APPENDIX C3: CHANGES IN THE FOCUS OF TRADE CONDITIONALITY

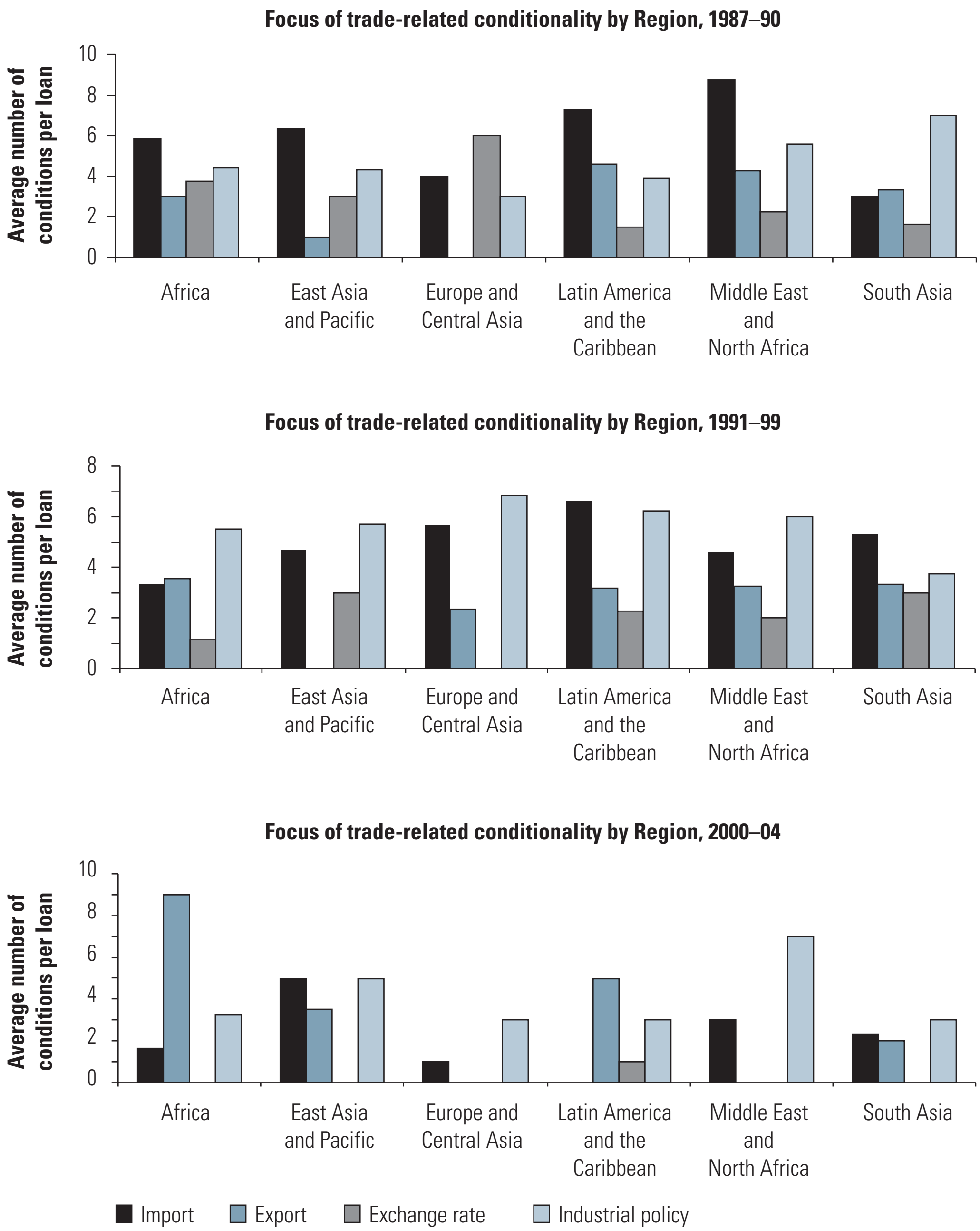
Between 1987 and 1990, the main focus of Bank trade policy advice was on import-related policies, which comprised almost half of all lending conditions (or 6.4 conditions on average per loan).[1] Within the imports category, conditions related to quantitative restrictions were most frequent, followed by those associated with tariff reform. The next most important conditions were industrial policies (in Africa, East Asia, and Middle East and North Africa) and those related to exports (Latin America). South Asia was an exception to the pattern, its loans focused heavily on industrial policy, with as many conditions in that area as all the other areas combined (figure C3.1).

Over the next decade, as adjustment lending peaked and countries became more open, the emphasis shifted toward industrial policies, though reforming import policies remained important, notably in Latin America and South Asia. In almost all regions, the emphasis on industrial policies was greater between 1991 and 1999 compared to the earlier period; the exception was South Asia. Conditionality in this period reflected the importance the Bank placed on increasing enterprise efficiency resulting in continuing and expanding privatization as a priority. Actions related to privatization (general privatization strategies, initiating privatization of state-owned exporters) and investment promotion (legislation related to investment codes, streamlining business regulations and incentive, strengthening investment promotion institutions, liberalizing foreign investment) accounted for over half of all conditions related to industrial policy. The exception to the pattern was South Asia where a gradual approach meant still significant outstanding reforms remained on the import side.

In the five most recent years, trade-related conditions have been quite diverse across regions. Industrial policy has been prominent in three regions (East Asia and Middle East and North Africa), while conditions related to export incentives have been more prominent in Africa, but overall no clear pattern emerges. This could be in part due to the relatively small size of the sample during this period (20 lending operations), which renders regional breakdowns less informative.

Conditions related to the exchange rate and foreign exchange rate management were the least frequent as a share of all conditions (7 percent) throughout the period. The numbers were likely to have been biased downwards, however, by two factors. First, for a major group of Bank's clients—12 French-speaking West African countries—the tying of their currency (the CFA franc) to the French franc meant they had no flexibility to adjust the exchange rate even when doing so was warranted by economic factors. Second, the steps involved in reforming exchange rate regimes were often less complex and thus fewer conditions would be associated with them. In recent years, exchange rate–related conditionality has been absent, reflecting the overwhelming move towards market-determined exchange rate regimes.

Figure C3.1: Focus of Trade Conditions in Adjustment Loans Over Time, 1987–2004



Source: Tsikata (2005).