

**AN INDEPENDENT EVALUATION OF WORLD BANK GROUP  
SUPPORT TO FACILITATING TRADE 2006-17: GROW WITH THE  
FLOW**

**DRAFT MANAGEMENT RESPONSE**

**FEBRUARY 13, 2019**



# AN INDEPENDENT EVALUATION OF WORLD BANK GROUP SUPPORT TO FACILITATING TRADE 2006-17: GROW WITH THE FLOW

## DRAFT MANAGEMENT RESPONSE

1. The Managements of the World Bank Group (WBG) institutions welcome the report by the Independent Evaluation Group (IEG), *An Independent Evaluation of World Bank Group Support to Facilitating Trade 2006-17: Grow with the Flow*. The report provides an overall positive assessment of the WBG's past efforts in promoting trade facilitation and acknowledges the broad scope of the WBG's work program and its focus on countries with the greatest bottlenecks. The Managements are pleased with the report's recognition of the WBG's contribution to a substantial lowering of international trade costs, as well as its thought leadership and convening power. The Managements of the WBG institutions acknowledge and are broadly in agreement with IEG's recommendations.

### World Bank and IFC Management Comments

2. **Comprehensive approach.** Management agrees that trade facilitation reform may require a series of interventions over time, and that the Bank can play an important role in identifying and supporting such reforms through its technical and analytical work as well as its financing. At the same time, it should be recognized that multiple actors are involved in trade-related reforms—the government as well as other development partners and the private sector. What is important is to ensure that all critical complementary reform actions are undertaken—whether by the WBG, the government, or other players. As IEG observes in part, WBG engagements are determined on the basis of client demand, other stakeholders' activities (including the government's own programs), and the WBG's priorities and comparative advantages. Hence, even in countries where trade is a strategic priority, clients may seek, and/or the WBG may offer, engagement in a limited area, with a particular type of intervention, where it is agreed that the WBG can add the most value.

3. **Political economy of trade facilitation reforms.** Management agrees that political economy issues can constrain efforts to facilitate trade. To help understand the political economy around trade facilitation work, trade facilitation projects across the WBG often include the identification of critical stakeholders and the establishment of public-private dialogue mechanisms. Moreover, the WBG has developed and deployed various tools to identify and address key political-economy issues that may constrain progress. These issues are often discussed at length in project preparation and implementation-support meetings. Given the sensitive nature of these matters, detailed documentation is typically closely held, with relevant findings and conclusions recorded in formal project documentation only in a summary manner

4. **Social impacts of trade facilitation reforms.** The report defines "social aspects" broadly to include "public health, safety, the environment, good governance, formality and the rule of law" (para. 3.7), and thereafter refers to "social objectives" and "social impacts" that seem to encompass all these aspects. It is therefore not always clear whether "social impacts" also refers to environmental or

governance impacts. Given the distinction within the WBG on social, environmental and governance concerns, it would have been useful to find terminology that makes it clearer when the report is referring to all these dimensions. In this context, WBG support for trade facilitation can encompass not only trade flows but also broader client objectives, such as improving revenue collection; enhancing public health, safety, and the environment; and reducing informality, corruption, and smuggling. WB projects are also now expected formally to address stakeholder engagement. Where client governments seek WBG support to achieve policy objectives through trade facilitation projects, the WBG can help to determine how such objectives can be identified and what indicators and mechanisms might be used effectively to monitor them (to the extent possible within the timeframe of the WBG-supported interventions).

5. **Trade facilitation indicator sets.** Management agrees that its trade facilitation indicators should focus on establishing effective performance benchmarks that can also inform reform efforts. The Doing Business Trading Across Borders (DB TAD) and Logistics Performance Indicators (LPI) indicators do so. While there is some similarity between the DB TAD and LPI indicators, they are conceptually different and serve different purposes (DB TAB is reform-focused, targeting the time and cost for traders to import and export, and produced every year; LPI is perception-based, focusing on transport and connectivity, and produced every two years since movement of the indicators is relatively slow). The WBG holders of these sets of indicators regularly review their appropriateness and consider potential changes, recognizing that—to ensure consistency, continuity, and comparability over time—changes to existing indicators should occur only for compelling reasons

6. **Role of the private sector.** The report touches little on the impact of trade facilitation on the private sector. Beside tariffs and duties, costs to the private sector play a critical role in international trade, and it would have been useful to see some mention of the role of WBG trade facilitation interventions in stimulating the private sector to reduce the cost of exporting/importing. Greater competition among trade service providers (such as customs brokers, transport companies, and port service providers), which governments can enhance, can lead to a reduction in the time and costs of trading across borders and a higher quality of service. Trade facilitation interventions could also reduce the variability of customs clearance times and introduce greater certainty, which benefits the private sector.

### **MIGA Management Comments**

7. **MIGA welcomes the IEG evaluation report and finds it useful and important.** This very first IEG evaluation of WBG's support of trade facilitation assesses the WBG's contributions at the global, regional, country, and project implementation levels. MIGA supported nine trade facilitation guarantee projects during the evaluation period for US\$105 million in gross exposure.

8. **MIGA support for trade facilitation projects has been focused on border operations.** As the evaluation noted, WBG support for trade facilitation has been through four intervention areas: border operations, rules, border agencies, and border infrastructure. The evaluation classified the nine MIGA-supported trade facilitation guarantee projects as 18 interventions: border operations (14), rules (2), and border agencies (2). MIGA's trade facilitation guarantee projects have successfully

provided electronic processing and scanning technology for customs modernization initiatives in client countries.

9. **MIGA played a disproportionate role in achieving the social objectives of WBG trade facilitation projects.** The evaluation classified the social objectives of WBG trade facilitation projects into six categories: (i) enhanced collection of public revenues; (ii) corruption control; (iii) improved environment; (iv) improved health; (v) reduced transport congestion; and (vi) enhanced public safety. The evaluation found that MIGA has played a disproportionate role in achieving these objectives: with only nine trade facilitation guarantees—accounting for 2 percent by number and 1 percent by volume of the WBG portfolio—MIGA accounted for more than 20 percent of all WBG trade facilitation projects with social objectives. MIGA notes that improving governance and reducing corruption are core objectives of MIGA’s trade facilitation guarantee projects.

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**MANAGEMENT ACTION RECORD**

<b>IEG Findings and Conclusions</b>	<b>IEG Recommendations</b>	<b>Acceptance by Management</b>	<b>Management Response</b>
<p><b>Systematic Approach</b></p> <p>This evaluation found benefits from more than one type of intervention in more than one area—because several combinations (such as lending operations with advisory services) and areas of intervention (such as agency support, border function, and technology and rules) are mutually complementary. In addition, support over time emerged as important, as some reforms exceeded the lifespan of individual engagements. This, in turn, indicates the value of a systematic approach, using appropriately complementary and sequenced instruments rooted in a solid analytical base. Statistical evidence from the Bank Group’s portfolio support this finding, and case studies confirm the benefits of more systematic engagements whereby the Bank Group supports reforms through multiple or</p>	<p><b>Recommendation 1:</b>  <b>In order to enhance effectiveness, the World Bank Group should promote an approach of complementary (simultaneous and/or sequential) interventions in trade facilitation reforms in countries where trade is a client priority and World Bank Group has a comparative advantage, substantiated by consistent diagnostics.</b> This also requires collaboration between the World Bank Group institutions under MFD to allow better use of their assets and resources to plan and support reforms that advance the trade facilitation agenda in client countries.</p>	<p>Agree</p>	<p>Management agrees that trade facilitation reform may require a series of interventions over time, and that the Bank can play an important role in identifying and supporting such reforms through its technical and analytical work as well as its financing. As IEG observes in part, WBG engagements are determined on the basis of client demand, other stakeholders’ activities (including the government’s own programs), and the WBG’s priorities and comparative advantages. Hence, even in countries where trade is a strategic priority, clients may seek, and/or the WBG may offer, engagement in a limited area, with a particular type of intervention, where it is agreed that the WBG can add the most value.</p>

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<p>sustained operations over time. However, few Bank Group projects reference a systematic approach to trade facilitation reforms. Further, more than a third of country strategies indicate misalignment of the trade facilitation portfolio with country strategic priorities. This seems to indicate that the observed successful complementary support often happens more fortuitously than by design.</p> <p>At the same time, recognizing the need for a multi-faceted approach is not enough. It is essential to identify which factors complement each other. Some interventions (such as in border infrastructure), work better as self-standing initiatives, while others (such as rules reforms) work better in combination.</p> <p>Complementarity of technical assistance and some ASA with World Bank lending for project effectiveness, for example, strengthens the case for a more coordinated engagement. Yet the observed fragmentation and short-term nature of ASA approaches and products suggests room for greater consistency. Related to</p>			

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<p>such longer-term engagement, in country case studies, the World Bank Group’s convening power among donors and with public and private sector stakeholders was reportedly enhanced where there was continuous presence of relevant staff on the ground more often seen through the IFC Advisory and IBRD Lending modalities. Recognizing the Bank Group has resource constraints, it can optimize by coordinating with other donors and giving priority to clients where trade facilitation is a priority and where World Bank Group has comparative advantage.</p>			
<p><b>Political Economy of Trade Facilitation Reforms</b></p> <p>While an earlier generation of trade facilitation reforms was mainly focused on a single national agency (customs), over time the goal of trade facilitation reforms progressed beyond resource generation to include efficiency improvements that required coordination and streamlining by multiple agencies and, in some cases, multiple levels of government. This shift requires interagency collaboration and</p>	<p><b>Recommendation 2:</b></p> <p><b>The World Bank Group should 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).</b> This would allow World Bank Group to more consistently use its tools to address risks and build a broad base of support for trade facilitation reforms.</p>	<p>Partially agree</p>	<p>Management agrees that political economy issues can constrain efforts to facilitate trade. To help understand the political economy around trade facilitation work, trade facilitation projects across the WBG often include the identification of critical stakeholders and the establishment of public-private dialogue mechanisms. Moreover, the WBG has developed and deployed various tools to identify and address key political-economy issues that may constrain progress. These issues are often discussed at length in project preparation and implementation-support meetings. Given the sensitive nature of these matters, detailed documentation is typically closely held, with relevant findings and conclusions recorded in formal project documentation only in a summary manner.</p>

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<p>coordination, affects resource allocation and incentives connected to formal and informal revenues, and alters power structures within the relevant administrations. In the context of diverse agency incentives and objectives, strong and sustained political leadership and active coordination play a pivotal role in ensuring the necessary level of integrated activity and information exchange needed to achieve the successful implementation of many trade facilitation reforms. Without such leadership and coordination, these reforms can be stalled or implemented only partially or slowly. The Bank Group has helped countries to address such coordination challenges through its advisory work playing an honest broker &amp; convening role, but often not in a systematic way with consistent tools (such as stakeholder analysis and public-private dialogue) to identify reform bottlenecks. Nor does the Bank Group systematically assess and seek to mitigate political risks. Although political economy factors are often considered in an</p>			

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<p>unstructured way, explicit analysis of political economy is quite rare in Bank Group ASA and may explain the lower level of effectiveness of agency support interventions among Bank Group projects.</p>			
<p><b>Public Policy Objectives of Trade Regulation</b></p> <p>Most regulations, including trade regulations, serve not only an economic purpose—to enhance the efficiency of the economic system—, but also a public policy purpose and social values, such as enhancing public health, safety, and the environment, or reducing informality, corruption, and smuggling. Although some regulations may be completely unnecessary or protectionist in intent, in general, trade facilitation reforms should be considered in the context of social values and policy objectives in addition to a pure compliance cost minimization perspective. Bank Group project documents show that social objectives are acknowledged only in a minority of cases, most frequently in terms</p>	<p><b>Recommendation 3:</b></p> <p><b>The World Bank Group should systematically apply a differentiated approach to identify and monitor, where relevant, the public policy objectives of trade regulations relating to public health, safety, the environment, good governance, formality and the rule of law. World Bank Group should specifically identify the stakeholders potentially impacted by the reforms and the extent of the impact.</b> Wherever relevant, World Bank Group should apply appropriate indicators to monitor the impact of trade facilitation reforms for affected stakeholders in these dimensions. Such an approach would identify both intermediate outcome measures, such as detection rates, and impact indicators. Thus, for example, in</p>	<p>Partially agree</p>	<p>WBG support for trade facilitation can encompass not only trade flows but also broader client objectives, such as improving revenue collection; enhancing public health, safety, and the environment; and reducing informality, corruption, and smuggling. WB projects are also now expected formally to address stakeholder engagement. Where client governments seek WBG support to achieve policy objectives through trade facilitation projects, the WBG can help to determine how such objectives can be identified and what indicators and mechanisms might be used effectively to monitor them (to the extent possible within the timeframe of the WBG-supported interventions).</p>

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<p>of collecting public revenues and combatting corruption. However, insufficient attention has been paid to other social objectives and only compliance costs are routinely monitored. Even data routinely collected by counterpart agencies, such as detection rates of nonconforming shipments, are often not used as project objectives or monitoring criteria.</p>	<p>addition to measuring the compliance cost savings of traders, World Bank Group would monitor where relevant indices of detection of non-compliant cargo and/or indices of public health and safety to afford a more balanced set of criteria by which to judge trade facilitation reform.</p>		
<p><b>Strengthened Indicators</b></p> <p>A comprehensive set of indicators of trade facilitation areas can help motivate and benchmark reforms and identify the most pressing problems and priorities with regards to trade. The World Bank produces two of the leading sets of indicators—the Doing Business Trading Across Borders indicators and the Logistics Performance Index indicators (LPI) to inform trade facilitation reforms. A comprehensive set of indicators of trade facilitation areas can help identify efficient ways to address the most pressing problems and priorities with regards to trade. The World Bank produces two of the leading sets of indicators—the Doing Business</p>	<p><b>Recommendation 4:</b></p> <p><b>World Bank Group should rationalize its own two major trade facilitation indicator sets to build on the virtues of each of them, and to enhance their responsiveness to implemented reforms.</b> The focus should be on having effective benchmarks of performance that are useful to assess and monitor reforms. This proposed indicator review also argues for maintaining continuity of sub-indicators that have proven accurate in tracking reform. Through the redesign and harmonization of existing indicators and/or the development of new indicators, World Bank Group should work to ensure that major areas relevant</p>	<p>Partially agree</p>	<p>Management agrees that its trade facilitation indicators should focus on establishing effective performance benchmarks that can also inform reform efforts. The DB TAD and LPI indicators do so. While there is some similarity between the DB TAD and LPI indicators, they are conceptually different and serve different purposes (DB TAB is reform-focused, targeting the time and cost for traders to import and export, and produced every year; LPI is perception-based, focusing on transport and connectivity, and produced every two years since movement of the indicators is relatively slow). The WBG holders of these sets of indicators regularly review their appropriateness and consider potential changes, recognizing that—to ensure consistency, continuity, and comparability over time—changes to existing indicators should occur only for compelling reasons.</p>

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<p>Trading Across Borders indicators and the Logistics Performance Index indicators (LPI) to inform trade facilitation reforms. Each of the two sets of Bank Group indicators has its strengths but they frame their subjects differently. These differences result in gaps and inconsistencies. Some component indicators bore a far more consistent relationship to reforms than others. IEG also found some client confusion and frustration over the World Bank's two methodologies. A review of the indicator sets would be useful to identify complementarities, gaps, and potential improvements to the indicator sets and their component and sub-indicators</p>	<p>to trade facilitation are measured and monitored over time. Indicators used to monitor project objectives should be of sufficient granularity and specificity to reflect the reforms they are attempting to measure.</p>		