What is the World Bank Doing on Aid for Trade?

A report highlighting the World Bank Group's support to address the main constraints which firms in developing countries face in connecting to value chains.

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THE WORLD BANK

Acknowledgements

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Overview 1

Value chains are becoming an ever more prominent feature of global trade, with goods being processed—and value being added—in multiple countries that are part of the chain. No longer is trade as simple as manufacturing a product in one country and selling it to another. Rather goods are increasingly the product of complex interactions involving multiple linkages. Over the course of their production, goods often cross many borders, undergoing processing and accruing value-added at points along the supply chain before final delivery to market. In this context, supply chain efficiency—as well as those factors impeding it—has emerged as a leading determinant of trade growth.

The extension of value chains offers significant opportunities for developing countries. However, many developing countries, particularly the poorest, remain unable to fully benefit from global trade as they often remain export dependent on just a handful of primary commodities and attract little foreign investment due to deficiencies in their enabling environments.

The increasing prominence of supply chains is largely reflected in the increased amount of trade in intermediate inputs, or components, used for example in the production of cell phones or automobiles that often cross borders before the final product is assembled. Intermediate inputs represent more than half of high-income country imports and close to three- quarters of imports from large emerging economies such as Brazil and China. Supply chain alignment and success is partly based on comparative advantage and specialization in specific segments of the supply chain—be it in inexpensive labor, an abundance of machinery, or technical skills—but networked trade in parts and components is also more sensitive to countries' logistics performance than trade in final goods. In addition, supply chain barriers such as complicated regulations or lengthy border delays often play a large role in firms' decisions about where to invest. Supply chains tend to go where the logistics are smooth.

Supply chain barriers, therefore, are emerging as far greater impediments to trade than traditional trade barriers such as import tariffs. According to a recent report by the World Economic Forum, in collaboration with Bain & Company and the World Bank,[1] the combined effects of an ambitious improvement to border administration and more efficient transport and telecommunications infrastructure could boost global exports by 14.5 percent, if all countries improved halfway to the speed, quality and cost of global best practice (as observed in Singapore). By contrast, eliminating import tariffs would increase global exports by an estimated 10.1 percent. In other words, the costs associated with inefficient trade facilitation and logistics (e.g. lengthy dwell times in ports, dealing with red tape) are typically much higher than traditional tariff costs.

Furthermore, supply chains also highlight the importance of trade in value added, much of which is accomplished through the successful delivery of services. Services on their own represent a much smaller proportion of world trade than do services as value added inputs to the production of goods. For example, services trade accounts for one-fifth of world trade, but it accounts for *half* of all world trade if the services embodied in goods trade are taken into account. These value added services are provided by both foreign and domestic service providers, suggesting that barriers to trade and investment in services also adversely impact the ability of value chains to operate efficiently.

[1] World Economic Forum (2012), 'Enabling Trade: Valuing Growth Opportunities',Geneva.

Firms in developing countries often face serious constraints in connecting to global value chains. These constraints are often embedded in a wide range of policies that limit the movement of goods and services across borders including: non-transparent regulatory frameworks and weak business environments; inefficient border management and administration; barriers to trade in services, especially in the distribution, transport, communications, and air/maritime sectors; and low investment in transport and communications infrastructure. Many developing countries lack capacity in more than one of these areas, creating a significant hurdle in light of the necessity to holistically address all of them in order to boost competitiveness.

Trade costs also remain high for those developing countries struggling to gain a lasting foothold in international supply chains. A new database developed jointly by the World Bank and UNESCAP reveals that two supply chain factors in particular—maritime transport connectivity and logistics performance—are very important determinants of bilateral trade costs, with an effect comparable to that of geographical distance. In fact, neighboring countries in some developing regions often have higher trade costs with each other than with more distant high income markets: a disparity that can reduce the gains of deepening regional trade integration. But maritime connectivity and logistics performance are both amenable to policy interventions to boost their efficiency, and addressing these issues has the potential to reshape bilateral trade and investment patterns, as well as the development of global value chains.

As the largest multilateral provider of Aid for Trade (AfT), the World Bank's support to developing countries recognizes that lower trade barriers and trade agreements need to be combined with stronger hardware and better software to help firms connect to value chains and reap the benefits of international trade. The World Bank helps with the hardware of ports and infrastructure but also assists with the software of clear customs rules, support for logistics, trade finance and developing a better regulatory climate for private business. Building shared prosperity through trade also involves helping people, especially the poorest, to adjust to new circumstances.

World Bank Aid for Trade 2

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) and updates to these undertaken in the context of the Enhanced Integrated Framework for Trade-Related Assistance for Least Developed Countries (EIF).

With a significant presence in more than 120 countries, the World Bank's AfT contributions have increased steadily over the past decade. Based on the OECD/WTO definition of AfT,[2] World Bank commitments in 2009 amounted to approximately US$8 billion,[3] making it the largest multilateral provider for AfT, of which US$3.4 billion and US$3.5 billion were provided to Least Developed Countries (LDCs) and other low income countries, respectively.

Trends in the World Bank's Aid for Trade Portfolio

For its internal purposes, the World Bank defines trade-related lending more narrowly than the OECD/WTO definition of AfT and excludes infrastructure projects.[4] Using its definition, IDA[5] and IBRD[6] had a total stock of US$10.8 billion (66 projects) in the AfT portfolio as of end-FY12 (June 30, 2012),[7] representing a fourfold increase from the FY03 level of US$2.8 billion (see Figure 1). Given the importance of trade as a cross-cutting theme, the share of active trade and integration projects has steadily grown from 2.9% in total lending in FY03 to 6.5% in FY12. As of February 2013, this share had reached 7% of the Bank's portfolio. While the number of projects has been relatively stable over the years, the committed amount for trade and integration projects has increased. This shows that trade is being mainstreamed into the Bank lending portfolio across the various sectors, and that Bank lending projects are taking trade into consideration more than before.

By Region, South Asia's (SAR) share in total AfT shrunk between FY03–12 while shares for Europe and Central Asia (ECA) and sub-Saharan Africa (AFR) have increased the most over the same period (see Figure 2). The ECA Region has several fast growing emerging countries (e.g. Turkey, Kazakhstan) and the

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.

3 *Aid for Trade at a Glance 2011–showing results*, OECD/ WTO, 2011.

4 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.

5 International Development Association.

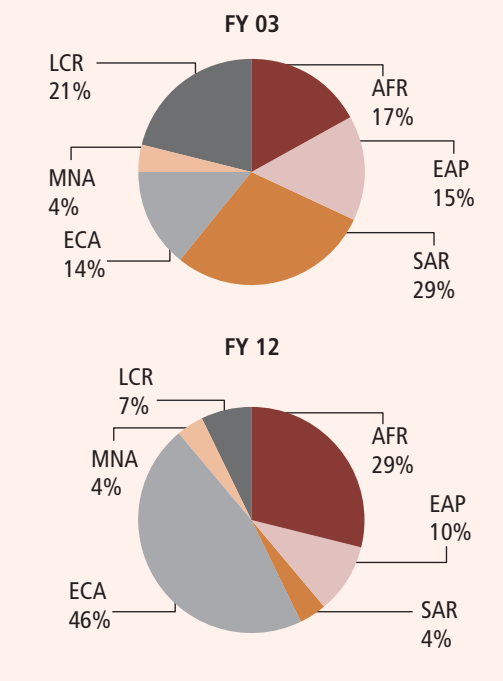
6 International Bank for Reconstruction and Development.

7 The World Bank's Fiscal Year (FY) starts on July 1 and endson June 30 of each year.

increase in the ECA share of the AfT portfolio can be attributed to large lending projects to these countries. For example, Turkey received US$360 million of Export Finance Intermediation Loans to support export development while in Kazakhstan the South-West Roads International Transit Corridor Project received US$1.8 billion to improve trade-related transport. As the second largest recipient of World Bank AfT, the Africa Region has many regional as well as individual country-level projects. For example, in West Africa the CEMAC Transport Transit Facilitation Project is providing US$190 million aims to support landlocked countries such as Chad and the Central African Republic by providing them with better access to the Port of Douala (Cameroon).

The majority of AfT projects focus on improvements to trade facilitation and market access; accounting for 51 percent or US$5.6 billion out of the total stock of AfT, followed by support to regional integration (28.4percent)—see Figure 3.

Figure 2: **Stock of AfT commitments by Region**



Flows of New AfT Projects

New AfT projects approved in FY12 amounted to US$1.9 billion and are expected to increase further to US$3.0 billion in FY13. As of February, 2013, new AfT commitments accounted for US$1.4 billion, or 8.7 percent of total new Bank lending commitments, up from 5.3 percent in FY12 (see Figure 4). The peak in new flows was in FY09 and the result of a large loan to Kazakhstan to support trade infrastructure development. Recently launched AfT projects include the Abidjan-Lagos Trade and Transport Facilitation Program, which will provide US$57 million to support the reduction of trade and transport barriers in the port and on the roads along the corridor. In addition the Lao PDR Second Trade Development Facility Project will

Figure 1: **Stock of trade lending according to the World Bank's definition of AfT**

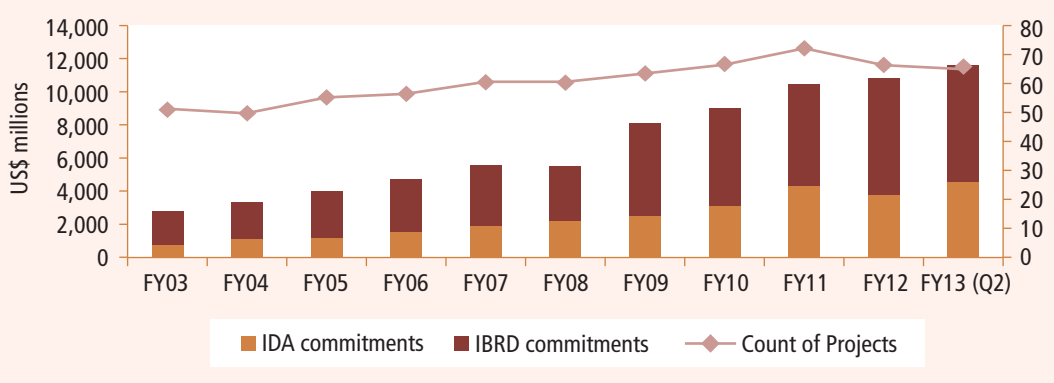
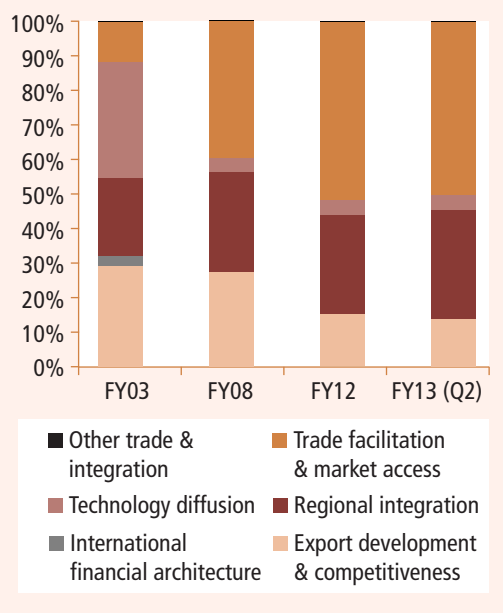


Figure 3: **Stock of AfT commitments by activity type**



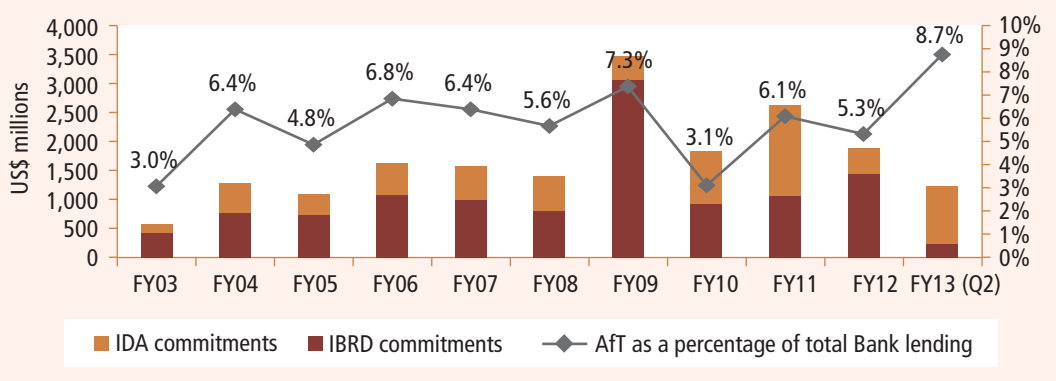
provide US$3.2 million to support the implementation of the government's trade and integration priorities outlined in the 2012 DTIS.

The Role of IFC and MIGA in AfT

IFC lending has also focused on building competitiveness through investments in the productive capacity of firms, economic infrastructure and support for trade finance. Its trade and supply chain finance programs help companies in emerging markets access much-needed financing, boosting growth and employment. In FY12, the economic downturn in developed countries continued to adversely affect businesses in developing countries. Several European banks, traditionally major suppliers of trade finance, reined in their exposure in many developing countries. As the availability of trade finance was reduced, its cost rose.

The Global Trade Finance Program (GTFP) was able to respond to the market gap 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 guarantees trade-related payment obligations of approved financial institutions. The program extends and complements the capacity of banks to deliver trade finance by providing risk mitigation on a per transaction basis for over 200 banks across more than 80 countries. The GTFP has been operational for eight years, with a strong track record of development results: more than 12,500 guarantees have been issued totaling US$19 billion since 2005, over half of which went to the poorest countries (including more than 15 fragile and conflict-affected countries). Of the trade finance guarantees issued under the program, more than 80 percent have benefited SMEs. In addition, the Global Trade Liquidity Program (GTLP) has supported US$21 billion

Figure 4: **Flow of new AfT commitments**



of trade in developing countries since it was launched in 2009. In FY12, the commitments of the two programs totaled US$6.1 billion—a 23 percent increase over FY11.

Nevertheless, it is estimated that only 10 percent of exporters in emerging markets actually have access to supply chain finance. Most local commercial banks in emerging markets have limited or no tailored financial products for suppliers and exporters to finance sales not backed by letters of credit, and the global banks that do offer supply chain finance solutions often have little experience in emerging markets. Difficulty in reaching the sheer number of SMEs in emerging markets has also been a major constraint to the growth of supply chain finance. To help address this shortfall, the IFC established the Global Trade Supplier Finance (GTSF) program in 2010—a $500 million multicurrency investment and advisory program that provides short-term supply chain finance to emerging market suppliers and SMEs that are smaller than those IFC usually reaches directly. In FY12, the IFC also became the first international financial institution to begin measuring the development impact of its work in trade finance.

MIGA's support to trade has focused on building competitiveness through providing political risk insurance coverage for private sector investments in the productive capacity of firms, economic infrastructure and support to bank investments and lending (much of this has supported foreign exchange financing used for import and export financing for investment projects and working capital). MIGA has supported several conflict-affected countries in their rebuilding efforts by facilitating FDI (e.g. Afghanistan, West Bank and Gaza, Côte d'Ivoire). MIGA has also strengthened its commitment to development in sub-Saharan Africa. MIGA has supported trade-related infrastructure development, including telecommunications services in many countries throughout the Region (e.g. Benin, Cameroon, Central African Republic, Ghana, Mali, Mauritania, Nigeria, Guinea, Guinea-Bissau and Sierra Leone) as well as elsewhere (e.g. Afghanistan, Indonesia, Bangladesh and Syria); ports (e.g. Dakar, Benin) and airports (e.g. Peru) and energy. MIGA has also provided coverage for investments to help firms improve their productivity. In manufacturing, MIGA has provided guarantees boosting capacity for grain milling (e.g. Rwanda), wood chipping (e.g. Mozambique) and remanufacturing plant operations (e.g. Zambia). MIGA is increasingly providing coverage to agriculture, such as value addition in fruits (e.g. Ethiopia), and the development of agribusiness (e.g. West Bank and Gaza, Russia).

Non-Lending Activities

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, United Nations Development Programme, and the World Trade Organization (WTO). 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, multilateral trade negotiations, agricultural and services trade, export diversification and customs modernization.

Research and analytical work remains an important asset of the World Bank Group. 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 but critical to the development of, and participation in, value chains. Support by the World Bank Group in these areas is beginning to remedy gaps in knowledge and facilitate informed policymaking.

To improve national competitiveness and diversification, the World Bank has undertaken

numerous trade-related Economic and Sector Work (ESW) and Technical Assistance (TA) programs. At the end of FY12, trade ESWs and TASs accounted for 9.7 % and 5.4% of the Bank's total ESW and TA, respectively (see Table 1). This constitutes a drop from the FY11 level, but more trade-related ESW and TA are expected to be conducted in FY13.

One of the core analytical activities for the World Bank's engagement in AfT is within the global partnership of the Enhanced Integrated Framework for Trade-Related Assistance for Least Developed Countries (EIF). Under this, Diagnostic Trade Integration Studies (DTIS) evaluate internal and external constraints to a country's integration in the world economy, and recommend areas where technical assistance and policy actions can help the country overcome barriers to enhance trade. As of June 2013, the Bank has completed or was undertaking DTIS for 12 countries under the EIF (Benin, Burkina Faso, Guinea, Liberia, Malawi, São Tomé and Príncipe, Sierra Leone, Sudan, Uganda, Zambia, Bangladesh and Haiti).

The International Trade Department is a central provider of trade expertise in the World Bank Group. Its main roles and responsibilities include: i) developing knowledge products (data and indicators; diagnostics and implementation toolkits; and, policy-orientated analytical work) with an operational perspective; ii) disseminating knowledge on trade through training and learning activities; and iii) forging effective partnerships inside and outside the World Bank Group to advance a pro-development trade agenda. In line with the priorities of the World Bank's Trade Strategy, the International Trade Department's portfolio is organized around three pillars: i) trade competitiveness; ii) trade facilitation and logistics; and iii) trade policy and integration.

Its work on trade competitiveness addresses the supply-side factors affecting trade expansion possibilities for developing countries, with a particular emphasis on fostering export competitiveness and diversification. Specifically it focuses on understanding the factors that contribute to firm-level and economy-wide export participation and performance and identifying the most effective policy interventions to overcome government and market failures and support competitiveness. 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 combines quantitative analysis with qualitative techniques including in-country interviews with key stakeholders across value chains. The toolkit has been implemented in 25 countries; these have been incorporated into Country Economic Memoranda (e.g. Turkey, Tanzania), DTIS (e.g. Liberia) and Development Policy Lending (DPL). In FYR Macedonia, the toolkit contributed directly to the Government's 2012 package of reforms on competitiveness, and led to a US$50 million DPL, the central objective of which is for strengthening competitiveness by prioritizing the development of a stronger export-oriented enterprise sector. In Botswana, the toolkit played a leading role in a Development Policy Review on Diversification and Competitiveness, which led directly to a three-year program of technical assistance. The International Trade Department has also been leading work on FDI spillovers in global value chains (GVCs) to understand how and under what conditions GVC-orientated FDI contributes to the development of local linkages, and to identify policies and institutions that support the development

Table 1: **Shares of trade-related ESW and TA**

Fiscal year	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13 (Q2)
ESW – trade-related as a % of total Bank ESW	13.6	12.4	14.1	15.5	13.2	13.7	17.8	15.5	12.8	9.7	5.7
TA – trade-related as a % of total Bank TA	6.2	4.6	8.3	10.8	8.8	7.6	5.7	6.6	6.4	5.4	2.6

of dynamic interactions between FDI and the local economy.

Activities on trade facilitation and logistics are focusing on reducing inefficiencies and trade costs along the supply chain, not just at the border and with customs but throughout the trade corridor. The work program includes a range of data, toolkits and diagnostic tools which help developing countries improve their transportation and supply chain performance. Perhaps the best know example is the Logistics Performance Index which was most recently updated in 2012 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. A connectivity and trade costs dataset has also been developed, covering agricultural and manufacturing goods for 178 countries during the period 1995–2010, to quantify impediments to international trade and transport flows in developing countries together with indicators of connectivity.

Finally, the International Trade Department's trade policy and integration portfolio comprises three broad components: i) trade policy and market access; ii) regional integration and international cooperation; and iii) managing shocks and promoting greater inclusion. The first component goes beyond traditional policies such as import tariffs to also cover behind-the-border policies that affect the development of value chains through the allocation of factors of production across industries within a country. It covers non-tariff measures (NTMs) and regulations in services industries, which are important for the economic performance of other industries. The second component addresses trade in a global setting, with a focus on both the design of regional agreements and multilateral trade issues that are critical for developing countries to better integrate within supply chains. The third component examines mechanisms through which trade dynamics and trade-related policy changes affect labor markets and poverty.

World Bank research is also an important instrument through which it has engaged at the global level to analyze global trade issues from a development perspective. The focus of research is on the implications of international economic integration for developing countries and on how it 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. Research focuses on concrete, applied research, data and tools to assist Bank operations and to help inform and shape trade policy. In many cases, the specific policy research questions are defined by demand from Bank operations and client countries and addressed by collecting and rigorously analyzing new data, often in collaboration with researchers from developing countries and partner organizations. The findings of this research are widely disseminated and translated into actionable policy recommendations.

Country Examples: Connecting Firms to Global Value Chains 3

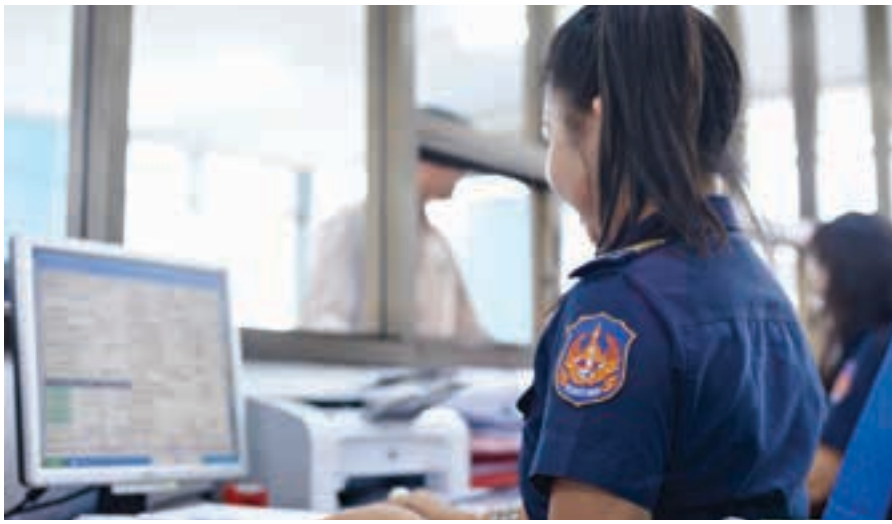
The World Bank has undertaken a series of case studies on the trade impacts of several of its projects, including some of those supported by the Multi-Donor Trust Fund for Trade and Development 2 and the Trade Facilitation Facility, which showcase the Bank's contribution to the AfT initiative. These case studies cover the spectrum from trade lending and technical assistance to capacity building and advisory programs in client countries, providing illustrations of the World Bank's approach to supporting the integration of developing countries into global value chains through demand-driven assistance. The projects highlighted in these case studies have been designed to meet common development challenges in a rapidly evolving trade environment and to deliver concrete results in beneficiary countries. Each of them directly or indirectly addresses the main constraints to moving goods and services across borders.

Strengthening Supply Chains through Promoting Transparent and Efficient Regulatory Frameworks and Improving Access to Trade Finance

Lao PDR: Development of a Trade Information Portal (TIP)

Lao PDR is a landlocked country in which weak trade facilitation and high trade costs have made integration into regional and global supply chains difficult. Despite a shortage of labor force skills, the country faces the challenge of managing a natural resources boom with the need to mitigate export volatility through diversification. Greater regional (ASEAN) and global (WTO) integration have been a centerpiece of the country's trade strategy, a goal towards which World Bank country engagement—including through analytical work, policy dialogue and financing—has played a supportive role.

Lao PDR first applied for WTO membership in 1997, an ambitious task for a small country. The World Bank supported the accession process through negotiation support, sector impact evaluations and technical assistance. The World Bank's comparative advantage was its in-country presence, which has resulted in



A new online platform in Lao PDR is boosting trade transparency.

intense, day-to-day implementation support. The Bank identified and empowered reform champions within the Ministry of Industry and Commerce and provided upfront technical investment in the design of activities, resulting in a synergetic process that ultimately proved highly beneficial to boosting the country's trade policy-making capacity.

A flagship achievement of the process was the establishment of the Lao Trade Portal in June 2012, an online resource that facilitates trade by increasing transparency in trade-related information by making it easily accessible to traders. The portal is a single authoritative source for all trade-related laws, regulations, decrees, instructions, business processes, forms and fee schedules in the country. Putting such information into the public domain has not only helped Lao PDR to comply with its commitments under the WTO and ASEAN, but has also been pivotal in overcoming one of the country's key constraints to trade facilitation—the lack of information on trade-related processes.

Developing the TIP required setting up a governance structure and legal basis for the portal and collecting relevant information from all government agencies involved in trade. The TIP had to be staffed, and a new National Trade Facilitation Secretariat was formed to supervise the management of the portal and to ensure its sustainability. The result was reduced time needed for local and international traders to acquire trade-related information and to carry out transactions. The TIP is also the first step towards the *Lao National Single Window* which will allow traders to discharge all import/export obligations through one channel electronically.

In transition economies such as Lao PDR, new firms are increasingly looking to integrate into global value chains but find it difficult to get information on business and trade procedures. The private sector has identified the lack of transparency and predictability surrounding trade-related regulations as a major investment constraint, making the TIP a key milestone in improving the country's business environment. Business people no longer need to know officials from different government ministries to have access to required trade processes and procedures, as all traders now have access to the same information and data. Beyond the website, laws and product standards in Lao PDR are also being revised to improve trade facilitation, again with support from the World Bank.

Rwanda: Investment Climate Reform Program

In the wake of the 1994 genocide, the Government of Rwanda centered its reconciliation and growth strategy on harnessing private sector investment to improve living conditions. However, one of the country's major hurdles was to overcome its perception as a high-risk, landlocked economy unappealing to potential investors. The country's entrepreneurs have long endured tedious legal and administrative roadblocks making it difficult to register a company, settle a commercial dispute, or engage in cross-border trade. With assistance from the World Bank, Rwanda's Ministry of Trade and Industry has been committed to pursuing a reform agenda and removing barriers to entry and growth for private businesses.

The World Bank's support to the Rwandan government in its effort to improve the investment climate began in 2001 with the Competitiveness and Enterprise Development Project, which focused on preparing commercial laws, supporting the government's privatization program through technical assistance for specific transactions, and improving the financial sector mainly through capacity building and bank restructuring. In 2008, these efforts were complemented by the Rwanda Investment Climate Reform Program, an advisory project led by the IFC. The venture has helped the Rwandan government update regulations, mainly focusing on providing support to facilitate business entry, business operations, taxation, trade logistics, and public-private dialogue.

Since its inception, over 17 reforms have been implemented that aim to speed up trade-related procedures and reduce their cost, including: i) reducing the number of necessary trade documents, which has simplified and sped up cross-border trading with Uganda and Burundi; ii) creating a new automatic system for the cancellation and validation of transit bonds, which has freed up a significant portion

of traders' working capital; iii) instituting a Risk-Management and Intelligence Unit, and implementing a risk-based inspections and clearance regime; and iv) introducing a prepayment system for cargo clearance.

These reforms have brought tangible benefits. For example, a number of new important laws have been prepared and adopted, including a company law, a secured transactions law, an insolvency law, a labor law, a law establishing the commercial courts, and another establishing the commercial registration agency. It now takes three days to start a business in Rwanda, down from 14 days prior to reform, while the number of procedures has dropped from eight to two. More than 16,000 new jobs and 8,000 new enterprises have been created. International firms have re-evaluated their perception of Rwanda, increasing the total amount of registered investment in the country since 2008 by 31 percent. In *Doing Business 2013*, Rwanda ranked 52nd of 183 countries, making it the second best improver globally and top improver in Sub-Saharan Africa since 2005.

Global Trade Supplier Finance in Vietnam

For many small and medium-sized enterprises (SMEs) that are aiming to export in Vietnam, the ability to access global supply chains is simply a question of finance, or more specifically, a lack thereof. As is the case in much of the developing world, many SMEs can find themselves strapped for cash given the standard payment terms for invoices, which can take weeks or months to be paid by multinational importers. So-called supply chain financing would allow Vietnamese suppliers to have certain invoices paid up front by a bank (in exchange for a small fee), an arrangement that would greatly stabilize the inflow of money for these firms and ensure their products' swift delivery to market. Unfortunately, only an estimated 10 percent of exporters in emerging markets actually have access to supply chain finance, as global banks that offer it often have little experience in such markets and generally focus on larger suppliers.

The International Finance Corporation (IFC)—the World Bank's private sector arm—has a comparative advantage in the field of trade finance in emerging markets. Since 2010, it has been helping to address the large shortfall in supply chain finance with the Global Trade Supplier Finance (GTSF) program, a US$500 million multicurrency investment and advisory program that provides short-term finance to SMEs and other suppliers in emerging markets. Under the program, IFC works with buyers across industries that source goods in emerging markets, helping to reach thousands of SMEs in targeted countries. IFC also helps banks that offer supply chain finance to increase their presence in emerging markets.

After successfully rolling out the program in China, where 30 different exporters in the garment and apparel sector were trained to use GTSF with US$ 8 million in disbursements in FY13, the GTSF portfolio has since been expanded to Mexico, Indonesia, India, and most recently, Vietnam. In Vietnam, for example, an online portal called GT-Nexus (formerly TradeCard), is allowing exporters to submit electronic invoices to their buyers, such that the approval of these invoices becomes transparent to financial institutions. Exporters, in turn, can access the portal and select which invoices they would like to discount, thus being paid earlier than dictated

Red Zao woman embroidering a shirt at the weekly market in Sapa, Lao Cai province, northern Vietnam. The GTSF is improving access to trade finance for the garment sector in Vietnam.

by the standard payment terms. With the IFC acting as financier, large importers are no longer burdened by early payment requests from suppliers, while the Vietnamese garment producers are charged with a relatively low interest rate that is based on the credit level of the multinational importer as opposed to that of the supplier itself.

In effect, the GTSF program allows Vietnamese producers to improve working capital by converting sales receivables to immediate cash and to access lower-cost financing based on the superior credit risk of the multinational companies that buy their products. Supplier finance also enables the Vietnamese garment suppliers to finance open account transactions at competitive rates without collateral requirements, which helps make them more attractive to global buyers. Though GTSF operations in Vietnam are in their infancy, having only committed US$400,000 in supplier finance thus far, they are expected to grow considerably, adding to the sizable US$900 million provided through GTSF around the world since the program's inception.

Streamlining Border Management

Cameroon: Electronic Single Window for Douala

The Economic and Monetary Community of Central Africa (CEMAC) has a functioning monetary union and a fixed exchange rate pegged to the Euro but regional trade continues to be fraught with inefficiencies that impede trade. One of the major trade bottlenecks in the CEMAC region is weak trade facilitation. Analyses of trade and transport undertaken by the World Bank identified institutional bottlenecks in the Port of Douala as a significant constraint. A project was launched to simplify the import, export and trade procedures through the Port of Douala through the creation of an electronic single window, and to extend the concept of e-GUCE (Guichet Unique du Commerce Exterieur) in the CEMAC region.

The improvement of the GUCE Information system aims to simplify customs procedures at the Port of Douala and thereby promote efficiency by moving to a paperless system. The joint implementation of the electronic single window with a transit regime in the region is expected to lead to stronger regional integration in the CEMAC and an increase in trade. The implementation of this project is expected to change significantly the landscape of trade facilitation in Central Africa, particularly for the countries that rely on Douala as a gateway (Central African Republic, Chad and the Republic of Congo).

Policymakers have also been mobilized following the Prime Minister of Cameroon issuing a request to set up an institutional framework to implement the automation agenda. The Minister of Finance assigned Port Community leaders to implement the agenda, starting with establishing procedures for electronic payment, currently effective. Capacity building to technical and managerial staff in GUCE and partner agencies was provided in March-April 2012, through two important training programs in project management, in addition to eight computer science modules provided in October-December 2011. Customs officers and transport staff from Chad, Central African Republic and Congo also attended the courses in anticipation of a possible future extension of GUCE services to neighboring countries.

The legal framework is also being streamlined after wide consultations with key public institutions. Four draft legal instruments (one decree and three orders) were developed on the organization of the e-GUCE platform; the use of

The World Bank is working with Central African countries to improve transport corridors.

electronic signature; data exchange between users and administrators; and, private data protection. These were discussed and validated through two workshops conducted respectively in April and June 2012, with active participation from the Ministries of Telecommunications and Trade.

Overall the joint implementation of the transit regime and the Single Window in Douala for Central Africa will lead to stronger regional integration in the CEMAC region and increased trade. Additionally, the activity will facilitate electronic processes for some transit procedures and help build capacity for shippers and transit agents, especially in those member countries which are landlocked.

Economic Community of Central African States (CEMAC): Support to Implementation of the Transit System

Technical assistance from the World Bank is supporting the implementation of the new CEMAC transit regime and helping to reduce non-physical barriers along the trade corridor linking Cameroon with Chad and the Central African Republic (CAR). There are two primary components: (i) setting up and operationalizing an IT system for the transit regime; and, (ii) creating conditions for the sustainable monitoring of corridor performance.

The activity is expected to result in the implementation of the CEMAC transit regime and its regulations, as well as improved implementation of the CEMAC Customs Union. Ultimately there will be significant changes to transit performance, particularly on the Douala-Bangui and Douala- Ndjamena corridors, as well as the extension of the transit regime to the Republic of Congo.

Some initial results are already evident. Customs officers from Cameroon, CAR, Chad and Congo have been trained on the content of the regime and ASYCUDA World software and they have been assigned to train other customs officers and staff of relevant agencies. Training has also been provided to the Customs Guarantee Offices. The regional dialogue has improved between customs agencies, setting a good foundation for the implementation of the transit regime and other related regional projects. Electronic data exchange on transit trade between Cameroon and CAR is a major achievement that will be extended to Chad in the near future. Consultations were held between Cameroon, CAR and Chad customs authorities and IT experts in which they agreed to speed up the interconnection process through ASYCUDA in order to extend the Cameroonian cargo tracking system to CAR and Chad.

Finally, work has advanced on developing the transport component of the new transit regime with a strategic plan for the development of transport along the corridors originating from Douala. This includes work towards improving the accreditation conditions for transport operators and vehicles, conducting baseline surveys of the transit transport indicators and implementing an impact evaluation of the new transit regime.

Addressing Barriers to Trade in Services (distribution, transport, communications, and air/ maritime sectors)

Opening the Balkans to Services Trade

The World Bank helps policymakers in developing countries address the complexities of designing, formulating, and implementing trade-related reforms in services using a framework called the services knowledge platform (SKP). The SKP consists of compiling economic evidence and gathering policymakers, regulators, private sector representatives, and other stakeholders for substantive, evidence-based discussion on the impacts of services sector policies to identify best practice. The World Bank is using the SKP framework to help the Balkan countries in their goal to deepen regional integration by liberalizing services trade.

In practice, there can be political resistance to opening services to foreign competition. For some sectors, such as professional services, vested interest groups can exert considerable pressure. Organized in associations that often have certain legal powers such as setting prices or eligibility requirements, these groups can have interests in protecting their membership.

Nevertheless, some services in the Balkans have already been liberalized—e.g. financial services, telecommunications, electricity, and aviation—so the Bank has helped to extend this process by focusing its support on four services sectors that remain more closed to foreign competition: construction, transport, legal and architectural services. The Bank analyzed the impediments to trade in these sectors, as well as the possible costs and benefits of trade liberalization. Consequently, the governments put the issue of services liberalization on the table within the institutional framework of their existing free trade agreement. In November 2012, the Balkan countries held a ministerial meeting at which ministers committed to liberalizing certain services by the end of 2013. They are currently in the process of deciding which specific sectors are going to be opened up and the modalities for achieving this.

Meanwhile, consistent with the SKP framework, the Bank is acting as a convener of knowledge to bring together relevant stakeholders via conferences and workshops. The aim is not to be prescriptive, but to provide practical recommendations and tools that can be used in the pursuit of services reform based on a diverse range of insights and experiences on how to conduct reform and good regulatory practice. The World Bank has a comparative advantage in convening stakeholders from different parts of the world.

Evaluating the regulation of services in Cambodia

Cambodia's impressive economic growth over the past decade owes much to a boom in services trade. Its services exports grew more than 20 percent a year for most of the period led by a rapid expansion in tourism. Foreign direct investment—particularly in tourism, construction and telecommunications—also supported the expansion of services trade, not only by bringing foreign capital and expanding employment into Cambodia, but also by improving domestic technology, know-how and enhancing domestic skills.

Cambodia is quickly becoming a sophisticated economy that needs to move beyond its traditional sectors of textiles and tourism by diversifying into the export of modern services. Modern services exports to other East Asian countries, including IT-related services, are likely to play a more important role in Cambodia as a source of employment, revenue, and investment. Cambodia will also benefit from its chairmanship of the Association of Southeast Asian Nations (ASEAN) allowing it to showcase its economic reform and modernization process to other countries, and to attract investments from services firms that are interested in serving the region as whole.

With the help of the World Bank, the Government of Cambodia is undergoing an assessment of its regulatory framework for services trade to evaluate whether that framework is promoting the most efficient services market possible. The Bank has piloted a new toolkit, which offers a practical methodology to assess the impact of services regulations, and offers guidance on how to ensure that services regulation correctly addresses market failures while achieving public policy goals. The project first mapped the various regulations affecting trade and investment in Cambodian services, provided a quantitative assessment of the impact of those regulations, and identified options for improving regulations and institutional set-ups.

While Cambodia's services trade has reached a significant level of liberalization that allows private sector provision of services as well as foreign ownership in a wide range of sectors, governance remains weak. A lack of transparency and predictability in the implementation of regulations is impeding openness in many services sectors. Missing information relating to regulatory requirements, inconsistent application and interpretation of regulations across agencies, frequent changes of administrative practices and discretionary applications of rules introduce limitations into an otherwise liberal regime.

The pilot assessment drew several important conclusions for the Cambodian government to consider. Firstly, Cambodia's large and young population is a critical asset—but it needs to be educated and trained in order to contribute to the expansion of services industries. Cambodia's government could coordinate with education institutions and relevant services companies, as well as establish public-private partnerships to

Cambodian students take a computer course at the Banana Center—a private school. Training the youth population is critical for the success of Cambodian services industries.

promote a market-ready employment base for the service sector. Secondly, the expansion of services in Cambodia will require better infrastructure, in particular broadband telecommunications. While mobile telephony has boomed, the cost of broadband communications is prohibitive for the majority of the population, leading to the lowest broadband connectivity in the region. Finally, Cambodia's open policy for the employment of foreigners, particularly high-skilled foreigners, should be maintained in order to provide an attractive investment environment and facilitate the transfer of knowledge to the domestic economy.

Investments in Transport and Communications Infrastructure

Nepal-India Trade and Transportation Facilitation Project

There is strong international demand for Nepal's homegrown products, but exporting goods out of Nepal is not easy. All goods going overseas must pass through India to the port city of Kolkata, a long and onerous journey across the border that seriously hinders trade. From excessive documentation and horrific road conditions to lack of a centralized computer system and cumbersome procedures that prevent unhindered passage across borders, trading goods between Nepal and other countries is a difficult business. But with a multi-pronged approach, Nepal has a lot to offer, not only to its neighbor India, but to the world at large. The World Bank Group is working with the Nepalese government to reduce some of its infrastructural and technical barriers to trade.

Currently to get goods out of Nepal, exporters must first get a certificate stating whether the product is an antique or not, as well as documents from the chamber of commerce, the handicraft association, and the trade promotion center certifying the product is made in Nepal. Finally, all documents must be certified at the customs clearance office. Streamlining the documentation process would be a good start but only a first step. The majority of exports leaving Nepal go over land, to or through, India and then by sea to overseas markets. So for most exporters, once the forms are ready, the goods

still have to reach the Indian border via a steep, narrow, largely unpaved road that is very difficult to navigate. In addition, there are anywhere from five to ten checkpoints along the way, where officials often ask for payments if a truck is overloaded. With help from the World Bank Group, the government plans to rehabilitate this notorious thirty-three kilometer passage which not only hinders trade, but claims lives.

Getting to the border town of Birgunj may be the end of the road, but for exporters the travails continue. Trucks are weighed, the multiple forms are checked, and sometimes consignments must be offloaded for customs clearance and other border controls. The process can take anywhere from four hours to four days.

Each of the five major border posts in Nepal uses a different database, which causes further confusion. They are not connected to the computer network in India, so any exchange of information between Indian and Nepali customs is either done through paper or email. With World Bank support, the Nepalese government is planning to build a single window system, so customs and other agencies will be able to expedite clearance, as well as helping India and Nepal to automate their data exchange systems.

Cargo crossing the border has to be moved from a Nepali truck onto an Indian truck due to regulations. Once the transfer is done, goods go through the oft-congested Indian customs. When they finally make it to Kolkata, they are checked again according to port procedures. All told, from Kathmandu to Kolkata, the inland transport of handling a load of exported goods can take anywhere from ten to twenty days to complete. And it is a two-way street: businesses importing goods into Nepal face similar challenges, making everyday staples more expensive.

To address these challenges, the Indian government is building modern checkpoints on its borders with Nepal and other neighbors. There will be new roads and better infrastructure. Both governments hope the new checkpoints will allow for increased trade throughout the region. Another planned improvement is the development of accredited laboratories within Nepal. Today, food products like tea or coffee must be sent to India or China for testing, because Nepal doesn't have an internationally accredited food laboratory, and waiting for an international certificate can take up to three weeks. An accredited laboratory in Nepal will boost Nepalese exports to India, as well as to other countries, and reduce trade costs.

Trade and transport facilitation challenges in West Africa

The World Bank is providing West African countries with financial support for trade and transport facilitation reforms with a total package of US$405.5 million covering four countries: Côte d'Ivoire, Ghana, Togo and Benin. The program aims to reduce transport barriers in the ports and on the roads along the Abidjan-Lagos coastal corridor. Given the importance of covering the entire logistics chain, the support covers improvements to transport infrastructure, customs and border management.

The transport sector in West Africa plays a key role in the economic development of the sub-region and generates about six percent of its GDP. Cognizant of the fact that an efficient regional road network is an enabling infrastructure required to promote trade and socio-economic development in general, ECOWAS and WAEMU member states have consistently committed themselves to the financing of designated regional road corridors. Despite these commitments, the surface transport system in West Africa remains in poor condition.

In addition to the physical obstacles generated by the poor conditions of road and railways infrastructure, regional trade in West Africa is characterized by numerous obstacles to the free movement of goods and passengers such as: i) illegal checkpoints; ii) long, costly and non-harmonized customs procedures; iii) lack of, or insufficient, automated customs procedures and inadequate equipment at border posts; and iv) smuggling and corruption largely a result of restrictive trade policies. Furthermore, along the coastal corridors there is limited modal competition due to the fact that there is no coastal railway system and very limited coastal shipping. The effect of these

physical and non-physical barriers leads to delays in the movement of goods and services, hindering trade.

One of the main barriers to expanding formal trade in West Africa is the current restrictive trade regime in Nigeria, which includes import bans and numerous levies. While in 2005 Nigeria adopted the ECOWAS Common External Tariff (CET), which will lower its average import tariff, the scheduled phasing out of import bans and decrease in import tariffs remains to be implemented. For example, by October 2008 almost half Nigeria's import bans had been removed with restrictions on 24 products remaining as of September 2011. However, the impact of these measures on trade flows and trade facilitation remains limited because the main items subject to informal trade (such as garments, oil, and second-hand cars) remain on the list of prohibited imports. Therefore, pursuing further reform in Nigeria's trade policy regime is critical to boosting regional trade and formalizing flows.

There is an increasing recognition that all of the major West African road corridors are inadequate in terms of transport costs and prices. For example, transport tariffs per ton-kilometer are, on average, two times higher than in Western Europe, and the truck fleet is much older while transport service quality and reliability is much lower. This seriously impedes the smooth movement of people and goods, and reduces economic competitiveness. This is due to a combination of poor road transport infrastructure, and even more importantly, non-infrastructure related factors such as: i) weak implementation of regional transit agreements; ii) poor information sharing between the various control agencies and port operators; and iii) lags in implementing customs reforms. All of these factors have made the use of the main transport corridors in West Africa, including the Abidjan-Lagos corridor, much more expensive when compared to other similar road transport corridors around the world.

Vehicle transporting milk in India

Looking Forward 4

Developing countries face a host of barriers to entering global value chains, including policy-related obstacles, weak trade facilitation, high cost and inefficient services and poor infrastructure. In response, the World Bank's current package of AfT support, which is being implemented through its Trade Strategy, spans the regulatory, financial, and infrastructural dimensions of trade to address these barriers. As detailed in this report, the Bank's AfT activities employ a combination of strategies to combat the "hardware" and "software" deficiencies that both hinder the ability of developing countries to trade more as well as impede their greater involvement in global value chains.

As global value chains continue to shape the future of international trade, the notion of value added is becoming increasingly important compared traditional concepts of comparative advantage. In other words, a developing country's export of a given product no longer necessarily implies the country has a comparative advantage in that product because of the role of imported intermediate inputs in production. Rather, it is just as likely to have honed a comparative advantage in exported value added in that product, as Peru has done, for example, in the electronic equipment industry. Since global patterns of sectoral specialization are different when measured in terms of value added, gross exports alone have become an insufficient and often misleading window into the true nature of global trade patterns.

Looking forward, it is clear that success as an exporting country in this new environment entails also succeeding as an importer of goods and services, as trade becomes an increasingly complex mix of value imported from abroad and value added domestically. This reality has introduced an entirely new and evolving set of challenges when it comes to the ability of countries to join—and ingratiate themselves within—global value chains. For the World Bank, our aim moving forward is to develop an increasingly deeper understanding of these challenges, as well as the best strategies to address them.

Providing developing countries with support to reduce their trade costs and improve their connectivity will, therefore, continue to be an essential part of World Bank AfT and is intimately linked with the ability to engage in global value 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.

In addition, embodied services are becoming increasingly important in terms of overall value added. Goods production has a high services component that cannot be separated easily. Thus, the status quo of approaching trade in goods and trade in services separately is rapidly becoming untenable. World Bank AfT also has a prominent role to play in addressing this issue. Through new data collection, research and operational support, the *Services Trade Restrictiveness Index* (STRI) is contributing to a better understanding of how services integration affects development, how policy is best reformed and how international cooperation can help. The STRI provides data on services trade policies across 103 countries (24 developed and 79 developing), 18 services sectors from within 5 broad industries (financial, telecommunications, retailing, transportation and professional services) and three modes of delivery (cross-border, commercial presence, presence of natural persons). The database contains richly textured policy information on individual policy measures as well as a summary of key restrictions by country, sector and mode of delivery.

Furthermore, the World Bank is developing a *Regulatory Assessment of Services Trade and Investment* tool, which will help countries identify inefficient regulations and modernize their services trade regulatory frameworks. Performing an assessment of a country's regulatory regime can generate positive policy spillovers in domestic regulatory conduct and design, given how important services are as inputs for efficient production of other goods and services. The tool has been piloted in Cambodia (see Section III), Malaysia, Lao PDR, and Kazakhstan.

Finally, traditional trade and employment protection policies are losing their effectiveness in the global value chain context. Global value chains thrive on the transfer of knowledge across borders combined with access to high quality, less expensive factors of production in foreign markets. While the deepening of global value chains may create winners and losers, World Bank AfT will continue to be cognizant of the distributional aspects of trade reform by supporting solutions to help small and medium sized enterprises benefit more from supply chains rather than just large firms as well as boosting the inclusiveness of the benefits of trade to poor segments of the population.