
APPENDIX G: CHAIRMAN'S SUMMARY: COMMITTEE ON DEVELOPMENT
EFFECTIVENESS (CODE)

On January 11, 2006, the Committee on Development Effectiveness (CODE) considered the report *Evaluation of World Bank Support for Trade, 1987-2004* prepared by the Independent Evaluation Group (IEG), together with the Draft Management Response.

Background. During the 1980s and early 1990s, the Bank was an important source of trade policy advice and financial assistance to support trade-related activities. Following a lull in the late 1990s, the Bank intensified its focus on trade following the Doha Trade Ministerial Meeting in 2001. In 2002, the Trade Department was created from elements from DEC, PREM, and WBI. Over the course of 2005 there were several Board meetings focused on trade issues, including a March 2005 review of the *Trade Progress Report: Focus on Country Trade Policy*; and a September 2005 review of the Development Committee paper *Trade Progress Report: Doha Development Agenda and Aid for Trade*.² In these and other meetings, many Executive Directors have stressed that the Bank is well-placed to play a global advocacy and advisory role to facilitate trade. They have also encouraged the Bank to: focus more on country-level trade work; mainstream trade diagnostics into its operations; provide trade-related capacity building; and provide financial assistance to help bridge potential short-term costs associated with adjustment to trade liberalization.

Highlights of the Report. The IEG report focuses on Bank assistance between fiscal years 1987 and 2004. IEG found Bank support for trade reform from 1987 to 2001 to be generally consistent with the 1987 WDR on trade, Operational Directive 8.60, and the literature on trade reforms.

It also recognized the important contribution and high quality of Bank research on international trade over the period. IEG found that country reforms with Bank support since the 1980s have been instrumental in reducing distortions and relaxing import constraints. IEG also found that Bank interventions over this period have been less successful in achieving structural improvements in export performance and diversification, notably in Africa. During the same period, IEG determined that overall conditionality associated with trade has declined. However, it noted four concerns: (i) the Bank sometimes supported trade reforms in countries without due consideration to macroeconomic issues; (ii) compliance with complementary measures/conditions crucial to trade reforms tended to be the lowest of all conditions, underscoring difficulties associated with their implementation; (iii) trade-related projects did not adequately attend to the analysis of potential poverty and distributional outcomes; and (iv) the Bank did not take the external environment into account sufficiently. As for the Bank's trade advice, IEG found little evidence of a generic approach to trade reforms in client countries, but it was too narrowly focused and too optimistic about the benefits of trade liberalization for growth in the short-run.

The Bank's interventions on trade since 2001 have had two objectives: make the world trading system more supportive of development, through a reciprocally open trading system; and make trade an important part of country development strategies. IEG considered these objectives relevant, timely, and responsive to the changing global environment on trade issues. Nevertheless, it also noted that more attention was needed to strengthen analytical tools,

processes, and systematic interactions between the Trade Department and operational colleagues. Three IEG recommendations are: (i) address poverty-distributional outcomes and external shocks; (ii) revisit the balance between global and country agendas and strengthen operational links on trade issues; and (iii) strengthen knowledge management efforts.

Highlights of the Management Response (MR). Management welcomed and appreciated IEG's review which they felt was a solid overview of the Bank's experience in the trade area. However, given the Bank's very different emphasis with regard to trade issues during the review period, a greater differentiation of the different phases of the review period would have provided valuable insights. Specifically, given the scaled back emphasis on trade issues on the part of the Bank during the mid 90s to 2000, the reinvigorated interest in trade in 2001 was started from a much reduced resource base and constrained budget envelope. On the latter, a more explicit discussion would have been helpful to management in allocating resources. Lastly, management felt the focus of the review for 2001-04 was on the Trade Department. Management also felt that much of the implementation of the review's recommendations would take place at the region/country level. Hence, greater clarity on the locus of actions would have been helpful. Also, management believes that three years (2001-04) is too short a period in which to evaluate the new trade strategy, especially in the areas of capacity building and mainstreaming. Management is of the view that existing instruments to address adjustment and distributional effects are adequate, especially given the reduced role of trade conditionality and the fact that liberalization is usually gradual. Adverse shocks resulting from changes in trade policy are, by and large, a small part of the story of the adverse shocks affecting the poor. In the few instances where shocks deriving from trade policy changes are large (e.g., due to preference erosion) the Bank is adequately equipped and ready to provide assistance.

Overall Conclusions. The Committee noted with favor that the report was comprehensive and

well-written, covering most of the relevant issues both retrospectively and prospectively. There was unanimous support among both CODE members and management for the main recommendations of the review, particularly on mainstreaming and knowledge management. Indeed, the Committee appreciated the positive and constructive MR and noted it was helpful in clarifying practical implementation issues, particularly mainstreaming trade in country assistance strategies and operational work. Regarding the recommendation for more attention to distributional impact and adjustment opinions were mixed. The discussion focused mainly on some aspects of the evaluation framework; under what external conditions and policy environment the Bank can maximize the efficacy of its assistance; how the Bank should respond to adjustments that developing countries face, such as those induced by trade-related shocks; and how the Bank can enhance its current organizational capacity and effectiveness. Members appreciated staff comments about trade integration into country programs in Central America and East Asia.

Next Steps. Some speakers requested that management prepare a paper linking the approach for mainstreaming and integrating trade work, including a business plan, accountability matrix, staff incentives and budgetary issues. Management agreed to a discussion among Operational Vice-Presidents on the issue of operationalizing trade issues within country growth strategies. Some members requested further elaboration in the revised MR on areas such as mainstreaming of trade-related work and its resource implications, distributional assessment, and country-specific Guidance Notes (GN). They also stressed the importance to consider an appropriate communication strategy for the public disclosure of IEG report and MR. Members look forward to receiving a paper on "shocks".

Members raised the following issues during the meeting:

Evaluation Framework. Some speakers stressed the need to explore comprehensively the impact of trade liberalization including unilateral reforms in developing countries giving greater at-

tion to adjustment and transitional costs, sequencing, distributional effects, and micro-level implications. They agreed that compliance with complementary measures was crucial to trade reforms. This evaluation could include the causes underlying the weak performance of many Bank-assisted countries (notably in Africa and to some extent the Middle East and North Africa) especially with respect to lack of progress in export growth and economic diversification, which had been noted by several members. IEG responded that the report examines the causes of weak performance at the country level. Speakers also noted the need to distinguish between short and long-term impacts.

Distributional Impact. Many speakers encouraged more analysis of distributional impacts, although such work should not be mandatory. Moreover, a few suggested that such assessments should be done not just in terms of poverty and growth, but also with reference to fiscal and trade balances, and mitigation measures. Management noted that recently the Bank had done a lot of work on some distributional aspects of poverty; however, this was a new area of research. There is a toolkit but management informed CODE members that it is very difficult to forecast the precise distributional impact of (trade stimulated) growth so that addressing potential poverty and distributional outcomes could not be done with any high level of confidence.

Focus and Priorities. Mainstreaming trade effectively into poverty reduction strategies, country assistance strategies and operations, and implementation of IEG recommendations garnered attention from many speakers. They stressed the need for a more country-specific approach, including institutional strengthening and capacity building needs. In this regard, a member highlighted that Aid for Trade has become an important component of the Doha Development Round discussions. Several participants welcomed management's proposal to work on country GN; members sought more elaboration in the MR regarding monitoring of GN. The Integrated Framework for Trade-Related Technical Assistance should have a sharper focus on results.

Response to Adjustment. For adjustment to trade-related shocks, management noted the distinction between terms of trade shocks (e.g., induced by oil prices) and policy or reform transitions. Speakers had diverse views, however, on the adequacy of currently available Bank instruments for assisting adjustment or the need for a separate lending window for trade-related shocks. Some of them felt that the current challenge was the effective implementation of instruments. Some speakers encouraged more support for strengthening business climate and competitiveness, and investment in infrastructure. Some expressed the opinion that support for trade facilitation, regional integration, and South-South trade and investment also needed more attention.

Strengthening Knowledge Management. Some speakers encouraged more training on trade and extensive "cross-fertilization" between trade and other areas such as agriculture, economic policy, labor market, and private sector development. Speakers recognized the important Bank's contribution through its research work although one member sought staff's and IEG's views on the Bank's dependence on donor trust funds to finance this activity. Speakers felt that knowledge created outside the Bank should enhance and substitute for in-house research (see below on the use of external resources). One member suggested two areas of research: non-tariff barriers—including standards and dumping measures; and study of complaints filed by affected countries with the WTO's appellate body such as the recent experience in cotton and sugar.

Bank's Advocacy Role. Though there was broad support for the Bank playing an active advocacy role in trade, opinion was divided regarding the Bank's posture. Some speakers stressed neutrality and even-handedness. Several speakers pointed at the fact that the Bank had overestimated the benefits of trade liberalization and subsequently had to revise them downwards. Others interpreted the Bank's mandate for poverty reduction to mean a more activist role in putting forward the interests of the poorest borrowing countries. Management emphasized that it views its role as advocating changes in the

world trading system that promote development, and not necessarily the position of any group. Nevertheless, there was broad agreement to maintain overall balance between global advocacy and local programs. Speakers also noted the role played by Bank partners including Regional Development Banks.

Organizational Capacity and Effectiveness. In addition to coordination across units, better knowledge management, and budgetary implications, several speakers suggested strengthening staff incentives, development of a business plan and accountability matrix, and perhaps an approach

paper on integration of trade issues. Many members encouraged more formal arrangements between the virtual Trade Department and Regions, operations, and networks, and sought additional information on the role of Regional Trade Coordinators. Management informed the formation of a new Trade and Competitiveness Thematic Group. A few members asked for greater coordination within the World Bank Group. Another specific suggestion included making better use of external resources and analyses.

Pietro Veglio, Chairman