WHAT WORKS

IEG Independent Evaluation Group
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Grow with the Flow

An Independent Evaluation of World Bank Group Support to Facilitating Trade 2006-17

PRÉCIS

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CASE STUDY


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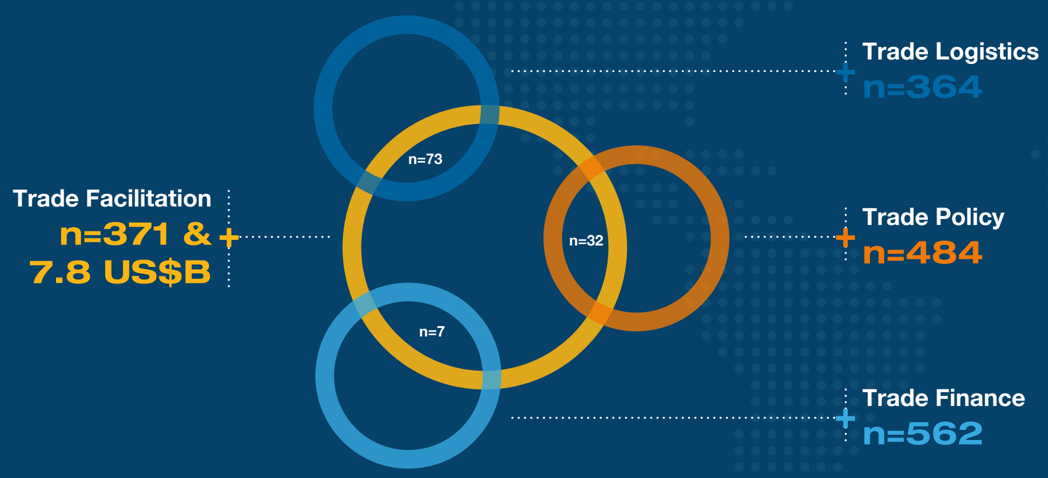
Trade facilitation is important to addressing poverty alleviation and shared prosperity

Making the benefits of international trade more accessible to client countries can help achieve the World Bank Group's twin goals of reducing extreme poverty and promoting shared prosperity. Trade facilitation reduces the logistical, formal, regulatory, and financial impediments to participating in global and regional markets. Lowering the cost of international trade can increase trade flows, which in turn can promote economic growth. Such trade facilitation reforms are especially beneficial to poor countries: the World Trade Organization (WTO) estimated that it can reduce trade costs by 15 percent for low- and middle-income countries.

As tariffs and explicit quotas have been lowered under the WTO, attention has increasingly turned to non-tariff impediments that add to the cost, add uncertainty, and disrupt the flow of trade. Key impediments include inefficient agency practices and procedures, poor rules, and deficiencies in border infrastructure.

World Bank Group Portfolio of Trade Facilitation and Related Areas



IEG's evaluation examined the World Bank Group's work on trade facilitation over a 12-year period

The Bank Group's trade strategy explicitly seeks to make trade less costly. In addition, as a leading technical partner to the World Trade Organization (WTO) during the Trade Facilitation Agreement process, the Bank Group has provided technical support to member countries working to meet the requirements of WTO membership.

Defining Trade Facilitation

Standard definitions of trade facilitation can include reform of all aspects of logistics, export promotion, trade finance, and trade policy. Based on the literature review and expert interviews, IEG's working definition of trade facilitation for this evaluation is: Streamlining and harmonizing the activities, practices and formalities required for international trade and associated payments and border logistics while safeguarding legitimate regulatory and policy objectives (for example, protecting public health and the environment). The scope of the definition involves several elements:

Development and implementation by relevant agencies of cost-effective, trade-friendly clearance processes and procedures that uphold regulatory control.

Extension of risk management and selective intervention techniques to all agencies operating at the border.

Compliance improvement regimes that employ a mix of incentives (rewards) and disincentives (punishments) to encourage higher levels of voluntary compliance.

Design, deployment, or improvement of hard infrastructure and information technology to achieve cost-effective border clearance.

WORLD BANK GROUP'S WORK ON TRADE FACILITATION

893 projects

$8Billion

12years
evaluation period
2006 to 2018

THE INSTITUTION'S FOCUS WAS ON IMPROVING THE TRADE COMPETITIVENESS OF ITS CLIENT COUNTRIES BY REDUCING TRADE COSTS TO THEIR BUSINESSES.

More broadly, since tariffs and quotas have been reduced under the WTO, the Bank Group has focused its attention on non-tariff impediments to trade, especially excess transaction costs, operational costs, and regulatory restrictions. In addition to lowering the costs of trading for firms, the Bank Group has helped countries improve trade logistics, policy, and finance, through its policy dialogue, investment, and advisory work, and through activities intended to reform the investment climate more broadly.

This evaluation assesses the development effectiveness of the Bank Group's support for trade facilitation and the connection of trade to the Bank Group's twin goals. the World Bank Group has engaged in 893 trade facilitation interventions across the entire range of trade facilitation: port infrastructure, automation, border operations, agencies, and infrastructure; and simplification of rules and procedures.

The Bank Group's interventions amounted to almost $8 billion in value

World Bank lending accounts for about 60 percent, and IFC lending for about a third of commitments and projects. During the same period, 9 MIGA guarantees and an estimated 401 Advisory Services and Analytics engagements were delivered.

The World Bank supported trade facilitation through investment lending and development policy in almost equal proportion. Technology and rules were mostly supported through policy operations, and border agencies and infrastructure mostly through investment lending. Ninety-eight percent of IFC trade facilitation investments focused on border infrastructure, while 14 of 18 MIGA interventions supported border operations. More than a third of trade facilitation projects included interventions related to logistics or policy.

The Bank Group's support for trade facilitation generally went to the places where it was most needed and where it was likely to have the greatest effect. In lower-income countries, support emphasized "soft" reforms of agencies, operations, and rules; in wealthier countries it focused more on "hard" infrastructure such as port improvements.

Sub-Saharan Africa received the most country-level support, though the countries with the highest number of projects each were in South Asia. The Bank Group also supported regional trade facilitation projects, which accounted for 12 percent of the portfolio; these were mostly World Bank lending operations in Sub-Saharan Africa.

The Bank Group's analytical work, research, and partnerships provide global public goods, including two leading indicator sets of trade costs –the Doing Business Trading Across Borders indicators and the Logistics Performance Index. It plays multiple roles as a thought leader, convener, and honest broker.

IEG's review of country strategies shows a high degree of alignment between trade facilitation activities targeted in the strategies and subsequent Bank Group support. The evidence gathered in this evaluation suggests that the Bank Group's interventions in support of trade facilitation have been successful. Most projects supporting reforms achieved their development objective, and all the Bank Group institutions exceeded their corporate scorecard targets.

IEG finds the Bank Group's interventions positively associated with country-level development outcomes over time

The Bank Group's interventions are positively associated with a lowering of transaction costs in international trade across the entire spectrum of trade facilitation reforms, from port investment and management to harmonization of standards to automation and simplification of rules and regulations.

IEG finds the Bank Group's interventions positively associated with country-level development outcomes over time.

Projects supporting trade facilitation reforms achieved their development objectives

World Bank Group projects supporting trade facilitation reforms achieved their development objective, and all three institutions exceeded their corporate scorecard targets.

- The World Bank's investment lending appears to be substantially more effective than its policy operations.
- At the trade facilitation intervention level, the overall success rate averaged 79 percent.

While the World Bank Group's achievements have contributed to lower trade costs and have generated associated benefits, a rigorous analysis suggests a more nuanced picture of what World Bank Group interventions work, where, when, and in what combinations:

- Successful trade facilitation reforms benefit from support to complementary areas of intervention and support over time. Yet, few projects are designed with such a systematic approach.
- In a context with diverse agency incentives and objectives, strong political support and active coordination play a pivotal role in ensuring the necessary level of integrated activity and information exchange to make trade facilitation successful. Yet, in practice, the World Bank Group has not systematically applied its tools for engaging with and coordinating among diverse stakeholders.
- Many trade regulations are intended to serve socially beneficial purposes such as enhancing public health, safety, and the environment, or reducing informality and corruption. However, insufficient attention has been paid to such objectives and only compliance costs are routinely monitored. Improvements in trade services do not appear to be linked with Doing Business measures of the formal costs or the number of documents required for imports or exports.
- Although some trade regulations can be unnecessarily and excessively burdensome or protectionist, many have social, security, health, safety, and environmental objectives, and consequences to their effective enforcement. Only a minority of Bank Group interventions focus on these dimensions of trade facilitation. IFC trade facilitation advisory operations show a similar lack of attention to the broader policy objectives of trade regulations, focusing solely on compliance costs.
- Current sets of trade facilitation indicators generated and/or used by the World Bank Group each have their strengths, but also have weaknesses in tracking reforms. Having two different rating systems can confuse or frustrate counterparts and clients.

Recommendations

RECOMMENDATION 1

Promote an approach of complementary (simultaneous and/or sequential) interventions in trade facilitation reforms in countries where trade is a client priority and the World Bank Group has a comparative advantage, substantiated by consistent diagnostics, to enhance the effectiveness of reforms.

RECOMMENDATION 2

Identify and mitigate political economy constraints to trade facilitation reform implementation through systematic application of its tools for stakeholder analysis and consultation (including public-private dialogue).

RECOMMENDATION 3

Systematically apply a risk-based approach to identify and monitor the public policy objectives of trade regulations relating to public health, safety, the environment, good governance, formality, and the rule of law and specifically identify the stakeholders potentially impacted by the reforms and the extent of the impact.

RECOMMENDATION 4

Rationalize its own two major trade facilitation indicator sets to build on the virtues of each and to enhance their responsiveness to implemented reforms.

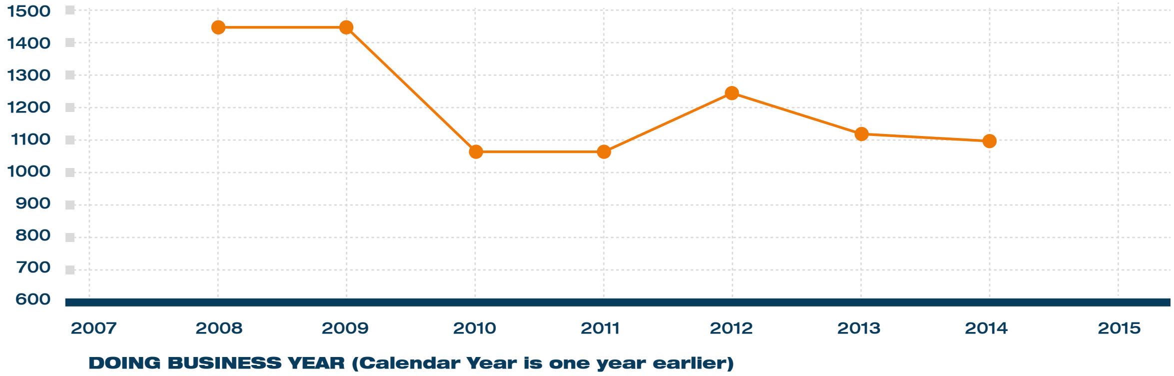
Country Case Study

Grenada – success not sustained…

Grenada was initially a success story, where World Bank Group assistance in trade facilitation likely would have contributed more over time to trade growth if it had been more broader and more sustained. Beginning in 2008, the Bank Group provided Grenada and other Eastern Caribbean states technical assistance and advisory services (through both IFC and the World Bank) to streamline and automate trade facilitation and logistics. From 2009 to 2012, Grenada was credited with making trading faster and easier by accepting electronic documents, streamlining procedures, reducing inspections, improving training and communications, and implementing the ASYCUDA world customs automation system. Grenada's Doing Business "Trading Across Borders" ranking jumped from 79th in the world in calendar year 2009 to 40th in calendar year 2011.

Yet by calendar year 2014, Grenada had slipped to 138th in the world. When IEG visited Grenada in 2015, a customs official informed the team that the technical support and software were very good, but not enough to sustain reform momentum in the customs agency and beyond: "What we really need is help with cultural change," the official said.

Grenada: Export Cost per Container (Constant US$)



Country Case Study

Long-term engagement on trade facilitation in Lao People's Democratic Republic

After trade liberalization and greater regional integration, the government made trade facilitation a priority. From 2006 through 2017, the Bank Group provided continuous support through analytical work, lending and grants, both investment and policy operations to:

- Improve the efficiency and effectiveness of customs administration
- Simplify, modernize, and standardize non-customs border operations
- Improve trade facilitation policy, interagency coordination, and government capacity

Results:

- Between 2009 and 2016, average border clearance times fell from 17.9 to 6.5 hours
- Improved Government capacity to manage trade-related reforms
- Installed/implemented ASYCUDA at all major border points
- Introduced Trade Information Portal linking all trade-related information for stakeholders
- Lao People's Democratic Republic acceded to the WTO in 2013 after a 15-year process

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