INDEPENDENT EVALUATION GROUP

IEG REACH

MARCH 28, 2006

Based on IEG's *Evaluation of World Bank Support for Trade, 1987-2004.*

Evaluating Trade

- Country reforms with Bank support since the 1980s have been instrumental in reducing distortions and relaxing import constraints. They have been less successful in improving systematically export performance and diversification, notably in Africa. The Bank's renewed focus on trade since 2001 has been marked by high-quality research and advocacy on behalf of developing countries. The challenges are to build effective capacity in trade and to make trade an integral part of country development strategies.
- The Bank has been an important source of financial and technical support to many countries on trade. The Bank's strategy has evolved from analytical and advisory work and lending towards a broader approach including advocacy and participation in the global dialogue on trade. Bank support and analytical work has focused on trade liberalization, trade facilitation (infrastructure and institutions), and trade finance.
- This evaluation calls for greater attention to poverty-distributional outcomes associated with trade policies. It also calls for a re-balancing of the links between the global and country agendas. It recommends greater synergies among units of the Bank that deal with trade and related issues.

Economists have long viewed international trade as an engine of overall growth. Greater volumes of trade among countries have partly fuelled the global economy's expansion and increased wealth for many of its members. The distribution of gains from trade has been, however, unequal.

The Bank's Role

The Bank's interest in trade has gone through three phases during which its approach has been quite different. During the first phase (the 1980s and early 1990s), the World Bank played a significant role in reforming developing country trade policies and in supporting trade-related institutions and infrastructure. During the second phase (the mid-to-late 1990s), the Bank's emphasis on trade declined, although the impact of earlier trade reforms was still playing out. Analytical work on trade and (to a lesser extent) new lending was less than in the first phase. In 2001 the Bank re-appraised its trade activities and intensified its focus. This most recent phase has focused on the global trading system and emphasized trade-related research, advocacy, capacity building, and mainstreaming trade in Bank operations.

Since 1987, the Bank has assisted 117 countries to strengthen their external competitiveness and better integrate into the global economy through over 500 loans and credits. This financing was accompanied by a large volume of operational analytical work and research on trade-related issues. From an initial focus on trade liberalization, the Bank has shifted towards greater support for trade facilitation (physical infrastructure and institutions).

Key Lessons and Findings

Eighty-six percent of all trade adjustment loans and 69 percent of trade investment loans were rated satisfactory on outcome (respectively better and slightly worse than comparable Bank projects). All trade loans have improved in performance over time. Project data suggest that the Bank's support contributed to relaxing the import constraint.

However, cross-country analyses and case studies found outcomes varied across countries depending on initial conditions, country ownership, the degree of macroeconomic stabilization, the existence of prior analyses, and the quality of trade-related institutions. IEG also found that the Bank underestimated the complexity of complementary reforms in the investment climate, paid inadequate attention to external factors, and gave insufficient attention to analyzing the poverty-distributional outcomes. While economic growth often improved after liberalization it could not always be attributed to an improved export supply response, but rather to more general efficiency gains from removing trade-related distortions.

Turning to the 2001-2004 period, IEG found the Bank's trade-related **research** to be of high quality and often innovative (in new fields such as trade in services, agricultural standards, and regionalism) and timely (on the multilateral trading system). But the Bank was initially slower to research the micro-level dynamics associated with trade policies.

The Bank has become a more vocal **advocate** for developing countries on global trade issues and surveyed WTO members suggested that it had contributed to increasing awareness of the issue. But the initial strong focus on agricultural subsidies left out related areas in the agenda that also affect poorer developing countries (such as non-agricultural market access).

The Bank is meeting its **trade-related capacity building** objectives unevenly. WBI has scaled up its training activities. However, the most prominent intervention, the Integrated Framework initiative, has found it difficult to move from diagnosis to harmonized implementation, which has been slow.

With respect to **mainstreaming trade**, the Bank responded quickly to the new corporate focus on trade by keeping up with the WTO negotiations, helping to catalyze a rapid increase in trade-related analytical work and building an effective alliance between PREM and the transport and rural development units on trade logistics and standards. Mainstreaming trade in CASs and sector activities and strategies has been slower and will require stronger support from country management units.

Recommendations

- To ensure that Bank advice on trade issues is consistent with the institution's poverty reduction mission, be more systematic about assessing ex-ante possible trade-related poverty-distributional outcomes in both economic and sector work and in lending operations, drawing on a range of multi-disciplinary expertise. A more systematic program of research on micro-level adjustment to trade policies, looking at firms, households, and individuals is also needed.
- To strengthen implementation the Bank may need to revisit the balance between the global and country agendas and strengthen operational links on trade issues. Particularly important is the need for enhanced cross-fertilization among the PREM, financial and PSD vice-presidencies, particularly in the area of services liberalization, and strong support from country directors.
- The evaluation also recommends that the Bank strengthen knowledge management efforts. Greater sharing of country experience (as has been done in the area of agricultural standards), and better integration of trade work done in the center with country level work on agriculture, labor markets and private sector development will be critical.

The Management and External Advisory Panel Responses

Management finds the characterization of the different dimensions of mainstreaming trade useful and agrees that incorporating trade as a part of growth and poverty reduction strategies in country programs remains a challenge. Management agrees that poverty and social impact analyses can be important, but sees PSIAs as being mainly a tool for use by clients. It also believes the review goes too far in its recommendations on how to deal with the issues of adjustment and the high focus on it.

The External Advisory Panel commends the transparency and thoroughness of the IEG evaluation and process, and the strong underpinning evidentiary base. The Panel highlights outstanding ambiguities in the Bank's strategy: domestic reform versus market access; the role of different sectors in growth and labor market adjustment; the role of trade policy differentiation between countries; and the need for liberalization in rich versus poor countries. Clarifying these issues, and adding the focus on micro-issues, as well as adjustment and poverty, could create a credible trade policy framework for the World Bank.

Task Manager: Yvonne Tsikata

Senior Manager, IEGCR: R. Kyle Peters • Director: Ajay Chhibber
IEG Reach available @ http://worldbank.org/ieg