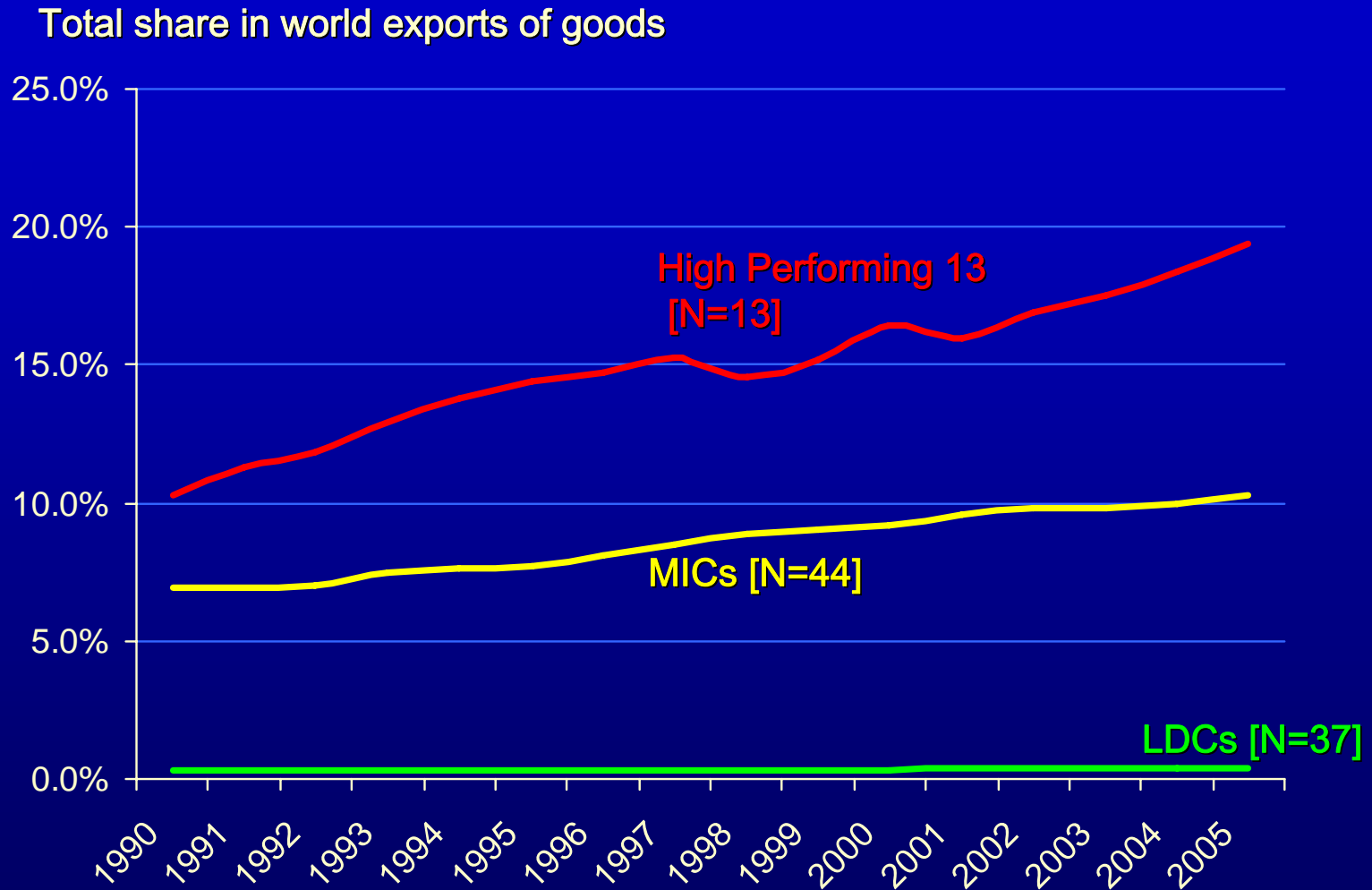
- Many poor countries have leveraged the global economy for growth
 - but moving to high sustained growth path requires not only market access, but improvements in competitiveness
- Aid for trade can help countries overcome supply side constraints – and amounts available are likely to increase
- World Bank is a leading provider of aid for trade
 - but countries have to make improving competitiveness a pillar of their growth strategies

Most developing countries have only started to make use of the potential of international trade...

Average ratio of exports / GDP



Even middle income countries have underperformed fast-growing countries

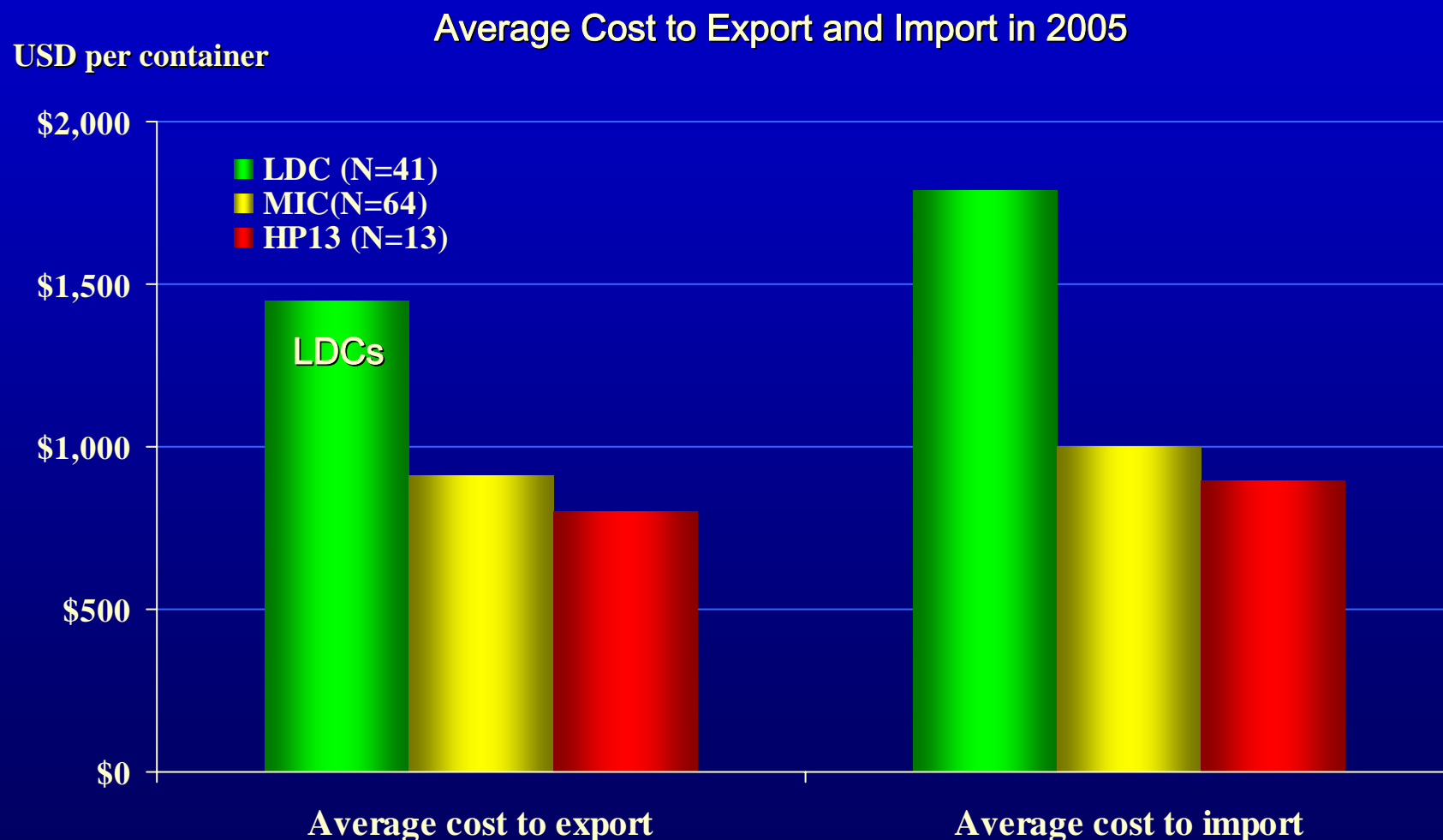


Several reasons explain this performance...

- Market access abroad is one
- Domestic factors
 - Trade-related **institutions** may cause delays and drive up costs
 - **Infrastructure** may constraint efficient exports
 - Taxes, tariffs, and other policies may create **incentives that discourage private investment in exports**

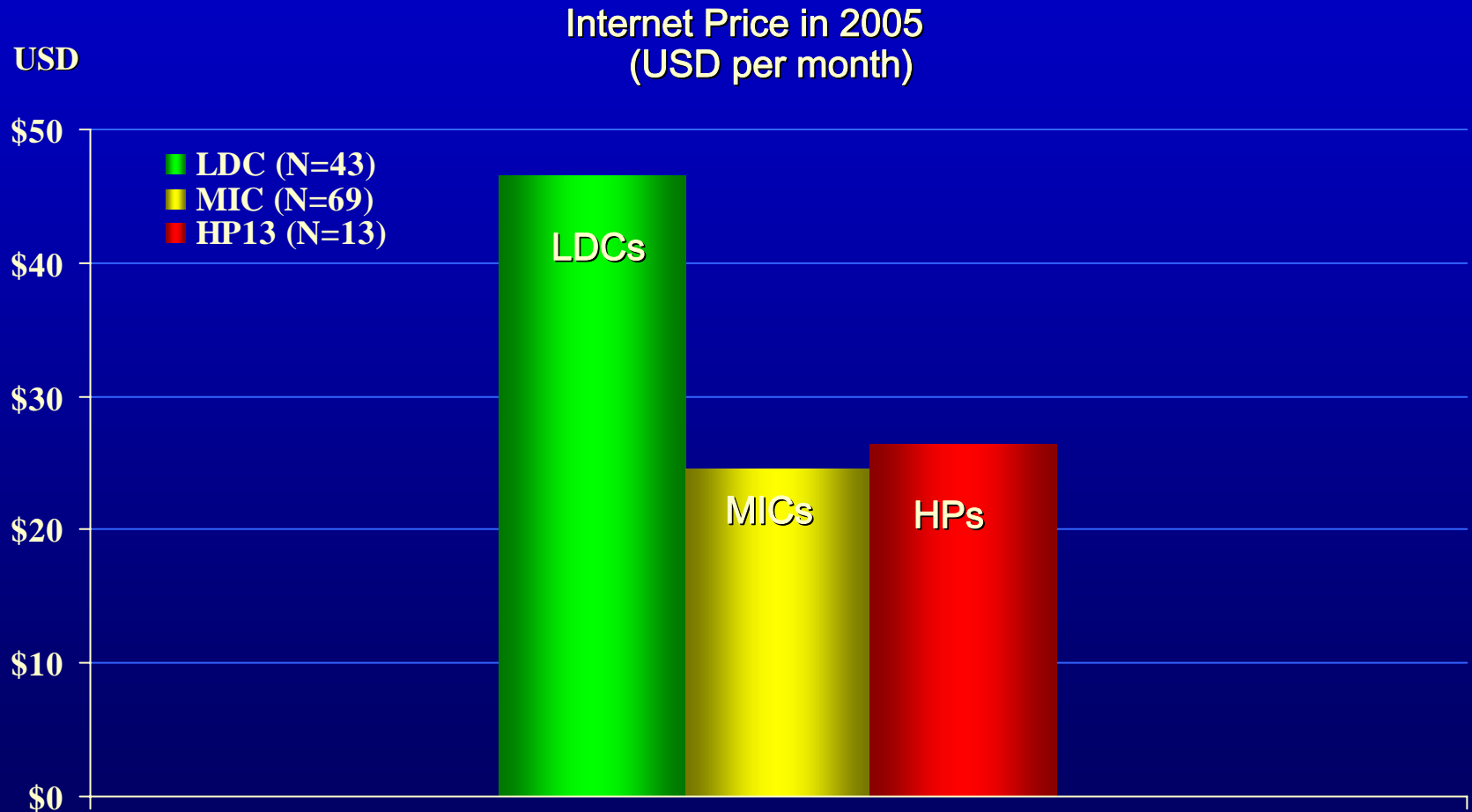
Government programs to improve competitiveness should contain reforms that improve all thee of these elements

Trade-related institutions cause delays...and cost money



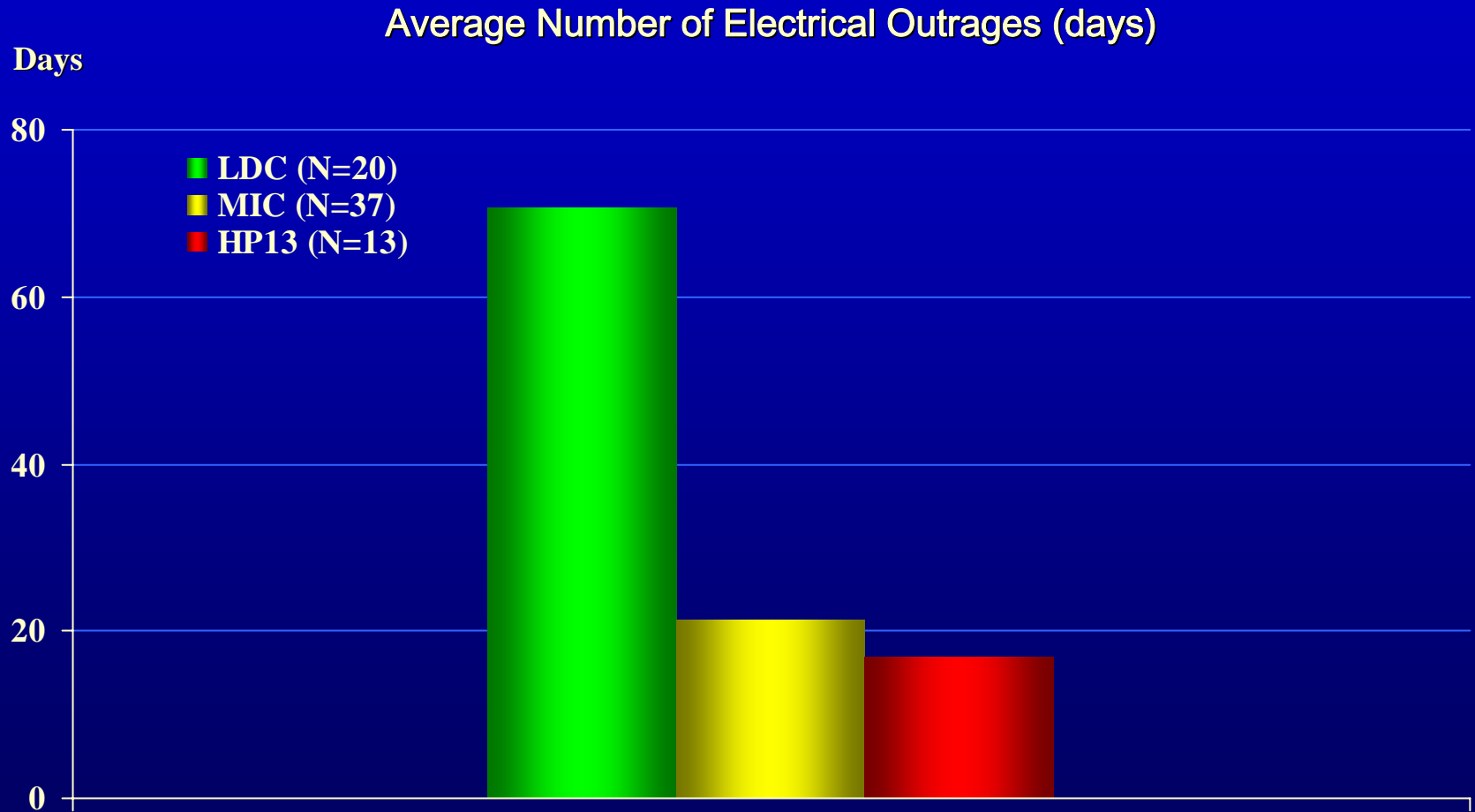
Source: Bank staff calculations based on data from Doing Business Report 2006.

Lack of quality services hampers exports



Source: Bank staff calculations based on data from WDI.

Lack of quality services hampers exports



Source: Bank staff calculations based on the latest data available from Enterprise Surveys.

Aid for trade can help alleviate supply side constraints and improve competitiveness...

- Designing programs to improve competitiveness
- Investments in trade-related infrastructure
- TA to improve trade-related institutions

- Aid for trade is large – some \$24 b. according to the OCED (30% of total ODA)
- Available resources are likely to increase
 - Gleneagles pledges will expand overall envelop
 - WTO efforts since Hong Kong to raise awareness
 - IDA 15 has increase WB resources by 30%
- But taking advantage of these resources requires governments to make improving competitiveness central to their development strategy (Not decided in Geneva, but in countries in the developing world)

But quantity of investment is only part of the solution...quality matters



The World Bank's role...

- **Provide financial resources for investment**
 - directly through loans
 - Indirectly – guarantees and insurance
 - WB is largest source of aid for trade to low-income countries
- **Provide knowledge about what works in poverty reduction and what doesn't**
 - through policy advice
 - technical assistance
 - bringing people together
- **Provide “public goods”**
 - Data and comparative indicators of policy (trade, finance, doing business, debt)
 - Research into what works and what doesn't
 - Advocacy of global policies that affect poor
 - Global environmental work and infectious



Ways the World Bank supports government programs to improve competitiveness...

- Country studies
- Regional studies

Comprehensive
Trade
Diagnostics

- Policy
- Sector loans
- Project loans

Programmatic &
Infrastructure
Lending

Goal: Helping
governments
leverage trade to
faster growth

- Small projects
- Technical assistance

Trust Fund
Activity

World Bank is the largest provider of aid for trade to LICs, providing \$3.0 b.

World Bank programs: An Illustration of Multidimensionality

- *Concessional lending*: \$ 3.1 billion lending (WTO/OECD, 2007)
- *Development policy lending*: \$1.7 billion (2002-2005) (WTO/OECD)
- *Nonconcessional lending* for economic infrastructure: 4.7 b.
- *Training*: Over FY 2006-07, the WBG held an average of 48 trade-related training courses (around 14,000 participant training days per year),
- *Technical assistance activities* (free-standing): 36 per year in 2006-2007
- *Analytical and policy advice* (policy notes, country studies, regional studies): 72/year
- *Guarantees* to leverage private finance: For example, Global Trade Finance Program \$1 b. revolving fund to stimulate trade financial flows to developing countries
 - on 87 banks in 48 developing countries.
 - Provided US\$770 million of guarantees in FY07, set to increase to US\$1.3 billion in FY08.
- *Trust funds*, for example
 - Standards Forum Trust Fund
 - IF and EIF
 - Multi-donor Trust Fund
 - Africa Catalytic Growth Fund

Global public goods: Doing Business, Overall trade restrictiveness index; WITS

Key lessons from experience in aid for trade

- Improving competitiveness is central to achieving high and sustained growth rates
- Aid for trade can help, but country ownership of the competitiveness agenda is critical success
- Bank's role is to support government programs with diagnosis and finance. Government should set loan conditions to achieve project milestones

What are the Origins of the World Bank?

As an International Organization

- born after World War II as the International Bank for Reconstruction and Development
- to help countries reconstruct after the war -- focus on infrastructure and industry
- part of the extended UN family, but separate governance structure
- owned by 185 countries with votes according to paid in capital
 - US largest shareholder (16%)
 - Japan now second largest (15%)
 - 24 Executive Directors



The World Bank Group comprises five organizations

THE WORLD BANK GROUP

International Bank
for Reconstruction
and Development (IBRD)



- Supports middle-income countries
- Provides loans at AAA terms plus cost spread
- Funded through bonds, backed by shareholder capital

International
Development
Association (IDA)



- Supports the world's poorest countries
- Provides soft-loans and grants plus debt relief
- Replenished every 3 years by donors and through IBRD income

International
Finance
Corporation (IFC)



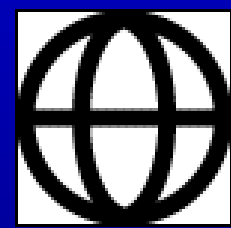
- Supports the private sector in developing countries
- Provides loans and equity investments
- Funded through bonds, backed by shareholder capital

Multilateral
Investment
Guarantee Agency



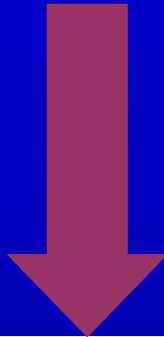
- Supports investors in developing countries
- Provides political risk insurance
- Backed by shareholder capital

International Center
for the Settlement of
Investment Disputes



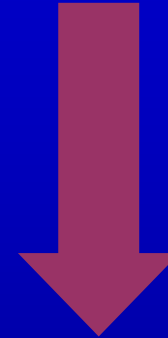
- Offers mediation and arbitration services for investors in developing countries

Where does the World Bank get its money?



IBRD

- Accounts for $\frac{3}{4}$ of Bank's annual lending
- Raises money by selling AAA-rated bonds and other debt securities
- Charges interest that reflects the cost of borrowing, plus small mark-up
- Loans are repaid in 15-20 years



IDA

- Current FY07 IDA cutoff point is at US\$ 1,025 (2005 GNI per capita)
- Established to provide concessional assistance to countries that are too poor to borrow commercially
- Donors replenish IDA every three years
- Borrowers pay an administrative fee (less than 1%)
- Repayment is required in 35 to 40 years

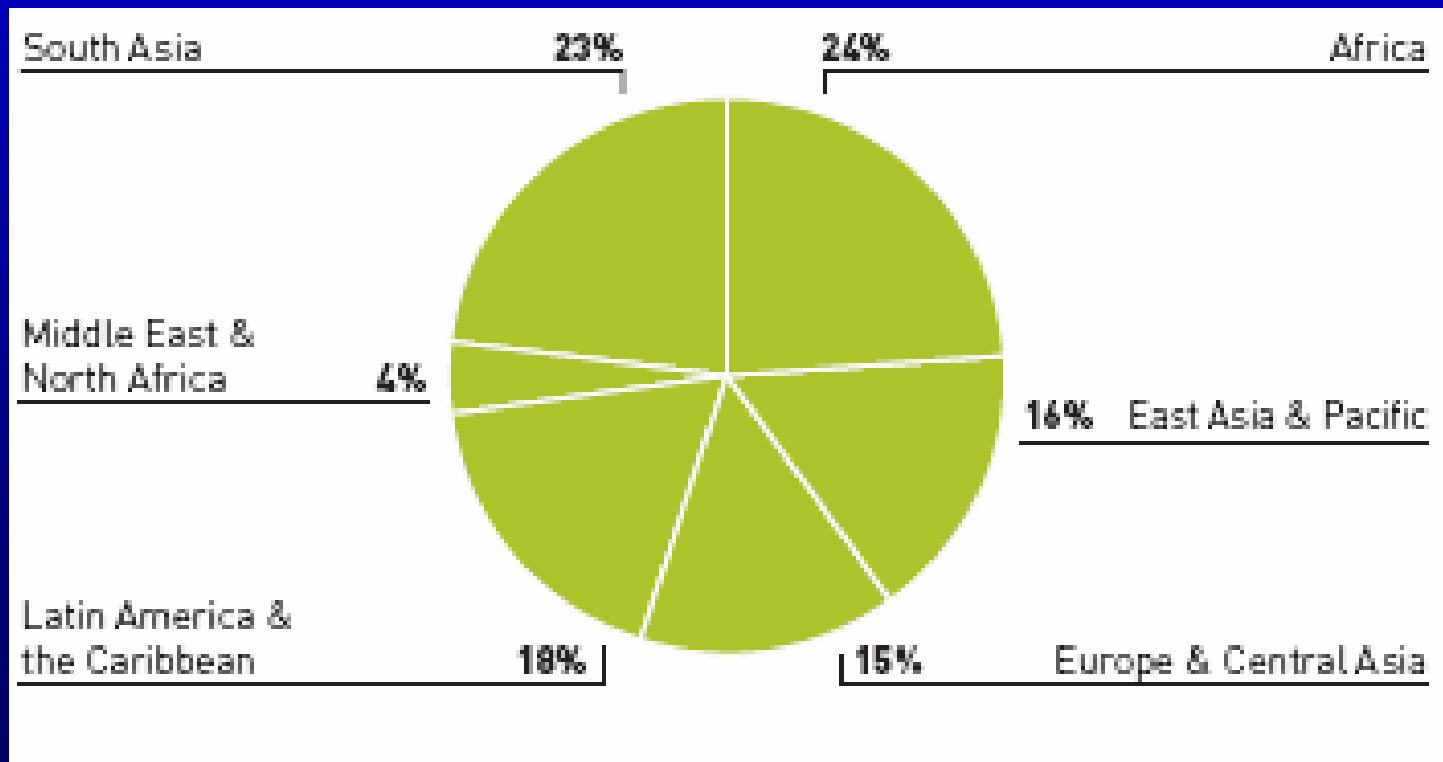
Many countries have successfully graduated from IDA over time

- 32 countries have graduated from IDA throughout its history, ceasing to borrow from the Association:
 - 9 have since “reverse graduated,” or reentered IDA
 - 2 former IDA borrowers are now IDA donors: Korea and Turkey

Country	Year of Last IDA Credit	Year of Reverse-Graduation to IDA	Country	Year of Last IDA Credit	Year of Reverse-Graduation to IDA
Chile	FY61		Tunisia	FY77	
Colombia	FY62		Jordan	FY78	
Costa Rica	FY62		Thailand	FY79	
Nigeria	FY65	FY89	Honduras	FY80	FY91
Cote d'Ivoire	FY73	FY92	Indonesia	FY80	FY99
Dominican Republic	FY73		Cameroon	FY81	FY94
Korea	FY73		Nicaragua	FY81	FY91
Turkey	FY73		Congo	FY82	FY94
Botswana	FY74		Papua New Guinea	FY83	FY03
Ecuador	FY74		Zimbabwe	FY83	FY92
Syria	FY74		Eq. Guinea	FY93	
Mauritius	FY75		Philippines	FY93	
Morocco	FY75		St. Kitts	FY94	
Swaziland	FY75		China	FY99	
El Salvador	FY77		Egypt	FY99	
Paraguay	FY77		Macedonia FYR	FY02	

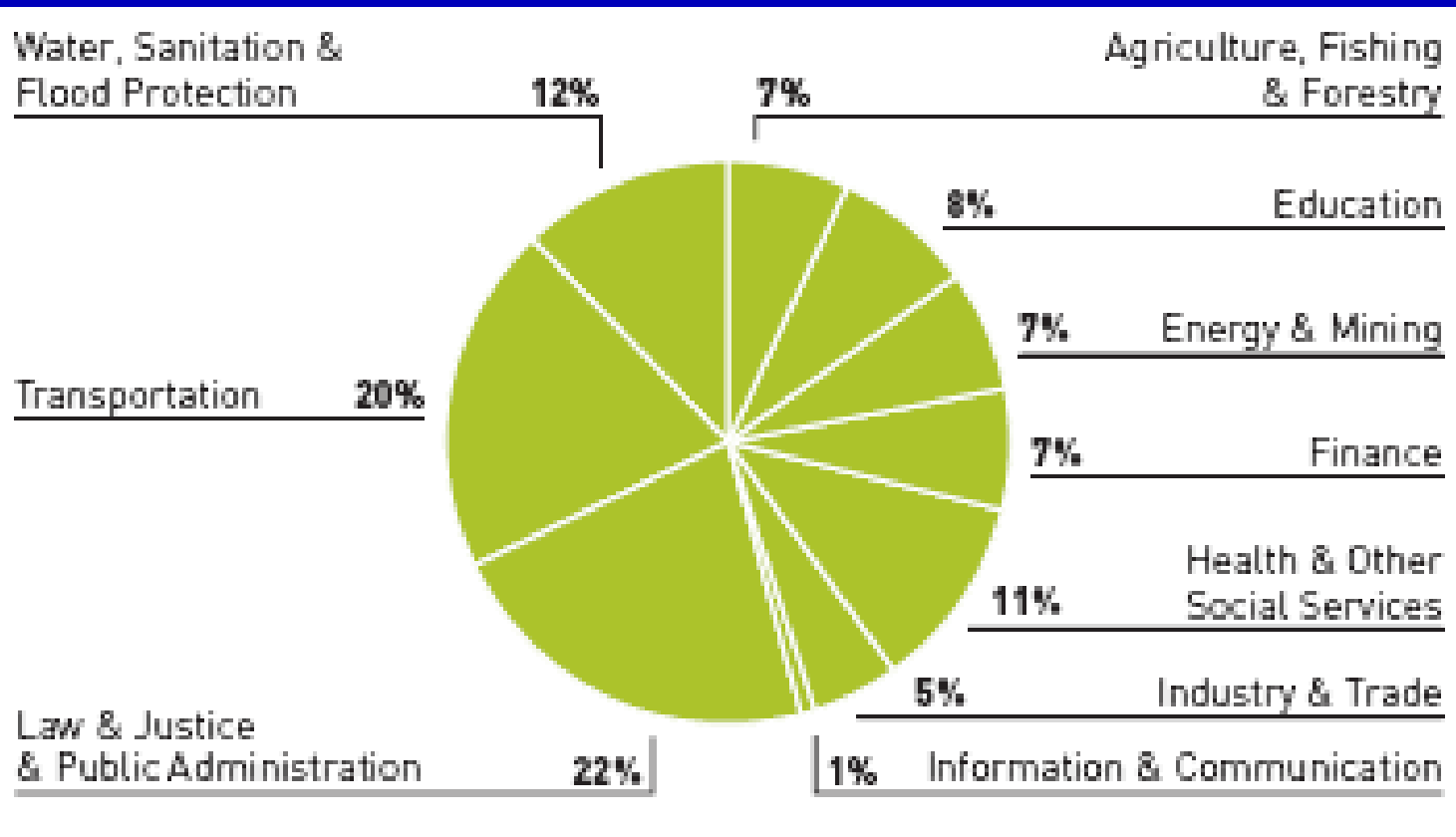
Where does the money go?

IBRD and IDA Lending by Region, FY 2007
Share of Total Lending of \$ 24.7 billion



How is the money used?

IBRD and IDA Lending by Sector, FY 2007
Share of Total Lending of \$ 24.7 billion



Conclusion...

- Improving supply side impediments to export growth is as important – if not more so – than increasing market access abroad, and aid for trade can help
- Aid for trade is likely to increase sharply because of the Doha round and because of increases in overall development assistance
- The World Bank is ready to work with all countries in developing programs to improve their competitiveness to use trade to drive growth

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