Development of Trade Support Services

Gerald Ollivier and Pedro N. Taborga

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List of Acronyms

AIVP - International Association of Cities and Ports
EU - European Union
FDI - Foreign Direct Investment
FIATA - Federation of International Forwarding Agents
IAPH - International Association of Ports and Harbors
ICC - International Chamber of Commerce.
ICHCA - International Cargo Handling Co-ordination Association
IMO - International Maritime Organization
IRU - International Road Transport Union
MEPC - Maritime Environmental Protection Committee (under IMO)
PIANC - Permanent International Association of Navigation Congresses
TWUTD - Transportation Water and Urban Development Department, Transport Division
UIC - International Union of Railways
UNCEFACT - United Nations Center for Facilitation of Procedures and Practices for Administration, Commerce and Transport
WCO - World Customs Organization.
WTO - World Trade Organization

Country Grouping

Group I: Croatia, the Czech Republic, Estonia, Hungary, Poland, the Slovak Republic, Slovenia and Turkey

Group II: Latvia, Lithuania, Albania, Bulgaria, FYR Macedonia, Romania and Bosnia and Herzegovina

Group III: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan

FSU Countries: Group III, plus Estonia, Latvia and Lithuania.
DEVELOPMENT OF TRADE SUPPORT SERVICES

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EXECUTIVE SUMMARY

The Europe and Central Asia region (ECA)\(^1\) has undergone drastic economic and political changes over the past ten years. Differences in the pace of reform and other country characteristics have led to increasing heterogeneity in the region. For the purpose of this paper, three main groups\(^2\) of countries have been defined: Group I: Higher Growth Countries; Group II: Intermediate Growth Countries; and Group III: Lower Growth Countries. Grouping by growth was used as a proxy for the degree of success in bringing about economic reforms.

Trade in ECA has been deeply transformed in the nineties, with a strong increase of international trade and exports (increases of 50 percent for Group III countries; and up to 90 percent growth for other countries) and a shift of trade towards Western Europe\(^3\). The ability of ECA countries to further integrate into the global economy depends, beyond their capacity to design and produce, on the ability to market and distribute their products competitively. In this regard, the quality and cost effectiveness of trade support services\(^4\) available are important. However, weak corporate governance of enterprises more generally has slowed down progress in some cases. The historically high involvement of governments in providing transport and distribution services makes change particularly difficult. As a result, the emerging private sectors in ECA have faced considerable barriers to trade.

Despite progress alleviating some of them, common barriers still represent serious impediments to countries' economic success. Broadly speaking, they have prevented the development of open competition by allowing the coexistence of different rules for public and private operators; restricting entry; allowing monopolies on key infrastructure such as ports; and imposing discriminatory rules on foreign operators. Operations have been hindered by various legal and regulatory obstacles: unstable, incomplete and unclear legal environment for investments and operations; lack of international integration through participation in, and enforcement of, international conventions; trading conditions different from those generally accepted; price controls; cumbersome border crossing and customs procedures; insufficient infrastructure financing; and limited recourse against harassment from civil servants (tax collectors, customs agents, licensing authorities, etc.).

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1 Countries considered are: Armenia, Albania, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, FYR of Macedonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Turkey, Ukraine, Uzbekistan.
2 Groups are detailed in the introduction.
3 Trade shares of the European Union being 60, 50 and 42 percent respectively for Group I, II and III.
4 The range of services required for distribution of products and trade includes: transport, management and control of freight movements, warehousing, packaging, freight forwarding, customs administration, insurance, banking, financing and management of transport/telecommunication infrastructure, information technology for trade, trade promotion.
Since many Governments in ECA lack both the financial and the managerial capacity to provide appropriate trade support services, their role needs to shift to the creation of an enabling environment for the development of such services by the private sector. The degree of success in this effort will depend on the capacity to formulate a legal and regulatory framework aimed at maximizing the number of new entrants to foster intensive competition. Such framework should focus on four main parameters: (a) the availability of information (trade volumes, tariffs, services offered, regulations and laws applicable); (b) the fairness of competition; (c) the right to act independently; and (d) the appropriateness of the new legal instruments.

The enhancement of trade support services and reduction of distribution costs in ECA require the following actions: (a) the redefinition of the role of the government in the area; (b) efforts to raise awareness and build public-private partnerships; and (c) the formulation of an enabling environment. Pace and modality of implementation of these changes will differ throughout ECA according to country specificity, although the nature of the changes required would remain similar. A detailed list of priority actions is provided in Annex 1.

An Agenda for Change

Thus, a change agenda for ECA countries begins to emerge in terms of three fundamental directions of reform:

a) Redefinition of the Role of the Government

○ Commercialize infrastructure management, withdraw from operations and increase reliance on private sector.
○ Strengthen government's institutional capability to formulate policies and enforce legal and regulatory frameworks.

b) Awareness and Development of Public/Private/International Partnerships

Nationally:
○ Ensure provision of training in logistics.
○ Facilitate emergence of local associations affiliated to international associations (IRU, UIC...) to certify quality, advertise, offer human resource training.
○ Ensure availability of information on legal and regulatory frameworks and business opportunities.
○ Establish recourse system for users against abuse of power.

Internationally and Regionally:
○ Strengthen international convergence of legal and regulatory frameworks.
○ Ensure compatibility with international practice.
• Select and adopt internationally accepted standards for communications and electronic data transfer.

c) **Formulation of an Enabling Environment for the Development of Trade Support Services:**

• **Complete trade related legislation:** definition of liability, contract of carriage, sales contract, financial transactions schemes according to international commercial standards and trade practices

• **Draft missing regulations** (e.g., on market access, licensing of transport operators, third party interest regulations (safety, liability, user charges)), and a series of transport laws (Annex 1)

• **Deregulate to ensure fair competition,** fair and equal entry, independent operations.

• **Streamline and reform customs operations** on the basis of the Kyoto Convention, WTO Agreements, and other international practices (EU, APEC).

• **Facilitate regional economic integration**

**The Bank's Role.** The Bank can support and is supporting this agenda in various ways as demonstrated by projects and sector work since 1976 to support trade development, including: (i) sector projects focusing on transport logistics or on specific bottlenecks; (ii) macroeconomic approaches in Structural Adjustment Loans focusing on export finance, market and price liberalization, specific tax and tariff reforms and the overall regulatory framework for trade support services, (iii) studies dealing with issues such as trade facilitation and transport logistics, and (iv) competitiveness projects that explicitly target trade facilitation, export development and product and services marketing. The achievement of full benefits of trade facilitation requires this complex collection of issues to be approached with a multi-sector perspective within country assistance strategies, with close cooperation among the various sector units of the Bank and with other international bodies (UNCTAD, UNDP, WTO, IMF, EU, UNECE, ECMT ..)
<table>
<thead>
<tr>
<th>Objective</th>
<th>Actions</th>
</tr>
</thead>
</table>
| Redefine the role of the Government | - Institution reviews and human resource development  
- Institutional strengthening  
- Maintenance and assets management improvement  
- Operational efficiency improvement  
- Privatization Processes |
| Raise Awareness and Increase Public/Private/International Partnerships | - Transport Sector Reviews  
- Competitiveness and logistical chain analysis.  
- Provision of technical assistance in supply chain management.  
- Support of regional initiatives involving multiple international organizations for designing projects in support of transit, trade facilitation or regional integration.  
- Building up of private-public partnerships in the context of projects  
- Introduction of EU-compatible regulations.  
- Building up of information systems.  
- Introduction of Metrology, Testing, Technical and Quality Standards |
| Formulate an Enabling Environment | - Formulation of Strategic and Action Plans  
- Technical Assistance  
- Customs Reform (documentation, processes, structure). |
| Improve private sector access to financing. | - Strengthening of financial sector regulations and Central Banks' inspection capacity  
- Assistance in privatization of financial institutions and development of domestic financial markets  
- Facilitation of market entry for foreign banks  
- During the transition, these actions could be supplemented by.  
  - Providing lines of credit or guarantees to private banks to finance trade and transport facilitation projects  
  - Financing micro-infrastructure where private sector has not stepped in  
  - Providing financing for information technology |
DEVELOPMENT OF TRADE SUPPORT SERVICES

INTRODUCTION

The Europe and Central Asia region (ECA)\(^5\) has undergone drastic economic and political changes over the past ten years. Its heterogeneity has increased due to differences in the pace of reform and factor endowments. In several countries, internal and external crises slowed down development (e.g., Pyramid crisis in Albania, and war in Croatia, Serbia and Bosnia-Herzegovina). The real GDP average growth for the region in 1998 was estimated at -1.3 percent but individual countries ranged from -8.6 percent to + 10.1 percent. We have grouped the countries according to their GDP and trade growth since 1993 into: Higher Growth; Intermediate Growth, and Lower Growth Countries. Growth performance is a proxy for measuring the degree of success in economic reform across sectors.

The Russian crisis of 1998 has highlighted\(^6\) the correlation between the advances of structural and legal reforms and the ability for countries to withstand economic crisis in neighboring countries. Central and Eastern European countries showed a much stronger resilience than Former Soviet Union countries. This resilience stemmed notably from a better diversification of trade towards the European Union and a broader range of export products. By contrast, Former Soviet Union countries remained highly dependent on Russia as a trading partner and offered a narrower set of exports\(^7\).

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\(^5\) Countries considered are: Armenia, Albania, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, FYR of Macedonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovak Republic, Slovenia, Tajikistan, Turkmenistan, Turkey, Ukraine, Uzbekistan

\(^6\) See EBRD, Transition Report, April 1999.

\(^7\) Commodities represent more than 60% of the exports for most FSU countries.
**Cumulative FDI per capita versus change in trade**

<table>
<thead>
<tr>
<th>Country</th>
<th>Cumulative FDI per capita, 1989-98</th>
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<tbody>
<tr>
<td>Hungary</td>
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<td>Poland</td>
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<td>Czech Republic</td>
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<td>Slovenia</td>
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<td>Albania</td>
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<td>Bulgaria</td>
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<td>FYR Macedonia</td>
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<td>Romania</td>
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<td>Afghanistan</td>
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<td>Tajikistan</td>
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<td>Moldova</td>
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<td>Belarus</td>
<td></td>
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<tr>
<td>Armenia</td>
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</tbody>
</table>

**Group I Higher Growth Countries:** includes Croatia, the Czech Republic, Estonia, Hungary, Poland, the Slovak Republic, Slovenia and Turkey. These countries have moved significantly along the path of economic restructuring, and had a Gross Domestic Product per capita in excess of US$3,000 in 1998 (US$9,829 in Slovenia). They attracted US$35 billion of net Foreign Direct Investment (FDI) over the period 1989-1997 (see graph above). Higher-growth countries reached in 1998 at least 90 percent of the real level of GDP attained in 1989, except for Croatia (78 percent). Growth in these countries, driven by increases in internal consumption, trade and investment, has been accompanied by the privatization of small companies, which will be followed by the privatization and restructuring of large enterprises and traditional industries, public monopolies and infrastructure. The strong political willingness to join the European Union or to become a close partner (Turkey) in the near future is a powerful force in the restructuring process in many of these countries.

**Group II Intermediate Growth Countries:** includes Latvia, Lithuania, Albania, Bulgaria, FYR Macedonia, Romania and Bosnia and Herzegovina. The economic reforms are gradually taking hold in these countries. Their GDP per capita ranged between US$700 and US$2,500 in 1997, and represented between 56 percent and 80 percent of 1989 real GDP. FDI reached US$5.3 billion or between US$128 and US$624 per capita over the period 1989-1997. As with the first group, the political willingness to become a European Union member is a powerful incentive to restructure.

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R² = 0.45 (without Armenia, Belarus, Czech Republic, and Hungary). Armenia shows high growth in trade mostly because it started from very low.
9 These figures do not include Bosnia and Herzegovina.
Group III Lower Growth Countries: includes Armenia\textsuperscript{10}, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. Average growth was positive in 1997 for the first time this decade but with great variations among countries. Some smaller countries like Georgia managed to exhibit strong growth performance -- although from a low initial base -- while larger size countries like Ukraine showed little or no growth. Lower growth countries’ real GDP in 1998 was on average at 55 percent of its 1989 level. Productivity gains are smaller than in the other two groups of countries. Foreign Direct Investment per capita (US$70) over the period 1989-1997 was five times smaller than in the two other groups of countries (US$350) and reflected the perception of a more uncertain and unstable environment.

\begin{center}
\textbf{Change in GDP per capita growth versus change in trade\textsuperscript{11}}
\end{center}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart.png}
\end{figure}

Trade Support Services. The different growth performances found in ECA seem to be strongly correlated with: (i) the pace of reform, (ii) attraction of FDI; and (iii) trade development. These are also reflected in the trade support services available. Trade support services cover the range of activities required for distribution of products and trade, i.e. transport, management and tracking of freight movements, warehousing, packaging, freight forwarding, customs administration, insurance, banking, financing and management of transport/telecommunication infrastructure, information technology for trade, and trade promotion.

The report is organized in four sections as follows:

\textsuperscript{10} Growth wise, Armenia and Belarus would belong to the first group. However Armenia started her recovery from a very low point and Belarus growth is unsustainable, which warranted their inclusion in the third category.

\textsuperscript{11} While there is a broad association between trade and growth, there is also wide dispersion among countries in the specific relationship over short periods of time, as illustrated by outliers Hungary, Belarus and Armenia in the chart, and the $R^2$ of only 0.15.
Section II analyzes the demand for trade support services emerging from the economic changes in ECA. These services are critical to country competitiveness, and it is in the interest of public policy makers to encourage their provision.

Section II identifies the trade barriers most commonly found. These barriers have been alleviated to various degrees with the support of donors, professional associations and business partners. Nonetheless, some of these barriers remain and have a double impact. (i) increasing costs significantly, e.g. 5 percent of GDP in excess costs in Ukraine; and (ii) reducing country export competitiveness.

Section III outlines the nature of the changes required to improve the supply of trade support services.

Section IV focuses on the priorities and the potential role for the World Bank in support of the definition and implementation of change.
I. THE NEED FOR CHANGE

Reduction of Excess Cost in Trade Support Services. The direct excess costs of trade support services in ECA resulting from barriers (described in Chapter II) commonly reach 6 to 7 percent of total trade value (Box 1). In a country like Ukraine, it represents annually US$2 7 billion or 5% of GDP. The emerging private sectors have started developing more efficient trade support services in ECA, but face a number of physical, legal and administrative barriers. The direct impact of these barriers is most significant in lower growth countries. Barriers reduce country competitiveness (Box 2), precluding return to growth. Barriers also reduce the volume of transit services provided, and deter foreign investment, since local output is difficult to integrate reliably in international production chains.

Box 1. Estimated Cost of Trade Barriers

The World Bank Transport Sector Reviews for Armenia, Belarus, Moldova and Ukraine specifically estimated the overall trade and transport related excess costs and yielded figures in the range of 6 to 8 percent of total trade (export + import) in each country. The cost of services associated to trade amounted to 17 percent of the overall trade transaction costs compared to a 10% international average.

Service Costs as Percentage of Trade Transaction

<table>
<thead>
<tr>
<th>Country</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ukraine</td>
<td>20%</td>
</tr>
<tr>
<td>Belarus</td>
<td>15%</td>
</tr>
<tr>
<td>Moldova</td>
<td>10%</td>
</tr>
<tr>
<td>Armenia</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: World Bank Transport Sector Reviews: Armenia, Moldova, Ukraine, Belarus

Box 2. Anecdotal Evidence of Barrier Impacts: Export of Wine Additives.

A French producer of wine additives sells its products to Moldova, Greece and Ukraine and gets quotes from an international carrier (Air and Road) to transport wine additives from Bordeaux (France) to Moldova, Ukraine or Greece (similar distance). The price quoted by the road transporter were 6 times higher in the case of air transport (monopoly of Air Moldova). There are several factors to be considered as causes to the price difference: the availability return cargo, actual time and costs of delivery (waiting time at borders), risks, etc...

Transport Price in FFR/kg (100-200kg load) from France

Source: Laffort Oenologie, 1998

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13 Forwarders commonly state that their routing selection depends largely on the barriers faced on various corridors.
14 The decision on location of new factories supported by foreign direct investment frequently hinges upon the availability of reliable transport links, unhindered by inappropriate interactions with border agencies.
Changes in Trade Patterns. Despite trade barriers, trade patterns and relationships have been deeply transformed in the Europe and Central Asia region (ECA) in the nineties, and have been closely linked to the macroeconomic evolution of these countries. Export volumes have increased by 90 percent for higher-growth and intermediate-growth countries and by 50 percent for low-growth countries over the period 1992-1997. The export to GDP ratio reached 32 percent for higher- and intermediate-growth countries in 1997 and only 21 percent for lower-growth countries, underlining the stronger export orientation in the former. Higher-growth countries have reoriented their trade towards the European Union (60 percent of trade), exchanging mostly manufactured goods. Intermediate growth countries have followed a similar trend with about 50 percent of their trade with the European Union and a large share of manufactured goods. Lower growth countries’ main trade partner is also the European Union with about 42% of trade, exports being dominated by Russian exports (81 percent) of raw materials (oil, gas). Most of ECA trade growth was caused by the increase in trade with EU countries. While traditional trade served the purpose of regional specialization and stabilization around Russia, new trade patterns in ECA reflect a shift toward economically justified trade links in a trade globalization context.

Intra-Industry Trade Development. Intra-industry trade in subcontracting or joint ventures is developing in Group I countries. Companies provide intermediate inputs to customers based in other countries. These companies become partners in international production chains and focus on taking advantage of their unused capacity and lower labor costs. This development has been made possible by the fast transformation of information technology that enables close communication between geographically distant partners and better management of processes, including distribution. FDI-supported car manufacturing is an example of such type of co-production arrangements. This intra-industry trade develops only to the extent that all the prerequisites necessary to meet the marketing and distribution practices of the foreign partners can be met. The ability to cope with such stringent demands has led to the emergence of a new type of industries and managerial practices, which are to a large extent responsible for the solid economic and export growth recorded in Group I countries.

Competitiveness and Trade Support Services. Succeeding in a global market environment requires efficient trade support services that expand the competitiveness range of companies (Box 3) by lowering total distribution costs, and enabling companies to become part of production chains. The right type of trade support services is determined by the needs of the final clients. In the ECA region, meeting the needs of foreign clients has become a priority. While significant, transport services represent only a quarter of total logistic costs, roughly equally divided between transport into/within, and away from the manufacturing process. The development of all other trade support services as defined on page 4 is equally critical.

Reduction of Inventory Costs. In an effort to reduce their total distribution costs, companies attempt to systematically reduce the level of inventories and its related costs (buffer

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15 Hungary, the Czech Republic and Poland account for 64 percent of import and export between EU and Higher-Growth Countries. Exports from EU increased by 19 percent in 1996 (84% manufactured goods) Source. Eurostat memos

16 As estimated by the German Bundesvereinigung Logistik
stocks, warehousing cost, tied up capital). Inventories can be reduced when the delivery time is assessed accurately by companies. It explains that reliable lead-time\(^{17}\) coupled with tracking information technology has become the most important parameter for choosing transport services (Box 4). Reduced inventories imply also frequent and small-size shipments and increased flexibility of service providers. The historic modal shift from rail to road transport and a development of third-party contracting for the provision of integrated door-to-door services are two consequences of this trend.

**Box 3. Competitiveness Range**

![Graph showing distribution and production cost for Country A and Country B](image)

Despite Country A’s higher production cost, its companies are competitive on a wider geographic range than country B’s companies, due to lower distribution cost.

**Box 4. Logistic Index Study**

A study compared three industries in nine countries around the Baltic Sea using the European Logistic Index, which identified lead time as the most critical element for trading companies (Graph below). The study further confirmed that Western European companies have access to faster, cheaper and more reliable logistic services than Baltic Countries and Russia.

**Key Parameters for Companies**

- Safety Stock Levels
- Warehousing and Distribution Costs
- Lead Time

*Source: The Baltic Logistics Index, Logistics Consulting Group*

**Lag in Corporate Response.** The corporate response to the challenges of trade development has lagged to different extents in the three groups of countries. Corporate restructuring has faced some setbacks due to insiders’ control or lack of transparency in ownership in many enterprises that resulted from the first wave of privatization. Side by side with competitive, export-oriented companies, the old-style companies subsist even in Group I countries. These companies are ill equipped to adapt to their new competitive environment. Their business strategies still focus more on production than distribution, which leads to higher levels of inventories. Protectionist policies may artificially safeguard these companies, but actually weaken their comparative advantage in the medium run, and reduce their capacity to export and grow and their ability to finance their own development.

**The Redefinition of the State’s Role.** The historical omnipresence of the state in the provision of transport and logistical services lingers on. The type of centrally planned services, without customer focus, may explain in part the lag in supply or corporate responses in Group III (Box 5). Today the drop in traffic combined with tariffs that typically do not cover costs has aggravated transport losses. ECA Governments, under tight budget constraints, have difficulty maintaining, rehabilitating and investing, which leads to an erosion of the asset base, lack of technological innovation and lack of appropriate trade support services. In response to this pressure on limited budgets, most countries have moved to a more or less progressive

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\(^{17}\) Lead time is the time between receipt of an order and physical delivery of goods.
disengagement by the State, transferring trade support services to the private sector. These transfers however have been less effective when the legal and regulatory framework required for a functioning market economy is still undefined.

**Box 5. The Transport/Trade Sector Prior to 1991 in FSU.**

Prior to 1991, Transport Ministries in FSU were managing large state enterprises integrated across the Union assuring freight and passenger transport. Other Ministries also managed some specialized fleets of trucks. All decisions were taken at the ministerial level. State enterprises were dealing with a wide range of non-transport related services. This structure resulted in very limited improvement in the quality of logistical services under the FSU and a legacy of centralized decision making. The inventory costs were not accounted for as no one was specifically accountable for them. Trade flows were also centrally organized and FSU countries were ill-prepared for the challenge confronting them when attempting to develop trade.

II. BARRIERS TO TRADE

Despite the heterogeneity of the region, similar barriers have prevented the provision of efficient and cost-effective trade support services. As long as these barriers exist, trade support services will remain costly and retard trade development. A review of barriers to trade and transport shows that inappropriate legal and regulatory frameworks, restrictive practices, lack of professional training in modern trade and transportation techniques, as well as general uncertainty in the business environment, constitute the most substantial sources of excess costs having a bearing on trade development. The case of Ukraine is outlined in a text table below (page 9). It illustrates that a country able to remove the barriers would reduce substantially the costs of trade and generate opportunities for the provision of additional services. Progress in this regard is especially noticeable in Group I and II countries, presumably due to the stimulus for reform and trade growth provided by the aspiration to EU membership. The following paragraphs illustrate barriers to trade that still exist in countries at an early stage of their reform process.

The initial set of conditions under which companies operate has limited: (a) competition in trade support services and (b) efficient and sustainable provision of services. These barriers are rooted in the following: (i) attempts to preserve the status quo; (ii) legal and regulatory frameworks, which may hinder international trade; (iii) weak capacity to formulate, implement and enforce new laws and regulations; (iv) political instability; (v) lack of understanding of the concept of government as a facilitator of private activity; (vi) resistance to change from fear of transitional disruptions.

The barriers themselves are seen as interfering with both competition and operations.

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18 A country like Singapore illustrates well the power of advanced trade support services in a national economy.
### Barriers and Impacts observed in the Ukraine Transport Sector Review

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>Some Barriers to operations and active competition</th>
<th>Some Impacts</th>
</tr>
</thead>
</table>
| Transport       | Dysfunctional border crossings (systematic inspections, lack of coordination between agencies, unclear procedures, multiple payments, lack of proper facilities) | Long waiting time leading to:  
  - High financial cost for the transported goods (local borrowing rates are high)  
  - High cost of transport services (immobilization of transport equipment and operators)\(^\text{19}\)  
  - Impossibility to rely on the timely delivery of the goods  
  Petty corruption leading to:  
  - Additional costs (payment in kind or cash)  
  - Diversion of traffic to other corridors (loss of transit revenue) |
| Inappropriate procedures, standards or market access rights | Long waiting time to obtain permits  
  - Artificial costs (mandatory escort, payment for procedures adding no value)  
  - Licenses to operate trucks abroad distributed on a preferential basis  
  - Limited river transport (due to a de facto monopoly) |
| Non ratification of international conventions | Unclear contract clauses leading to limited recourse and high trading risk |
| Regulated tariffs preventing proper marketing and strategy | Uncontrolled cross-subsidies leading to misallocation of resources |
| Port            | Limited incentive for competition | Very high tariffs/low quality of services compared to neighboring countries |
| Freight forwarding | Little or no door to door service available | Most risky leg of the trip goes uninsured |
| Weak transport management | Significant idle time along the transport chain  
  - Inability to bring products to well functioning markets (agriculture) |
| Insurance       | High pilferage Mandatory use of a local intermediary  
  - Fragmented local insurance | Increased insurance cost (by 1 to 3 percent of the value of insured goods)  
  - Increased insurance cost by 1 percent of value of insured exports  
  - Insurance not always available or reliable |
| Banking         | Currency restrictions Limited Banking Services | Restricted access and use of foreign currencies make trade more costly  
  - High interest rates and limited credit availability |

\(^{\text{19}}\) daily cost of a ship US$5,000-20,000 and of a truck US$200-800

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**A. Barriers to Active Competition**

Competition has suffered from different rules, entry restrictions for foreign public and private operators, acceptance of monopolies and imposition of discriminatory rules for foreign operators/investors. These translate into increased costs and lack of services critical for international competitiveness. Just as competition in trade support services in the rest of the world has been the major thrust for lowering prices and improving quality, its absence has had the opposite effect.
Unfair Competition. The development of fair competitive practices requires identical conditions of operation for all parties. Government-owned operators commonly undervalue their assets, which enables them to charge rates below full cost recovery, introducing implicit subsidies to public operators. Controlled prices and the lack of bankruptcy laws or their enforcement, and the acceptance of continued operation of loss-making public companies, exacerbate the situation. Alternatively, uncompensated public service obligations may create an additional burden, as operators set up cross-subsidies.

Lack of Anti-Monopoly Mechanisms. The absence of properly enforced anti-monopoly regulation endangers competition throughout ECA. This is especially true for fixed facilities such as ports, where non-transparency and strong insider pressure during privatization have led to the creation of private monopolies. State monopolies have sometimes been maintained by entrenched interest groups, which may extract substantial rents from these arrangements.

Discrimination Against Foreign Operators. Discriminations against foreign service providers have taken different forms ranging from non-recognition of foreign permits to high transit fees for foreign transport providers at the border. Bilateral quotas from European countries also tend to limit the possibilities for ECA operators to operate in the EU. In the insurance sector, the mandatory use of local insurance intermediaries is another example of discrimination. Discrimination reflects Government fear that local companies may be overwhelmed by more advanced or cheaper foreign operators and may lose existing rents. This implicitly values the GDP share of protected companies above the much greater benefits that result from improved performance of the whole economy in the global market.

B. Barriers to Operations

Various physical, legal and regulatory barriers have hindered operations. These are typically: (i) unstable, incomplete and unclear legal environment for investments and operations; (ii) incomplete international integration; (iii) absence of internationally accepted trading conditions; (iv) price controls; (v) border crossing delays and cumbersome customs procedures, (vi) inadequate infrastructure financing schemes; and (vii) limited recourse against harassment/lawlessness.

Legal and Regulatory Framework Instability. Legal and regulatory frameworks have changed very rapidly in ECA countries without clear pre-announced statement of purpose. Service providers have had difficulty obtaining the complete range of laws and regulations applicable to their operations. A recent review of laws in Georgia revealed that no single source was capable of providing copies of all regulations applicable to transport operations. Involvement of the private sector in services previously handled by state-owned entities such as freight forwarding, warehousing, insurance, freight consolidation, encountered some legal gaps exposing operators to high potential liabilities incompatible with international practice. The instability and lack of clarity have confronted operators and investors with uncertain cost structures and market potentials. Unclear regulations prevent reliable delivery of goods and limit the creation of joint ventures. Transfer of advanced know-how in trade support services is consequently delayed.
Incomplete International Integration. Standard legal and regulatory foundations for international trade have not yet been recognized everywhere. The contract of carriage, the liability of the carrier, the framework for complaints and claims and the validity of contracts were only covered partially in the FSU Civil Code, still in use in some countries. In particular, liability issues in multi-modal transport are not covered. The use of sales contract based on the INCOTERMS\textsuperscript{20} has not been defined in the legal and regulatory framework of all ECA countries. The absence of legal definitions applicable to trade is in conflict with the private sector concern to ensure: (i) contract enforceability; (ii) claims handling capability; (iii) liability for timely delivery; and (iv) availability of reliable third-party contractors in logistic operations. Restrictions on capital flows, financial services and insurance further affect trade by preventing the use of standard credit facilities and insurance.

Price Controls. Price controls set up by governments limit the development of responsive trade support services. Price controls have been significant in Group III countries in the railway and port sectors, for which tariffs are decided at the level of the Ministry of Transport. Although sometimes well intentioned, price controls entail distortions in productivity and services, introduction of subsidies affecting efficient companies and benefiting less efficient ones, and the inability for everyone to have the flexibility to provide customer-driven services at their real cost.

Customs/Border Crossing. A major barrier to trade comes from unclear, changing, and lengthy customs and border-crossing procedures, as demonstrated by long lines of queuing trucks at border-crossing points. This barrier has both a large direct cost (truck and cargo standing idle) and a significant indirect cost (foregone export opportunities due to unreliable lead times). Vested interests, weak human resource management, and lack of information technology and infrastructure combine at the core of the problem. The extension of the Schengen Agreement\textsuperscript{21} as the first ECA countries access the EU, will create additional pressures to upgrade facilities and institutions to EU standards.

Cost Recovery. The cost of transport services has been increased substantially by the poor condition of transport infrastructure and the limited level of maintenance provided since 1991. The condition is strongly related to the unsustainable financing arrangements, which do not recover the user costs for existing infrastructure.

Weak Recourse. Effective recourse of operators against harassment by public officials has been limited or nonexistent in many instances. Weak judiciary and enforcement systems are often the main reason. For example: operators are helpless when faced with harassment resulting in costly delays at border crossings, and protection services need to accompany shipments either cross country or up to destinations. Unclear regulations and impossibility of raising claims facilitate rent-seeking behavior.

\textsuperscript{20} INCOTERMS: standard International Commerce Terms defining main characteristics of a sale contract (delivery, risk of loss, insurance, transportation, import/export formalities)

\textsuperscript{21} Agreement allowing for the free flow of goods and individuals across its signatories.
III. THE ROAD AHEAD

This section describes the nature of the measures required to create an environment favorable to the expansion of trade support services. The actual implementation needs to be tailored to each country context, keeping in mind that most countries have already started and some Group I and Group II countries can already claim significant success.

Success in creating an enabling environment for trade support services depends to a great extent on the ability to maximize the number of new entrants and foster intensive competition in the provision of these services, ensuring timely innovation and introduction of support technologies. The perception of profit potential and easiness of operations for new entrants are influenced by four main parameters: (a) the availability of information (trade volumes, tariffs, services offered, regulations and laws applicable) and training; (b) the fairness of competition, (c) the right to act independently; (d) the appropriateness of the legal and regulatory framework for trade.

A. Availability of Information

Dissemination of Information. Governments need to facilitate the dissemination of information to reduce the perception of risk amongst investors. In a global competitive environment, knowledge is power. The attraction of new entrants depends to a large extent on the quantity and quality of information available. The absence of information deters investors. In the case of trade support services, the following would be of interest: trade and traffic volumes, tariffs and services offered by existing service providers, government policies, all regulations and laws applicable to investment, provision of services or capital flow management, and existing recourse mechanisms. This dissemination could be initiated by the Government until associations are sufficiently developed to assume the responsibility. In particular, Government policy should encourage the expansion of independent associations to monitor and rate the reliability of existing service providers.

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22 The case of Pro-Chile in the '70s and '80s and its later replacement by private initiatives is an example of this function. In addition, a collection of best practices in supply chain management is under preparation as a separate study at the Bank in TWUTD.
Improving the Provision of Information.

Target Group: traders, investors, trade support service providers, government, customs administration.

Medium: internet website with push technology and email notification; CD-Rom.

Countries included: all countries willing to join (little additional cost once it is designed)

Information available in local language, English and other languages: all applicable laws and regulations, suggested amendments in the legal and regulatory framework, names of government officials dealing with specific issues; customs requirements and tariffs, trade statistics and characteristics, trade support services offered by the various providers, service prices and reliability adjusted in real time, list of difficulties faced by shippers, companies looking for partnership; distribution networks in the country, list of critical contacts; prices of goods and services in the country; applicable metrology, standards, testing and quality.

Incentive for private sector: the system would allow them to advertise their services internationally and provide feedback to changes proposed in the legal and regulatory framework by the Government.

Incentive for public sector: more entrants in the sector, increased revenue and transparency.

Training. Raising the quality of corporate governance will require some massive training efforts in relatively new fields. Substantial training has already been received in ECA countries under grant financing arrangements (Phare, TACIS), under the auspices of Government or professional associations. The creation of logistic training centers in Hungary has proven a successful initiative to raise awareness and introduce international know-how in trade support services. The active involvement of trade associations and chambers of industry and commerce partially explains this success.

B. Fairness of Competition

The stimulation of competition requires: the completion of the privatization of government owned operators; free entry to the sector; the regulation/concession of remaining state-owned infrastructure; the removal of protectionist policies; the elimination of discriminatory taxes or rules, updated bankruptcy laws; enforcement of competition and anti-trust laws; and consumer protection.

Change in State’s Role. A fair competitive environment requires first a transformation of the Government’s role. Successful efforts in that direction worldwide indicate the effectiveness of reducing the operational role of the State by (i) commercializing infrastructure and privatizing operations (Box 6); (ii) reducing financial loss by imposing cost-recovery mechanism; (iii) strengthening policy making and implementation of laws and regulations; and (iv) introducing market monitoring, and restricting state intervention to situations of structural crises.

All this applies particularly to the provision of transport services.

Free Entry/Exit. Licensing, where it exists, should be limited to ensuring the financial standing, professional competence, and quality of the licensee, and proper handling by operators of environmental issues and impacts on third parties, ideally without resorting to quotas. For example, licensing requirements in road transport would include guidelines for domestic noise and exhaust emission standards, compulsory vehicle inspection requirement, compulsory third-party
insurance and proper driver-licensing and driving hours requirements. If international quotas do
exist, the licenses should be auctioned or randomly assigned to avoid discretionary decisions. A-
staged implementation of EU safety and environmental standards should be outlined in each
country following detailed economic analyses. The quality of services should preferably be
monitored by independent associations affiliated to international associations, e.g. the FIATA\textsuperscript{23}
for freight forwarders or IRU in the road sector.

**Preventing Private Monopolies.** Preventing the creation of monopolies is a critical
surveillance function in a market economy. The legal and regulatory framework should
specifically eradicate any advantages under the law for existing companies compared to new
entrants and prevent monopoly-inducing situations. The legal and regulatory framework should
allow free entry and ensure that term concessions are openly retendered at the end of their term.
Furthermore the opening of the economy to trade and international competition strengthens
monopoly prevention measures.

**Removal of Protectionism.** Local and foreign operators should be allowed to operate
and compete on a similar basis. The cost of protectionism has proven very high (Box 7).
Discriminatory taxes or procedures targeted against foreign operators should be removed. The
signature of a multilateral agreement in Baku (Box 8) committing countries at a political level to
eliminate protectionist measures on international transport for the development of the Europe-
Caucasus-Asia corridor is a move in the right direction.

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**Box 6. Privatization Methods**

The transfer of enterprises from the State to the private sector could take place by any of the following
methods: (i) sale of assets; (ii) sale on a turnkey basis by auction; (iii) liquidation; (iv) partial sales of
ancillary services; (v) conversion into a stock company with sale of shares; (vi) sales on credit to employees; (vii)
contracting of supervisory or control functions (such as pollution control). Existence of freedom of entry has
proven critical for the transfer of operations to the private sector.

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**Box 7. The Cost of Intervention: Maritime Transport Flag Protection.**

The policy to preserve transport rights for national carriers has proven costly
both in terms of service cost (30 % higher cost than in a competitive
environment) and impact on the balance of payments due to the foreign
exchange intensity of maritime operations. In a study of Venezuela, freight
rates were found to be about 30 % above free-market rates. On annual freight
expenditures of US$800 million, the excess cost to the economy was US$290
million. Since 70 percent of the freight payments were to foreign carriers, the
extra foreign exchange cost was US$190 million. The balance of payment
contribution from reserved cargo, once allowance was made for all inputs
purchased abroad, was only US$20 million. Losses were therefore 9 4 times
as high as gains. Loss/gain ratios for other developing countries were Brazil
7 4, India 4.3, Philippines 6.1 and Turkey 9 2.

\textit{Source Messerlin P. and al. 1990. The Uruguay Round Services in the World
Economy.}

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\textsuperscript{23} FIATA International Federation of Freight Forwarders.
Box 8. Multilateral Agreement on International Transport

In an effort to rebuild the Silk Route trade, UNCTAD/UNDP have launched a Central Asian Trade, Transit and Transport Initiative. This initiative includes the preparation of a multi-country Transit Transport Framework. The framework grants the right of transit to each of the contracting parties to facilitate movements of goods, luggage and passengers and provide all possible facilities for interstate and transit transport. In particular, the parties commit to: eliminate unnecessary delays; minimize the incidence of customs fraud or tax evasion; and bring about simplification and harmonization of customs procedures and administrative documentation. To reduce unnecessary delays, the contracting parties undertake to establish joint frontier points to prevent repeated unloading and reloading, ensure that adequate manpower resources are present, coordinate working hours of adjacent frontier posts, and provide communication and parking facilities to transport operators. The agreement defines the general conditions of road, rail and inland waterway transport, the scope of the contract of carriage and the conventions to adhere to.

C. The Right to Act Independently

The efficiency of a market economy comes from private companies freely allocating resources to offer services that their customers are willing to purchase. The introduction of regulations other than those related to safety, environment, information or competition promotion, goes against this fundamental principle and reduces market efficiency. Deregulation generates higher growth as demonstrated in the United States and in the United Kingdom compared to the rest of Europe. Price and labor-market deregulation in ECA would also foster the development of trade support services.

The increasing complexity of trade support services, and the need to adjust the mix of services and tariffs to client needs, require great flexibility from private companies and minimum interference from Government in pricing the services. Examples of quick turnaround of operations after deregulation/privatization abound and demonstrate that the type of trade support services depend at least as much on government policies as on the type of infrastructure/assets available (box 9).

Box 9. Chile: Turnaround of the Port Sector.

Chilean ports in 1973 were a serious impediment to international trade. Long dwell time in ports, poor quality of service, excessive cost of manpower (four times normal rates), loss making (income covering 8 percent of the State Port Company’s expenses), diversion of cargo, high insurance cost and repute for being the dirtiest ports in the region were the main symptoms. The union of longshoremen was at the core of the issue, by imposing high salaries, inflexible work rules (e.g., no work with artificial light) and low productivity levels. Longshoremen were granted life-long irrevocable permits. Little could be achieved against this de facto monopoly. Port capacity improvement under these conditions required very large infrastructure investments, which were even considered as a possible project by the World Bank at one point.

Change took place over the next ten years as representatives of the economic sectors were nominated to the managing board of the state company. The longshoremen permits were bought for US$50 million, and the union privatized, i.e., became a stevedoring enterprise in a competitive environment. The tariff system was transformed to provide the incentives for quick turnaround. Unrelated activities ceased, unnecessary assets were sold, staff level was reduced by 80 percent, work shifts covered 24 hours a day instead of daylight time only. The results were outstanding: profitability was reestablished (greater than 5 percent on investment), port capacity increased tenfold with only limited investment in infrastructure, and productivity and real wages increased. The development of Chilean trade was partially due to this transformation of the port sub-sector.

Source: Carlos Silva, ex Minister of Transport of Chile.
D. Appropriateness of Legal Framework

The "appropriate" legal framework is the collection of laws, decrees and regulations laying down foundations compatible with international (WTO) and regional practices (EU, APEC...) for: trade exchanges; transport; Information Technology development; and border-crossing operations.

Defining Trade Elements. Three basic elements are required for any trade exchange: the contract of carriage (Box 10) that permits the seller to get out of the transportation business; the contract of sale (Box 11) that permits the seller and buyer to deal at a distance; and credit facilities that permit seller and buyer to deal with credit risk. These elements should be urgently defined to bring the liability and insurance requirements of trade support services providers to international standards, especially in regard to: (i) multimodal transport, (ii) contractual liability for goods in transit; and (iii) electronic commerce. Accepted international standards, such as INCOTERMS for contract of sale or the FIATA Bill of Lading, should be adopted and recognized. The European Union promotes such recognition in the ECA region under its TRACECA, EU-PHARE and TACIS programs.

Insurance and Banking. Use of credit facilities and insurance is an integral part of any trade. An appropriate environment for trade includes strengthened financial and insurance sector regulations, reinforced central banks' inspection capacity, privatized financial institutions, efficient financial and insurance markets, and free access by foreign companies. These are required to ensure the availability at reasonable cost of widely used transaction tools, such as documentary Letter of Credit, documentary collection or buyer credit enhancement instruments.

Convergence with EU/Compatibility with WTO. Laws and policies affecting trade support services should become progressively compatible within geographical regions, i.e., with the EU practice especially for countries in Group I and II. The legal and regulatory frameworks should converge in regard to the liability of operators in the provision of their services, requirement of compulsory insurance for third party damage, minimum safety and maximum pollution regulations for operations, procedures for hazardous material transportation, and applicable user charges. Whenever they are possible, similar frameworks across neighboring countries reduce difficulties at border crossings.
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<th>Box 10. Contract of Carriage.</th>
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<tr>
<td>The contract of carriage enables the seller to outsource the provision of transport services by chartering a ship or contracting for transportation using a Bill of Lading. The Bill of Lading (BoL) is the document issued by a carrier to a shipper acknowledging receipt of goods, and stating the point of pick-up and delivery, value declared for carriage, freight charges and terms and conditions of transport. The BoL evidences the right of possession of goods, and can be negotiable (deliver to bearer or order). As such, the rights of prior owners are limited and the BoL document needs to be transported physically. The FIATA Bill of Lading, if adopted and recognized, facilitates international exchanges. The use of faxable nonnegotiable transport documents (sea waybills) can help speeding the process and is commonly used in the EU and North America, until electronic BoL transfer becomes common place.</td>
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<th>Box 11. Contract of Sale.</th>
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<tr>
<td>Contract of sale covers commercial and legal/regulatory matters. Commercial aspects relate to: quantity, quality, price of goods, responsibility for transportation, insurance, export/import formalities, and allocation of risk of loss and credit. The International Commerce Terms (INCOTERMS) define various types of standard sale contracts, and facilitate a common understanding of responsibilities and liabilities. The contract form will allow the trading parties to select freely the applicable Governing Law, such as the Vienna Convention on International Sale of Goods with the law of the State of New York to fill the gaps.</td>
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Facilitating Information Technology for Trade. A strong private-public partnership is required whereby the private sector provides flexible services and the government the legal and regulatory framework conducive to competition in telecommunications. The provision of advanced communication technology enabling speedy electronic transmission of insurance contracts, payment orders or other documentation has proven critical in the success of trade-oriented countries. The Electronic Data Interchange For Administration, Commerce and Transport -- EDIFACT -- has made significant progress in Europe, and the UNCTAD-sponsored system, ASYCUDA, has streamlined the time required for customs clearance. The emergence of Internet-based solutions supported by UNCEFACT will soon offer the opportunity of integrating small and medium enterprises in global supply chains. A clear policy is required in this field to develop regionally compatible systems between the private and public authorities that will enable the transfer of trade-related information throughout the trade chain. Various approaches are possible including the provision of interface services by private operators.

Streamlining Customs/Border Crossing. The cost of cross-border movements can be minimized with the adoption of standard international transport and trade documents, the reengineering of customs clearance processes (Box 12), the design of quality standards for goods and the enforcement of these standards. The improvement of border crossings requires the harmonization of country regulations and procedures with international customs conventions, notably the TIR convention and the International Convention on Harmonization of Frontier Control of Goods. The introduction of EU/UN lay-out-key documentation would simplify and shorten the registration for Full Container Load/ Less Than Truck Load or Full Truck Load. A registry of forwarding companies, displaying past performance, would enable clients to identify good performance. The transformation of customs should draw upon existing examples of

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24 See www.worldbank.org/devforum/current-edi.html
25 See Information Technology and National Trade Facilitation. A Guide to Best Practice, WTP # 317
customs reforms, e.g., that described in Box 13, and the customs collection action plan objective for APEC shown in Annex 3.

**Recourse System.** A recourse system to handle trade-related claims and determine compensation level is necessary. Companies need the guarantee of protection against harassment from rent seekers including civil servants such as customs officials, with the guarantee that each complaint would be processed quickly, according to known rules. This mechanism, coupled with necessary judiciary reforms, would limit the risks perceived by the operators, and could be financed by some user charges.

**Box 12. Reengineering Customs Processes.**

Reengineering customs clearance processes consists of developing new procedures and simplifying the existing ones. Some innovative cargo clearance procedures including pre-clearance, advance of bonded shipments, selective inspection, or use of customs broker intermediaries, and customs/shippers information interfaces, which are simple, minimize redundant data entry, comply with international “best practice”, and considerably reduce the time required for customs clearance. The simplification of customs tariffs and valuation procedures and reduction in the number of commodity descriptions and detailed schedule applications would limit the need for refined determinations of cargo value and the interpretative latitude left to customs officials.

**Box 13. Mexico Customs Reforms.**

Following the opening of the Mexican economy in the late 80s, the customs administration was identified as an impediment to efficient trade flows. In 1989, the Government decided to remedy the situation, stripping the Directorate General of Customs of its prerogatives, decentralizing customs administration, professional profiling and replacing part of the existing staff, widely publishing the rights and obligations of traders and customs, instructing payments to be made directly to commercial banks rather than to customs officials.

Widespread computerization and electronic data linkages are the backbone of the new system. A computer-generated random selection process determines the transactions to be inspected to remove discretion and negotiability from customs officers. Clearance steps have been cut from twelve to four. Customs clearance are now carried out at the border or at an interior site within the jurisdiction of the trader’s office. Entry to the previously tightly controlled brokers segment has been liberalized and the regulated fee structure was phased out and replaced by competitive determination of fee levels. The remaining customs personnel benefit from an official incentive scheme whereby they receive bonuses for meeting predetermined productivity levels.

The immediate impact of these reform measures has been substantial. A World Bank survey assessed first year cost savings at US$2 billion or 5% of the total merchandise trade in 1989, or close to 1% of GDP. These savings resulted from an average 3-day reduction in transit time, lower broker fees and elimination of “undocumented expenses” that used to represent 70% of brokers fees. In addition daily collections of customs duties increased between 12 and 15%.

**Source.** Ron Kopicki, *World Bank*

**Source.** Hans J. Peters, *Promoting Latin America’s Trade*

**Stability of the Legal and Regulatory Framework.** The stability, simplification and clarity of the framework are prerequisites for the development of private sector activities and foreign direct investments. Stability requires that a majority of political forces share a vision of the needed restructuring. Simplification aspects should be implemented in close cooperation with
the private sector. To some extent, logistic centers established in some countries in ECA were made possible by positive regulatory surroundings, which attracted necessary investments.

IV. CHANGE AGENDA/BANK ASSISTANCE

A. An Agenda for Change

The enhancement of trade support services and reduction of distribution costs in ECA require (a) the redefinition of the role of the government, (b) efforts to raise awareness and build public-private-international partnerships; and (c) the formulation of an enabling environment. A detailed list of possible actions by main type of issue is provided in Annex 1. The Bank’s experience in transport and trade facilitation is presented in Box 14.

Thus, a change agenda for ECA begins to emerge in terms of three fundamental directions of reform:

a) Redefinition of the Role of the Government
   - Commercialize infrastructure management, withdraw from operations and increase reliance on private sector
   - Strengthen government’s institutional capability to formulate policies and enforce legal and regulatory frameworks.

b) Awareness and Development of Public-Private-International Partnerships

   Nationally:
   - Ensure provision of training in logistics.
   - Facilitate emergence of local affiliations to international associations (IRU, UIC, etc.) to certify quality, advertise, offer human resource training.
   - Ensure availability of information on legal and regulatory frameworks and business opportunities.
   - Establish recourse system for users against abuse of power.

   Internationally and Regionally:
   - Strengthen international convergence of legal and regulatory frameworks
   - Ensure compatibility with international practice.
   - Select and adopt internationally accepted standards for communications and electronic data transfer.

   c) An Enabling Environment for the Development of Trade Support Services:
   - Complete trade-related legislation: definition of liability, contract of carriage, sales contract, financial transactions schemes according to international commercial standards and trade practices.
• Draft missing regulations (e.g., on market access, licensing of transport operators, third party interest regulations (safety, liability, user charges) and a series of transport laws (Annex 1)
• Deregulate to ensure fair competition, fair and equal entry and independent operations
• Streamline and reform customs operations on the basis of the Kyoto Convention, WTO Agreements and other international practices
• Facilitate regional economic integration

B. Possible Bank Assistance

The portfolio of Bank projects and surveys developed since 1976 (Box 14) to support trade development is diverse in nature and includes (i) sector projects focusing on transport logistics or on specific bottlenecks, (ii) macroeconomic approaches in Structural Adjustment Loans focusing on export finance, market and price liberalization, specific tax and tariff reforms and the overall regulatory framework for Trade Support Services, (iii) studies dealing with issues such as trade facilitation and transport logistics, and (iv) competitiveness projects that explicitly target trade facilitation, export development, or goods and services market development.


Phase I (1976-1985) Significant sector work on corridor economics, logistics and facilitation started in Latin America in 1976 and in Africa. Some transport facilitation projects were developed highlighting the complexity of trade facilitation cutting across sectors and changing environments. The Bank program review (1987) assessed progress to date as not encouraging and drew the following lessons: (i) the Bank should promote intermodal operations, private sector development, creation of an enabling environment, increasing operational efficiency participation in international and regional agreements, (ii) given the cross-sector complexity of facilitation, the Bank should adopt a long-term approach with successive projects, realistic goals, risk analysis and fall-back strategies, (iii) high level of government commitment is needed, (iv) if part of SALs, program should be more realistic, more flexible, assess better the willingness and capability of borrowers, (v) too much focus on investment on the Bank side, (vi) such programs/projects are important yet complex.

Phase II (1985-1992) Mostly isolated trade facilitation components focusing on Governance reform were increasingly included in structural adjustment loans. A second review (1992) focusing on transit traffic facilitation in Sub-Saharan Africa suggested the need to, inter alia, (i) integrate facilitation in a wider perspective than transport projects to cover policy dialogue, (ii) the privatization of parastatal agencies and removal of institutional barriers, (iii) increased staff training. The impact of service industry and infrastructure management was first assessed in India in 1989.

Phase III (1992-1998) New types of projects adopting a wider approach to trade facilitation were developed with proportionally more technical assistance than investments, more private participation, an emphasis on the service sector and a strong commitment from the Government. The Trade and Transport Facilitation Guidelines (Bank/UNCTAD report) described a multidisciplinary element approach to develop regional trade and multi-modal transport systems. Such an approach should include (i) the development of regulatory measures to harmonize transport liability regimes and insurance practices, and to provide an appropriate legal framework and development of multi-modal transport operators, (ii) trade and transport facilitation measures and their acceptance by the trading community, transport operators, government agencies, banks, and insurance companies, (iii) development of policy measures for smooth development of transport services, as well as to address misallocation of resources, and (iv) ways of fostering, on a sub-regional level, harmonization and integration among actions by the different national actors. The Bank has not yet analyzed the impact of these projects since most are under implementation.

Based on ITP 316 Information Technology and National Trade Facilitation.
The accumulated experience indicates that achieving the full benefits of trade facilitation requires a wide multi-sector perspective in close cooperation between various units at the Bank, and with other international organizations (UNCTAD, UNDP, WTO, IMF, EU, UNECE, ECMT, IRU, UIC) throughout the project cycle. The Bank in the past eight years prepared projects for the development of trade support services in five main areas (see Table 1). The Bank reorganization around the concept of country clients opens an opportunity to address these multi-sector issues and share with ECA Governments, via the country units, a vision of critical reforms required, based on the experience of other countries. Without this shared vision within the Government and the private sector, the Bank’s actions in developing trade support services can have only very limited impact. This multi-sector approach would benefit greatly from enhanced coordination at a regional level to harmonize systems in place.

Table 1: Examples of Components Found in World Bank Projects (1990-1998)

<table>
<thead>
<tr>
<th>The Transport Dimension</th>
<th>The Governance Dimension</th>
<th>The Financial Dimension</th>
<th>The Management Dimension</th>
<th>The Communication Dimension</th>
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<tbody>
<tr>
<td>Port modernization</td>
<td>Metrology</td>
<td>Sublending to private entities involved in marketing, trade and distribution(^{26})</td>
<td>Technical assistance in inventory management</td>
<td>Implementation of new customs systems</td>
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<tr>
<td>Highway sector improvements</td>
<td>Standards</td>
<td>Improving export finance(^{27})</td>
<td>Technical assistance in cost accounting</td>
<td>Framework for development of teleports</td>
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<tr>
<td>Railways modernization</td>
<td>Calibration</td>
<td>Reforming access to Foreign currency</td>
<td>Technical assistance in business logistics practices</td>
<td>applications of electronic data interchange (EDI)</td>
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<tr>
<td>Intermodal coordination</td>
<td>Quality</td>
<td></td>
<td>Container company creation</td>
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<tr>
<td>Reform of shipping</td>
<td>Deregulation of prices</td>
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<td>Inland Container Depot creation</td>
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<tr>
<td>Industry</td>
<td>Liberalization of trade</td>
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<tr>
<td>Facilitation for</td>
<td>Rationalization of taxes and tariffs</td>
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<tr>
<td>container companies</td>
<td>Rationalization of public expenditure</td>
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<td>Development of</td>
<td>Improving commercial</td>
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<td>freight forwarding</td>
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<td>Reforming customs</td>
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Based on this experience, the Bank’s possible assistance would have the following objectives:

(i) raising the awareness of its client on the need for change;

(ii) providing technical support in the change process;

(iii) removing existing infrastructure or information technology bottlenecks,

(iv) facilitating access to financial instruments; and

(v) supporting wide regional initiatives

\(^{26}\) Hungary Product Market Development Project.
\(^{27}\) Jordan Export Development Project.
Raising Awareness. The awareness process can start with the preparation of Transport Sector Reviews (Annex 1, Box 15) or analytical reviews to identify existing weaknesses in-specific trade support services and make recommendations to reduce the costs of trade and bring them to international levels. Depending on each situation, the study can be narrowed down to the analysis of specific delivery chains. For instance, the Framework for an Efficient Container Transport System in China (Annex 1, Box 16) prepared as the joint effort of the Chinese Government and the World Bank assessed the country’s container transport and border procedures, and identified solutions as a basis for a new project to generate cost and time savings. The Bank can successfully help raise awareness by supporting institution building and promoting human resource development programs as illustrated in the case of the Hungary Product Market Development Project, which included the establishment of a Logistic Promotion Center (Annex 1, Box 17).

Providing Support. Provided that a vision of the changes needed is shared with our clients, the Bank can provide the needed technical support to assist in the change process. The Bank has had some success in providing technical support in cooperation with international partners in institutional strengthening (Annex 1, Box 17 and 22), action plan formulation to create a trade enabling environment (Annex 1, Box 18) privatization, quality certification systems (Annex 1, Boxes 18 and 24), private public partnership development (Annex 1, Boxes 17 and 23), and introduction of EU-compatible regulations. The Bank has participated in customs reform (Annex 1, Box 16) in partnership with other institutions such as UNCTAD in Mauritius (Annex 1, Box 18), WTO in Jordan (Annex 1, Box 24) and the IMF in Macedonia (Annex 1, Box 19).

Projects recently approved or under preparation will attempt to address part of the change agenda for trade support services development. The restructuring of the Ministry of Transport project in Georgia, using a learning and innovation loan, will try to transform a traditional Soviet ministerial structure into one attuned to new market economy requirements and capable of formulating an enabling framework (Annex 1, Box 20); and the Estonia Trade and Transport Project will finance the relevant components of a detailed action plan for trade support services development prepared by the Government with the assistance of the Bank (Annex 1, Box 21). In addition, the Bank could play a role in designing the tools required to provide information on available trade support services, on business opportunities, and on legal and regulatory framework.

Removing Infrastructure Bottlenecks. An often-tryed approach at the Bank has been financing the removal of existing bottlenecks in infrastructure and information technology. Maximizing the use of assets by maintaining existing ones, increasing productivity, and providing required equipment remains the priority compared to capacity expansion as illustrated by current ECA transport projects. The Bank’s experience highlights that countries have tended to place too much emphasis on easier-to-manage large investments compared to technical assistance.
Making Financing Available to the Private Sector. The Bank has successfully financed micro infrastructure in India (Annex 1, Box 22) such as inland container depots, cargo handling facilities, multi-modal transfer facilities, logistic information systems and equipment leasing to build the backbone of the distribution systems. The same approach is expected to take place in Nepal (Annex 1, Box 23).

Careful project design is needed to prevent existing private operators suffering from the competition of new entrants benefiting from soft financing. The Bank has promoted in Mauritius a Technology Diffusion Scheme with cost sharing with the private sector. Designed to be demand responsive and to encourage private sector delivery of these services (Annex 1, Box 18), it provides lines of credit to the private sector. The export development project in Jordan also exemplifies the use of credit lines (Annex 1, Box 24).

Where the banking system has been found to be a bottleneck to private sector development, the Bank has proposed some lines of credit to the banking sector that were on-lent to private parties for operational, marketing, or information technology improvement as interim steps. Credit earmarking can lead to resource misallocation, so the Bank seeks to ensure that it is only used in very special circumstances and is only in place for a limited time. The line of credit approach has been tried successfully in Jordan (Annex 1, Box 24) and in Hungary (Annex 1, Box 17). In the medium run, the lack of flexibility and the emergence of cheaper sources of financing as the financial sector reform took place removed the need for these facilities and limited their effectiveness to the early transition period of the country's banking sector reform.

Support Broad Regional Initiatives A major strength of the Bank comes from its international presence and its dialogue at the highest level in member countries. The promotion of regional initiatives would be attractive in trade support services, where the full range of project benefits are realized from the simultaneous adoption of improvements by several neighboring countries.

Regional awareness in turn may be developed by means of workshops and symposia organized jointly with other international organizations to harmonize throughout the region the legal and regulatory frameworks, and regular contacts among regional partners. Some new projects in support of South Asia Initiative or the South European Cooperation Initiative will test this significantly more ambitious approach.

Conclusion. The Bank has a key role to play in the complex and vast change agenda for the development of trade support services (see Table 2) Coordination, a shared vision and leadership are essential to tackle the multi-sector dimension and the large number of parties involved. Enhanced knowledge management within the Bank dealing with the specifics of trade support services will be the most valuable asset on which to base the Bank's interventions in this field. Efforts launched at the level of the Port, Railway, Airports and Logistic network to monitor logistic performance worldwide, cooperate with critical associations (ICC), organizations, and private and public parties, move the Bank closer to assuming this coordination and knowledge-sharing role. Further review of developments in Information Technologies for Trade Support
Services is underway and will attempt to capitalize on existing knowledge among Bank staff and outside groups.

**Table 2: Nature of World Bank Assistance to Trade Support Services in ECA**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redefine the role of the Government</td>
<td>- Institutional reviews and human resource development</td>
</tr>
<tr>
<td></td>
<td>- Institutional strengthening</td>
</tr>
<tr>
<td></td>
<td>- Maintenance and assets management improvement</td>
</tr>
<tr>
<td></td>
<td>- Operational efficiency improvement</td>
</tr>
<tr>
<td></td>
<td>- Privatization Processes</td>
</tr>
<tr>
<td>Raise Awareness and Increase Private/Public/International Partnerships</td>
<td>- Transport Sector Reviews</td>
</tr>
<tr>
<td></td>
<td>- Competitiveness and logistical chain analysis</td>
</tr>
<tr>
<td></td>
<td>- Provision of technical assistance in supply chain management</td>
</tr>
<tr>
<td></td>
<td>- Support of regional initiatives involving multiple international organizations in designing projects in support of transit, trade facilitation or regional integration</td>
</tr>
<tr>
<td></td>
<td>- Building up of private-public partnerships in the context of projects.</td>
</tr>
<tr>
<td></td>
<td>- Introduction of EU-compatible regulations.</td>
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<tr>
<td></td>
<td>- Building up of information systems.</td>
</tr>
<tr>
<td></td>
<td>- Introduction of Metrology, Testing, Technical and Quality Standards</td>
</tr>
<tr>
<td>Formulate an Enabling Environment</td>
<td>- Formulation of Strategic and Action Plans</td>
</tr>
<tr>
<td></td>
<td>- Technical Assistance</td>
</tr>
<tr>
<td></td>
<td>- Customs Reform (documentation, processes, structure).</td>
</tr>
<tr>
<td>Improve private sector access to financing.</td>
<td>- Strengthening of financial sector regulations and Central Banks inspection capacity</td>
</tr>
<tr>
<td></td>
<td>- Assistance in privatization of financial institutions and development of domestic financial markets</td>
</tr>
<tr>
<td></td>
<td>- Facilitation of market entry for foreign banks</td>
</tr>
<tr>
<td></td>
<td>- During the transition, these actions could be supplemented by:</td>
</tr>
<tr>
<td></td>
<td>- Providing lines of credit or guarantees to private banks to finance trade and transport facilitation projects</td>
</tr>
<tr>
<td></td>
<td>- Financing micro-infrastructure where private sector has not stepped in</td>
</tr>
<tr>
<td></td>
<td>- Providing financing for information technology</td>
</tr>
</tbody>
</table>
Annex 1

Box 15. Transport Sector Reviews 1995-1997 (Belarus, Armenia, Moldova, Kazakhstan, Ukraine)

In addition to assessing the services and infrastructure available in each of the transport subsectors, the Moldova, Belarus, Armenia and Ukraine reviews described and quantified the transport and trade facilitation issues and made recommendations to address them. The overall excess cost due to cumbersome procedures, inadequate legal framework, lack of harmonized documents, poorly developed services, unsafe conditions, and various controls was estimated at 6 to 7% of total trade transaction costs. The reviews included a set of recommendations (with associated costs) to adopt appropriate transport legislation and international conventions, develop the insurance and banking sector, streamline and improve customs procedures and export documentation, remove transport barriers and stimulate the development of private sector services, and build up a freight-forwarding industry. The Ukraine Review was followed by a workshop, with broad public and private participation, which increased awareness on the nature of the changes to be expected.

The Kazakhstan Review stressed the importance of (i) customs procedures improvement; (ii) facilitating entry to the freight-forwarding industry and creating a national freight forwarders association; (iii) promoting competition in the transport insurance market and ensuring access to foreign insurers; (iv) adhering to transit and international conventions and complementing them as needed by multilateral agreements.

Contacts: Pedro Taborga x34312, Jean Charles Crochet x31159, Gerald Ollivier x84023.


The Chinese State Economic and Trade Commission and the World Bank initiated a one-year-and-a-half study to assess China’s container transport and border procedures, and identify areas in need of improvement. The Bank described its findings in a sector report (No. 15303-CHA) describing the needs for (i) redefining the Government’s role; (ii) developing container transport links; (iii) stimulating competition; (iv) improving border procedures, and (v) improving technology and facilities. A Container Transport Project resulting from these findings is under preparation to build up the operational and institutional capability for intermodal transport and would include: a pilot inland distribution system, the formulation of a conducive policy framework and investments in Inland Container Depots (ICD); port container handling equipment; and technical assistance.

Contacts: Messrs. Shunso Tsukada x82953, Ronald Kopicki x36193.
Box 17. Hungary Product Market Development Project (1992)

Two aspects of this project deserve attention: the successful creation of a Logistics Promotion Center and the provision of a credit line to the private sector.

The project preparation process included contacts by Bank staff with public officials, trade and industry organizations, the management of selected key enterprises, service agencies and institutes of higher learning. Bank staff conducted workshops and seminars for these parties to develop awareness and demonstrate best practice in logistic management. The independent Logistic Promotion Center created with the assistance of Dutch financing has proved successful in: (i) raising awareness within the industry and trading communities of the importance of effective logistics organizations; (ii) facilitating expansion of logistic related training and education; (iii) advising trade and industry organization on logistics; and (iv) keeping pace with logistics international community. Thanks in part to this initiative, Hungary stands now in the forefront of logistics in ECA.

A credit line of US$100 million was also included in this project. The credit line was made available to the National Bank of Hungary, with a view to passing it on to 10 local banks that were entitled to lend these funds for projects with dominant marketing or distribution components. About three hundred micro-projects with an average subloan size of about US$150,000 have been approved so far. While the institutional and policy objectives of the project have largely been met, only about 50 percent of the loan has been utilized to date, since alternative, less expensive, more flexible financing has become available from other sources. About US$ 35 million of the original loan amount has been canceled.

Contacts: Kishore Nadkarni, x32698, Hans Peters (Infrastructure Note PS11)

Box 18. Mauritius TA to Enhance Competitiveness Project (1994)

This technical assistance Project has four main objectives. (i) promoting modern technology through a Technology Diffusion Scheme designed to be demand responsive to encourage private-sector delivery of these services; (ii) strengthening the MSTQ28 infrastructure to improve export quality; (iii) facilitating trade through procedure streamlining, documentation rationalizing, and promotion of an environment conducive to EDI adoption; and (iv) implementing economic and regulatory reform as needed. Each of the objectives has been mapped in a detailed action plan with deadlines that drive the change process.

The project is an example of a new comprehensive approach to trade enhancement in developing countries in which informatics is a central component to efficiency improvement, but not an isolated one. The project is the outcome of an unusually receptive environment and a Bank assistance strategy targeted to stimulate export development. It was built on a strong cross-sectoral participation of public entities and the private sector, which helped define the public services needed. The project benefited from the awareness raised by training on the need for a new electronic trade facilitation system financed by the private sector. The EDI training involved representatives from the customs and excise department, Ministry of Trade and Shipping, commercial banks, Mauritius Marine Authority, Air Mauritius, customs brokerage firms, and clearing and forwarding agents.

Contact: Ahmet I. Soylemezoglu , x38771

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The project funded US$1.7 million for technical assistance and equipment to develop and implement a modern customs system and improve transit times. The technical assistance was carried out by the IMF. Customs procedures and information management are being modernized on the basis of a US Customs Agency Study, in line with EU border-crossing improvement program for Eastern Europe. An Action Plan agreed with the Government during negotiations includes the institutional, legal, regulatory, and physical measures to be taken to improve border crossing.

The main achievements include: (i) the introduction of the ASYCUDA computer system, (ii) the introduction of a modern valuation control system that enabled an estimated US$ 50 million in extra revenue in 1997 (20% of total customs revenue), (iii) the introduction of an EU consistent customs law, providing the administration with adequate powers to control and tax goods, prevent and investigate frauds, and operate according to modern standards, including direct trade input and electronic signature, and (iv) the presentation of a framework for the customs department reorganization to address needs resulting from the introduction of VAT.

Contact: Mirtha Pokorny, x38079

Box 20. Georgia Restructuring of the Ministry of Transport

The Bank will assist the Government in defining solutions to address the contraction of the Government role, the selective decrease of employment levels, pay scale reform, the transformation of recruiting policies, training and development of key staff and instrumentation of the policy reform function itself. This experience has potential value for wide ranging Civil Service Reform processes including customs services and the redefinition of the role of the Government.

Contacts: Mirtha Pokorny, x38079; Kavita Sethi x87558.

Box 21. Estonia Transport Project

Following a Transit Seminar in September 1997, and as part of the preparation of a new transport project for Estonia, the Bank advised the Government of Estonia in formulating a strategy and action plan for trade support services. This action plan, prepared with broad public and private participation, will define priority remedial measures needed for the development of infrastructure and information technologies, legal and regulatory frameworks, private sector and public institutions. From this action plan, the Government of Estonia and the Bank expect to determine the actions most appropriate for World Bank financing.

Contacts: Cesar Queiroz x38053; Gerald Ollivier x84023.
Box 22. India Container Transport Logistics (1994)

This project is the outcome of a sector survey (no 8130-IN) carried out with close participation of relevant ministries, transport operators and shippers. The Government enacted several laws indicating its commitment. The project objectives were to improve the institutional framework for efficient and competitive container transport, to strengthen the performance of the largest Inland Container Depots and Container Freight Stations, of the state owned company, and to greatly improve the service level and capacity in the main corridors.

The project is successful so far although delays in the procurement have not permitted all expected service level and capacity targets to be reached yet. As part of the project, a Memorandum of Understanding with the Indian Railways (IR) was signed giving higher priority to container train traffic, offering fixed-schedule services with guaranteed transit time. However, since the provision of new rolling stock is delayed, the IR is not yet offering such service. Nonetheless, traffic grew substantially over forecasts, and round-trip time of containers decreased by 30 to 50 percent.

None of the technical assistance offered by the Bank in the form of study tours was used. The substantial technical assistance financed by grant financing was only partially successful, with significant success in technical training of operators but limited impact on marketing or management, due to delays in Technical Assistance implementation.

An Action Plan for customs procedures and practices was agreed between the Bank and the government. It included temporary admission for containers, acceptability of a bank guarantee for container transfer up to the inland depot, freedom of modal choice, twenty-four hour customs examination and clearance facility at four major ports. Improvements under the customs program are beginning to be felt at this stage, and highlight that customs reforms and the effects of new laws and regulations take time in a complex environment such as that of India. A complete assessment of the project is under preparation and will provide quantification of the impacts to date.

Contacts Fabio Galli x81890, Harald Hansen x81474

Box 23. Nepal Multimodal Transit and Trade Facilitation Project (10/1997)

The project's objectives are to (i) reduce transport costs associated with Nepal's imports and exports, (ii) streamline trade and transit procedures, and (iii) improve the efficiency and organization of transit trade documentation and data exchange.

The Project will include (i) the construction, improvement, and rehabilitation of several Inland Container Depots (ICD) and provision of their equipment, (ii) installation of ASYCUDA, (iii) installation of the Advanced Cargo Information System, (iv) and technical assistance and training to simplify documents and procedures, modernize carrier's liability, insurance provisions, and customs policies and procedures, strengthen freight forwarding and customs clearing, and update foreign-currency trade regulations.

Contacts Fabio Galli, x81890, Harald Hansen x81474
Box 24. Export Development Project in Jordan (1996)

The project focuses on finance and export development based on the policy presented by the Jordanian Minister of Planning. The policy has four main objectives: (i) access to imports at international prices by reforming customs administration, developing a trade facilitation system and liberalizing free trade zone regulations; (ii) mobilizing and enhancing investments; (iii) increased access to term finance; and (iv) improvement of product standards by strengthening the metrology, standards, testing, and quality (MSTQ) infrastructure. The project consists of a US$40 million line of credit onlent to six banks that onlent to private borrowers on average US$500,000 to enhance manufacturing, environmental protection, marketing arrangements or to finance incremental working capital needs.

The project is unusual in the wide participation within the country and the support of other multilateral agencies. The Government commitment is demonstrated by the new laws introduced (on customs, standards and metrology, income tax). The private sector contributed US$20 million to cover local expenditures of the project, underlining the importance of participation for a successful program. The project ensured a close coordination with multilateral agencies: (i) tax structure, customs administration framework and other administrative and enforcement procedures were coordinated with IMF; (ii) MSTQ strategy was designed in coordination with the GATT and WTO; and (iii) ASYCUDA system will be installed with UNCTAD technical assistance.

The project introduces a substantial improvement in the level of information technology. ASYCUDA, an MSTQ-related information database/access system, a link to a quality management registration system, and a central reference source on trade-related information are also under consideration.

Contact: Tufan Kolan x33234
## Annex 2

### Legal and Regulatory Framework: Typology of Priorities in ECA

These priorities should be adjusted following economic evaluation to reflect a country’s situation and stage of development.

<table>
<thead>
<tr>
<th>Critical Element</th>
<th>Priorities</th>
<th>Partners</th>
<th>Selected Previous Bank Actions/Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and Transit Convention</td>
<td>○ Ratify International Transit Conventions guaranteeing right of transit and mutual recognition of permit/license, removing unnecessary delays, minimizing fraud, simplifying and harmonizing procedures and legal framework (ex. Silk Road Initiative). ○ Define priority itinerary and bonded facilities for transit traffic ○ Take cost recovery measures for use of transit infrastructure ○ Assess rationale and efficiency of import restrictions compared to free access</td>
<td>UNCTAD, UNDP, WTO, EU, UNCEFACT</td>
<td>Other: Saraks Agreement (TRACECA); Silk Road Transit Agreement (UNCTAD)</td>
</tr>
<tr>
<td>Transport Sector</td>
<td>Cross Border/Visa</td>
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<tr>
<td>• Develop EU-compatible transport policies to address weak management, lack of maintenance, lack of financing, and allow for intensive, free and fair competition,</td>
<td>• Ratify bilateral visa agreements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Harmonize (for EU accession countries) or approximate (non EU accession countries) with EU Transport Legislation,</td>
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<tr>
<td>• Identify legal and regulatory inconsistencies,</td>
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<tr>
<td>• Make available all legislation from one source,</td>
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<tr>
<td>• Create missing legislation/regulation,</td>
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<tr>
<td>• Implement, translate into laws and procedures conventions that have been adhered to and enforce these,</td>
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<tr>
<td>• Develop corresponding licensing procedures to ensure safety, environmental protection, and information transparency.</td>
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<tr>
<td>• Adhere to the convention on the Liability of Operators of International Terminals (1991),</td>
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<tr>
<td>• Liberalize freight transport prices,</td>
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<tr>
<td>• Enforce National Accounting and Auditing Standards in accordance with International Accounting and Auditing Standards</td>
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<tr>
<td>• Enforce company registration system approximating EU systems.</td>
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<tr>
<td>• Create a Trade Facilitation Commission.</td>
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<tr>
<td>• Adopt fiscal policies/regulations compatible with EU</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>EU, ECMT, UNCTAD UNDP, ICAO, IMO, IRU, UNCEFACT</td>
<td>1. Transport Sector Reports for Belarus, Moldova, Armenia, Ukraine, Georgia, Kazakhstan. 2. Estonia Trade and Transport Project 3. China Container Transport Services and Trade (No. 15303-CHA) 4 Nepal Multimodal Transit</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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29 Cover inter alia: (i) transport related warehousing and storage, (ii) logistic related warehousing, storage and distribution; (iii) broker activities, consolidations and shipment break-up activities,
Agreements

Road Transport

<table>
<thead>
<tr>
<th>Adhere to and apply:</th>
<th>EU(^{30}), IRU, UNECE, ECMT</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Convention on Road Traffic (1968)</td>
<td>1. Estonia Trade and Transport Project</td>
</tr>
<tr>
<td>• Convention on Road signs and Signals (1968)</td>
<td></td>
</tr>
<tr>
<td>• Customs Convention on the Temporary Importation of Commercial Vehicles (1956) (carnet de passage)</td>
<td>4. Armenia Highway Project</td>
</tr>
<tr>
<td>• Code on Transport of Dangerous Goods by Road (ADR, 1957) and its October 1993 protocol</td>
<td></td>
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<tr>
<td>• Convention on the Harmonization of the Frontier Control of Goods 1982</td>
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<tr>
<td>• European Agreement on work of crews engaged in international road transport (AETR 1970).</td>
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</tr>
<tr>
<td>Progressively introduce Road Charging policies aligned with EU legislation as much as possible</td>
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<tr>
<td>Become member of IRU</td>
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</tbody>
</table>

Rail Transport

<table>
<thead>
<tr>
<th>Adhere to COTIF/CIM Convention (Bern Convention, May 1980)</th>
<th>EU, UIC, ECMT</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Become member of UIC and UIRR</td>
<td>Bulgaria Romania</td>
</tr>
<tr>
<td>• Adopt European rail waybill</td>
<td></td>
</tr>
</tbody>
</table>

Maritime Transport

<table>
<thead>
<tr>
<th>(UN convention on Carriage of Goods by Sea (1978) (Hamburg rules))</th>
<th>IMO, MEPC, IAPH, PIANC, ICHCA, AIVP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Adopt the International Safety Management Code (ISM)</td>
<td>1. Lithuania Klaipeda Port Project</td>
</tr>
<tr>
<td>• Sign the international treaty on oil pollution preparedness,</td>
<td></td>
</tr>
</tbody>
</table>

\(^{30}\) Legal Framework for Surface-borne Transport (Russian Federation)
<table>
<thead>
<tr>
<th>Inland Waterway Transport</th>
<th>EU, ECMT, UNECE, Danube Commission, Rhine Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Sign and ratify Marpol and its protocol (1973/78)</td>
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<tr>
<td>* Ratify the Memorandum of Paris on Port State Control (1982)</td>
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<tr>
<td>* Adopt regulations for navigation, crew work, transport of dangerous goods and hazardous waste, internationally accepted liability principles,</td>
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<tr>
<td>* Investigate the possibility to transform national waterway into international waterways</td>
<td></td>
</tr>
<tr>
<td>* Stimulate interagency cooperation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multimodal Transport</th>
<th>EU, FIATA, UIRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Adopt a law on multimodal transport,</td>
<td></td>
</tr>
<tr>
<td>* Adhere to the Customs Convention on Containers (1972),</td>
<td></td>
</tr>
<tr>
<td>* Adhere to the Convention on Safe Container (1972 CSC)</td>
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</tr>
<tr>
<td>* Adhere to a multimodal institution following the Convention on International Multimodal Transport of Goods (1980),</td>
<td></td>
</tr>
<tr>
<td>* Develop the use of FIATA Bill of Lading for Multimodal Transport (consignment note) based on ICC/UNCTAD rules,</td>
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</tr>
<tr>
<td>* Establish an independent combined transport operator and facilitate its membership in UIRR</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>General Trading Conditions</th>
<th>ICC</th>
</tr>
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<tbody>
<tr>
<td>* Develop the use/understanding of INCOTERMS</td>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>* Introduce EU Single Administrative Document/UN Layout</td>
<td></td>
</tr>
</tbody>
</table>

1. Estonia Trade and Transport Project  
2. China Framework for an efficient container transport system  
3. Transport Sector Reviews
| Transport Documentation | Key with EU support  
|-------------------------|---------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
|                         | - Introduce CMR Consignment Notes  
|                         | - Introduce UN Trade Data Element Directory (standardized data) | UNCTAD, UNECE, EU                                            | efficient container transport system.  
|                         | 2. India Container Transport Logistics  
|                         | 3. Nepal Multimodal Transit  
|                         | 4. Estonia Trade and Transport Project  
| Teleprocessing          | Track Teleprocessing  
|                         | - Tracking of Vehicles  
|                         | - Electronic Fees  
|                         | - Air Traffic Monitoring and Control systems  
| Information Technology  | Adoption of ASYCUDA\(^{31}\)  
|                         | - Adoption and support of EDI format and UN/EDIFACT\(^{32}\)  
|                         | - Adoption of Advanced Cargo Information System  
| Metrology, Standards,  | Provide information on foreign standards and certification  
| Testing and Quality     | requirements  
|                         | - Create an institution guiding/certifying companies to obtain ISO 9000 series standards,  
|                         | - Establish a calibration system,  
|                         | - Preparing product testing laboratory delivering international  
|                        | UNCTAD/ UNECE, ADB 1. WTP 316 & 317 IT and National Trade Facilitation  
|                        | 2. Nepal Multimodal Transit and Trade Facilitation Project  
|                        | 3. Mauritius : TA to enhance competitiveness Project  
|                        | 4. Jordan Export Promotion Project  

\(^{31}\) ASYCUDA: Automated System for Customs Data; widely used customs management system developed by UNCTAD.  
\(^{32}\) UN electronic messaging format for automated system
<p>| Accreditation | EU | 1. Estonia Trade and Transport Project |
| Registration System | • Introduce modern registration system to speed up customs processing and put more emphasis on post control and enforcement |
| EU, ECMT, IRU UIC, UIRR | 1. Second Roads Project, Romania. |
| Pollution Norms/Externality Pricing | • Progressive harmonization with EU emission standards and control, fuel type, noise level, safety standards |
| EU | 1. Jordan Export Promotion Project |
| • Cut back/eliminate competition-distorting subsidies in freight transport |
| 2 Hungary Product Market Dvt |
| Banking/Monetary policies | • Enact banking laws opening market access |
| ICC, EU | 1. Nepal Multimodal Transit |
| • Adoption of ICC commercial standards (Uniform Customs and Practice for Documentary Credits, UCC 500) |
| 2. Estonia Trade and Transport Project |
| • Review exchange controls and foreign currency regulations in line with EU |
| Insurance Practices/ Liability | • Revise the existing Civil Code section regarding transporter liability to conform to international practice of limited liability (NSAB2000) |
| UNCTAD, EU | 1. China Framework for an efficient container transport |
| • Enact laws for insurance of transport related risks (Insurance Companies and Intermediaries) |
| 2. Estonia Trade and Transport Project |
| • Define insurance/liability practices for international multimodal transport using UNCTAD Handbook for Multimodal Transport (1995) |
| Forwarding | • Registration of Freight Forwarders |
| FIATA | 1. China Framework for an efficient container transport |
| • Organize a National Association of Freight Forwarders self- |</p>
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<tr>
<th>Information System</th>
<th>Create an information system giving access to all relevant regulations in force (on CD-ROM and Internet) or market information.</th>
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| Public-Private Partnership | - Develop committees to improve the legal and regulatory framework adequacy  
- Facilitate Chamber of Commerce Operations  
- Establish National Trade Facilitation Organs (public-private)³⁴ |

³³ TACIS is financing such a database for the Russian Federation.  
Annex 3

Asia Pacific Economic Cooperation

Sub committee on Customs Procedures (SCCP)

Collective Action Plan Objectives

The Asia Pacific Economic Cooperation or APEC is a regional organization made up of 18 member economies. It is designed to promote co-operation and growth as well as the liberalization and facilitation of trade and investment within the Asia-Pacific region. Each year, senior officials (SOM), working through committees, consider proposals and work programs before consideration by trade ministers and APEC leaders. The Philippines hosted APEC in 1996, Canada in 1997, and Malaysia in 1998.

Within APEC, the Sub-Committee on Customs Procedures (SCCP) manages customs co-operation. The SCCP reports to the Committee on Trade and Investment and takes policy direction from the heads of customs of member economies. These people determine the strategic direction for the customs work of APEC. In its Bogor Declaration, APEC has made free trade a centerpiece of its work, and it is relying on customs organizations to put in place the customs framework for liberalized trade. The following is the Collective Action Plan Objectives of the SCCP, and provide the broad framework for Customs international integration.

1. Harmonization of Tariff Structure with the HS Convention
To ensure consistency of application, certainty and a level playing field for business through the HS Convention, the standard international harmonized system for the classification of goods.

2. Transparency of Customs Procedures, including Information on Customs Laws, Regulations, Administrative Guidelines, Procedures and Rulings
To ensure traders have all the pertinent information for business decisions through the provision of accurate, consistent and user-friendly information.

3. Simplification and Harmonization on the Basis of the Kyoto Convention
To improve efficiency in customs clearance and the delivery of goods, in order to benefit importers, exporters and manufacturers through simplified customs procedures and best practices.

4. Adoption and Support for the UN/EDIFACT
To use the standard UN electronic messaging format for automated systems, the United Nations/Electronic Data Interchange for Administration, Commerce and Transport, to promote an electronic highway for business

Note: Business associations and enterprises are invited to participate in work related to the above. For more information please consult the SCCP Home Page (http://www.sccp.org), or contact the SCCP Chair or a local SCCP member.
5. **Adoption of the Principles of the WTO Valuation Agreement**  
To facilitate administration of the World Trade Organization’s Valuation Agreement on standard procedures for valuing goods.

6. **Adoption of the Principles of the WTO Intellectual Property (TRIPS) Agreement**  
To implement border enforcement procedures for protecting intellectual property rights.

7. **Introduction of Clear Appeals Provision**  
To provide business with an opportunity to challenge potentially erroneous or inequitable Customs decisions through mechanisms for transparent, independent and timely appeals.

8. **Introduction of an Advance Classification Ruling System**  
To establish simplified procedures for providing classification information prior to importation, thus bringing certainty and predictability to international trading and helping traders to make sound business decisions based on legally binding advice.

9. **Provisions for Temporary Importation, e.g. according to the A.T.A. Carnet Convention or the Istanbul Convention**  
To help business move goods such as commercial samples, professional equipment, tools of trade and exhibition material across borders with a high degree of certainty as to how these goods will be treated by Customs by having standard procedures for admitting goods on a temporary basis.

10. **Harmonized APEC Data Elements**  
To develop a comprehensive directory supported in UN/EDIFACT which includes a simplified “core set” of data elements, largely derived from commercially available data that would satisfy the standard data requirements of the majority of APEC trade transactions and so facilitate the exchange of information and provide a foundation of common forms and electronic commerce.

11. **Risk Management Techniques**  
To focus Customs enforcement efforts on high-risk goods and travelers and facilitate the movement of low-risk shipments, through a flexible approach tailored to each APEC economy.

12. **Guidelines on Express Consignments Clearance**  
To implement principles contained in the WCO *Guidelines on Express Consignment Clearance*, the international standard procedures for clearance of express goods, working in partnership with express industry associations.
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