

Introduction

Management expresses its appreciation to the Independent Evaluation Group (IEG) for the constructive suggestions to improve the effectiveness of the Bank's assistance on trade put forward in *Evaluation of World Bank Support for Trade, 1987-2004*. Among the review's important contributions are (a) its characterization of the different dimensions of the Bank's work on trade, (b) its observation that the Bank still faces an important challenge in better incorporating trade as a part of growth and poverty reduction strategies in country programs, and (c) its set of recommendations, notably on ways to better address the challenge of mainstreaming trade. Management agrees with the thrust of most of these recommendations, but notes that they must be placed in the context of competing priorities in a constrained budget environment (while recognizing that better use can also be made of available resources). Management's specific responses are noted in the attached Management Action Record. The comments set out in Section II should not be taken as detracting from the overall appreciation management has for the quality and completeness of the IEG review.

Management Comments

Overall, management appreciates the quality and timeliness of this review, in the context of its recent and ongoing work to rebuild its capacity in the trade area. The Trade Progress Report discussed by executive directors in March 2005 reported on the increase in staffing in the Regions and within the Trade Department, the considerable improvement in the quality and coverage of trade-related diagnostic analytic work at the country level, and increased trade-related lending. The Trade Report also highlighted remaining

challenges, including (a) addressing the cross-cutting nature of many trade issues; (b) helping countries integrate trade issues into their national planning exercises (notably, Poverty Reduction Strategies in low-income countries); and (c) helping country teams better integrate these issues into Country Assistance Strategies (CASs). The IEG review similarly highlights these issues and suggests where progress is needed. Rather than dwell on the many areas of agreement, the comments below focus on matters where Management thinks the IEG analysis might have gone further or treated topics in a different manner.

Greater Differentiation across Review Periods

The review could have provided a greater differentiation across three periods—1987-95, when trade policy dialogue and adjustment lending was intensive; 1995-2000, during which the Bank was significantly less active in this area; and 2001-04. A more refined assessment of performance in each period would have been valuable, not least because in the “middle” period the resource envelope and trade capacity (knowledge base) of the Bank declined importantly. As a result, the re-launch of trade work in 2001 started from a very narrow base and was highly constrained as regards budget. In particular, 2001-04 seems a short period in which to evaluate the success of the new trade strategy, especially in the areas of capacity building and mainstreaming, which by their nature are gradual processes, requiring changes in long-term country strategies and steady management attention and increased resource flows over time at the Regional level.

Budget Constraints

A stronger emphasis in the review on “value for money” or productivity would have been useful,

given that post-2001 resources allocated to trade (both at the center and in the Regions), while growing, are still quite limited and are likely to remain so in the context of overall flat budgets and many important competing demands. The review's recommendations have important implications on resources. Having a more explicit focus on what IEG sees as lower-value activities that could be reduced or eliminated in a resource constrained environment would help management allocate resources.

Focus on the Trade Department

The thrust of the focus of the review, especially for 2001-04, is on the Trade Department. However, management thinks that greater recognition might have been given to the fact that implementation of many of the recommendations proposed in the review would be undertaken at the Region/country level. Greater clarity on the locus of actions would have been helpful. An important part of the institution's response to trade issues and to support for mainstreaming trade needs to take place at the Regional level (as contemplated, for example, in the new Africa Action Plan).

Poverty and Distributional Issues

At the country level, the review recommends that all new projects with trade policy components include a discussion on poverty and social impact analyses (PSIAs) drawing on the cross-sectoral expertise from economic policy, poverty, gender, private sector development (PSD), and (as appropriate) agricultural and rural development units, as well as existing research in the country. Management believes that this issue can be important, but that the message should be nuanced. First, Operational Policy (OP) 8.60, *Development Policy Lending*, already requires documentation of the expected contribution of development policy operations to sustained growth and poverty reduction. Second, there is a range of guidance for staff and more is being put in place. The Bank has developed methodologies to analyze these issues, including PSIAs and PRMPR's work on analyzing the distributional impact of reforms, which has a chapter on how to analyze the distributional implications of

trade reforms. Recent examples of the application of this guidance are available from the Trade Department and other work is in draft and will be available soon. However, management sees PSIAs as being mainly a tool for use by partner countries and much more effective when led by the country itself, rather than imposed from the outside.

Mainstreaming in Country Programs and Adjustment

The review also recommends that more attention be paid to adjustment to trade liberalization as part of increased efforts to mainstream trade in country programs. There is a continuing effort on the part of Regions to provide trade information and analysis in support of the country-owned Poverty Reduction Strategy (PRS) processes and to increase attention to trade in CASs, most notably as reflected in the Africa Action Plan. Going forward, the Trade Department will work with the Regions through the Regional trade representatives to prepare brief country-specific Guidance Notes for all countries where trade integration remains a major opportunity and challenge. The criteria for this engagement have already been articulated in the aforementioned March 2005 report to the Board on trade policy. The Guidance Note will include assessments of (a) trade policy and performance; (b) major supply-side constraints; (c) external environmental impacts on a country's trade prospects; and (d) possible issues requiring specific adjustment needs.

Aid for Trade

An additional important element of the Bank's response to the review recommendations relating to mainstreaming, as well as to the concerns expressed regarding the functioning of the Integrated Framework, is the Aid for Trade initiative as outlined in the joint Bank-Fund paper discussed at the Development Committee in September. This initiative is expected to result in an enhanced Integrated Framework (with larger and more predictable funding as well as improved governance mechanisms) and to increased attention to trade in both bilateral and multilateral trade programs as announced by

several major donors around the Hong Kong Ministerial.

Conclusions

Notwithstanding the issues cited above, management finds this review to be a solid overview of the Bank's experience in the trade area. It will

be a reference document for the ongoing work to strengthen the Bank's trade advocacy work at the global level and its work to help countries address trade issues as part of their strategies to increase growth and reduce poverty. Management's response to IEG's specific recommendations are given below in the Management Action Record.

Management Action Record

Major Monitorable IEG Recommendations Requiring a Response	Management Response
<p>Recommendation 1: Address Poverty-Distributional Outcomes and External Shocks in a Balanced Approach</p> <p>This evaluation found that despite the increasing volume of research on poverty issues in the Trade Department and of poverty and social impact analysis more generally, trade-related projects do not consistently or systematically address poverty and distributional outcomes. While much import liberalization has already occurred, further liberalization appears possible for some developing countries, notably within agriculture. With that in mind, three actions are critical:</p> <ol style="list-style-type: none"> IEG recommends that at the country level all new projects with trade policy components include a discussion of this issue that, at a minimum, draws on the cross-sectoral expertise from economic policy, poverty, gender, PSD and (as appropriate) agricultural and rural development units, as well as existing research in the country. Identification of possible transitional costs, an assessment of the existing institutional framework for cushioning shocks and actions to mitigate or minimize shocks would be important considerations in the discussion. Placing trade in a broader discussion of the determinants of poverty will help ensure that this is not a mechanical exercise but rooted in its expected importance. At the institution-wide level, and following the Bank's statement at the Cancun Ministerial in 2003, IEG recommends that a concrete program of adjustment assistance be developed more rapidly to respond to trade-related shocks that developing countries may face. To the extent that such a program is no longer deemed relevant, it would be helpful for management to clarify this. IEG recommends a more systematic program of research on micro level adjustment to trade policies, looking at firms, individuals and households. 	<p>Management agrees that it is important to use available research tools to assess the poverty and distributional impacts of trade reforms. The extent and depth of the analyses should be consistent with the depth and pace of projected reforms. Recent examples of how this is being implemented at the country level include the analyses for the Central America Free Trade Agreement and Vietnam's accession to the World Trade Organization (WTO). The planned Guidance Note for the preparation of Country Assistance Strategies (CASs) in Recommendation 2 can be a useful vehicle to highlight the need and appropriate scope for this analysis. The Note will stimulate consultations by country economists across Networks on the need to identify possible transitional costs, the institutional framework for cushioning shocks, and actions to mitigate shocks.</p> <p>Having said that, management would like to stress that a focus on adjustment costs/managing shocks from possible trade reforms is too narrow. There is a broader need for Bank economic and sector work (ESW) related to growth to continuously assess policies that will facilitate adjustment and reallocation of labor as well as capital in response to changes in the environment—which could come from changes in trade policies, technology, other domestic reforms, and the like. This is essential to facilitate growth and also to support economic reforms. This analysis should not be triggered by just trade reforms, which for the most part today are implemented gradually and are not as deep as those undertaken in the 1980s and early 1990s.</p> <p>Management agrees on the importance of being prepared to assist countries face adjustment challenges that could potentially stem from a successful Doha Round. The joint Bank-Fund paper on Aid for Trade, which was endorsed by the Board of the Bank and the Development Committee in September 2005, recognizes this need and outlines a process to address this issue by strengthening the capacity of the Bank and the Fund to do the diagnostic work needed to evaluate the adjustment needs and to work with donors</p>

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	<p>in bringing together packages of financing. Bank management is of the view that existing Bank instruments are adequate to address this potential issue. In some cases, there may be an issue of availability of concessional funding from IDA, given the limits to IDA resources. Management will continue close coordination with donors to help IDA countries find appropriate concessional financing.</p> <p>Management is of the view that the Bank already has the tools that are needed to assess impact effects at the micro level. Research in this area has been increasing significantly during the last three years (see for example the recently published studies on trade and poverty, collected in a volume by Hertel and Winters) and is planned to continue.</p>
<p>Recommendation 2: Revisit the Balance between Global and Country Agendas and Strengthen Operational Links on Trade Issues</p> <p>IEG recommends that management revisit the balance between its activities at the global level on the one hand, and on the regional and country agenda on the other. Given the multi-sector nature of trade issues, a participatory process that involves operational sector colleagues, other networks and the Trade Department is likely to yield the greatest benefits. Operational linkages need to be strengthened between different units of the Bank and greater emphasis placed on country and field operations.</p> <p>Three actions are necessary:</p> <ol style="list-style-type: none"> Greater strategic and intellectual guidance is needed from the Trade Department with respect to the conceptual framework within which country teams should consider trade issues. The design of a guidance note and upstream support on a pilot basis to country teams planning country assistance strategies would be practical first steps and would help determine those cases in which trade is logically a priority element in the country dialogue. In three thematic areas of focus, a more formal set of arrangements between operations, networks and the Trade Department is needed to maximize synergies—agricultural trade and policies, services liberalization, and distributional outcomes associated with trade policies. As has been done between the Transport and Agriculture units on the one hand, and the Trade Department on the other, IEG recommends that working arrangements with the Private Sector Department Vice-Presidency be established to highlight the interface between the two areas and bring the global dimension to bear more precisely. This cross-fertilization of trade and the need for better integration of trade and the FPSI work program is 	<p>Management agrees with the recommendation and with its implication—and is working to strengthen Regions to cope with the growing growth and trade agenda. Given the small size of the center and the need to continue to stay engaged at the global level, strengthened operational linkages can only be achieved through better use of resources devoted to trade at the country level. Needs will vary by Region, but the Africa Region has already committed, in the context of the Africa Action Plan, to increasing resources devoted to trade issues at the country level.</p> <p>Management agrees with the need to strengthen the support from the Trade Department to country teams to help integrate trade into the growth and poverty reduction in CASs. The September 2005 Development Committee paper on Aid for Trade outlines a plan for significantly increasing resources dedicated to trade in country programs through the enhanced Integrated Framework and other instruments. The main bilateral donors have announced major increases in Aid for Trade around the Hong Kong Ministerial.</p> <p>The Trade Department will work with Regional trade representatives to prepare brief country-specific Guidance Notes for all countries where trade integration remains a major opportunity and challenge. The criteria for this engagement have already been articulated in the Report to the Board on Trade Policy of March 2005. The Guidance Note will include assessments of (a) trade policy and performance; (b) major supply-side constraints; (c) external environmental impacts on a country's trade prospects; and (d) possible issues requiring specific adjustment needs.</p> <p>Management agrees that further efforts to formalize arrangements between operations, networks, and the Trade Department to address services liberalization and distributional outcomes associated with trade policies</p>

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<p>especially evident in the work on trade in services. Greater interaction between the Trade Department staff specialized in trade in services and the sub-sectoral expertise in transport, power, finance, telecoms and so on located in FPSI is needed.</p>	<p>could yield benefits. However, the area of services covers roughly 15 sectors, and this would entail very substantial coordination costs in areas of work where the trade angle is narrow. Accordingly, management proposes to explore more formal arrangements between the Trade Department and operations in one or two “backbone” services, namely finance, telecommunications, and transport.</p> <p>On the relations with the Private Sector Development (PSD) Vice-Presidency, there is already good coordination in the area where the synergies in competencies are the highest: trade logistics and trade facilitation. Coordination exists already for the preparation of performance indicators as well as analytic tools (notably, logistics value chain analyses from PSD and trade and transport facilitation audits from PREM/INFR). Dissemination of these tools is carried out jointly for Bank staff training and they are often used in a complementary fashion in Bank ESW and project preparation. However, additional progress can be made by strengthening the linkages at the country level. In that context, the planned Guidance Note for trade in preparing CASs will help by stressing the links between trade and PSD issues as they relate to supply-side constraints and by guiding country teams in that direction.</p> <p>In order to reach decisions on how best to coordinate across the Bank on trade issues and how best to operationalize trade issues within country programs, the Trade Department will prepare a note for discussion among Operational Vice Presidents (OVPs). The note will include staffing and budget issues. Any budgetary implications coming out of the OVP discussion will be highlighted in upcoming budget and work program documents.</p> <p>Management will consider the agreed action related to Recommendations 1 and 2 complete with (1) the launch of the Guidance Notes; (2) the OVP discussion and decisions on the Trade Department note, (3) the launch of the trade related work identified through fiscal year 2007 in the Africa Action Plan (see <i>Strengthening the Development Partnership and Financing for Achieving the MDGs: An African Action Plan</i> (DC2005-0021), September 16, 2005, commitments on growth diagnostics on page 22 and on creating an export push on page 23); and (4) the creation of an active thematic group on trade and competitiveness (see below). Progress will be monitored in the context of periodic progress reports on the Africa Action Plan for Sub-Saharan African countries and for all countries in the next two CAS Retrospectives. The CAS retrospectives will assess the appropriate integration of trade issues into CASs.</p>

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<p>Recommendation 3: Strengthen Knowledge Management Efforts</p> <p>Two actions are important.</p> <p>a. A concerted effort to bring all country economists up to date with the main features and application of the WITS software would enhance their awareness of the global trade issues and implications for the countries they work on and enable them to supervise research assistants/consultants and seek further training if and when needed.</p> <p>b. Knowledge management efforts could reflect greater cross-fertilization with other networks and better integrate trade work done in the center and country-level work on agriculture, economic policy, labor markets and private sector development. As part of these efforts, the possibility of joint thematic groups with other networks should be explored.</p>	<p>Training on WITS is being offered twice a year and open to all Bank staff. Management endorses the suggestion that the WITS tool will help country economists address trade issues. The country guidance note for the CAS will raise awareness on this tool and encourage its use. However, Management's view is that WITS will not be enough to enhance the awareness of global trade issues and implications for specific countries staff work on. For that reason Management will continue to strengthen its overall program of trade-related training in line with what has been done over the last two years.</p> <p>A thematic group focusing on one or more selected aspects relating to Trade and Competitiveness will be launched with strong participation from other groups important for the trade agenda, most notably PSD.</p> <p>The suggestion to increase feedback from operational staff on relevant trade related topics is a good one. To that end, management plans to strengthen the dialogue with operational staff through the Trade Notes series, the establishment of a new thematic group, and the establishment of an ideas line.</p> <p>Management will consider the agreed action on this item complete within six months of the launch of the new thematic Trade and Competitiveness group; the establishment of an ideas line, and the strengthening of the discussion series on Trade Notes.</p>