



## FACT SHEET

March 22, 2006

## Assessing World Bank Support for Trade, 1987-2004

**Scope:** This study, conducted by the World Bank's Independent Evaluation Group (IEG), assesses the effectiveness of Bank trade assistance to developing countries between 1987 and 2004.

**Main Findings:**

- While Bank assistance was largely successful in helping to reduce distortions associated with developing country trade regimes, it was less successful in generating a dynamic and sustained export growth path, especially in Africa
- The Bank's approach was too narrow in its focus on what mattered for jumpstarting an export push. Consequently the Bank was too optimistic about the benefits of trade and its impact on economic growth in the short-run.
- Specifically, the Bank underestimated the complexity involved in sequencing and implementing complementary regulatory and institutional policies. It also took the external environment as largely given, thereby missing out on the role of market access and external shocks on outcomes. Moreover, the Bank could have paid more attention to the social and economic vulnerability associated with trade-related adjustment costs.
- While the Bank's focus on trade fell significantly in the mid to late nineties, there has been resurgence since the failed Seattle Trade Ministerial in 1999. Relative to the earlier period, this more recent phase has been characterized by greater attention to the role of Bank advocacy in the global trade dialogue, to trade-related capacity building and an emphasis on making trade an integral part of Bank country dialogue and assistance.

**Recommendations:**

- Ensure that trade-related adjustment costs are taken into account systematically in the design of trade projects and in the trade policy dialogue with countries.
- Better understand the dynamics of successful (and not so successful) adjustment at the individual, household and firm levels.

- Maximize cross-sectoral synergies in areas such as the macroeconomy, agriculture, services, and private sector development in the future.
- Ensure Bank country assistance strategies adequately take into account the stated role of trade in the country's poverty and development strategy and that the interaction between the central and country program units working on trade issues continues to be strengthened.

**Definition of Trade used in the IEG Report:** "Trade" in this context refers to lending and non-lending activities that enhance the trading environment and capability of Bank clients to trade goods and services in the global economy.

- Six main areas of Bank trade lending support:
  - 1) Trade liberalization (e.g. reducing import tariffs)
  - 2) Institutional trade facilitation (e.g. developing and modernizing customs, supporting Trade ministries)
  - 3) Infrastructure-related trade facilitation (e.g. air freight, ports efficiency)
  - 4) Public trade finance (e.g. financing state exporters and public imports)
  - 5) Private trade finance (e.g. financing for private exporters)
  - 6) Technical assistance for trade negotiations. (e.g. WTO accession/WTO-related)

**Evidentiary basis for the report:**

- Portfolio review of over 500 loans to 117 countries that fully or partially address trade-related issues
- Review of 152 loans to 65 countries that included trade-related conditionality
- Case studies of six countries (India, Indonesia, Morocco, Mozambique, Senegal, Zambia)
- Structured interviews with WTO members in Geneva.
- Survey of Bank staff working on trade and macroeconomic issues.
- Aggregate analysis of trade and macroeconomic outcomes of developing countries
- Background research and analysis on:
  - Trade conditionality in Bank lending
  - Bank advocacy on trade issues
  - Review of the mechanics of trade reform
  - Review of literature on trade policy reform
  - Trade promotion instruments
  - Impact of World Bank lending for trade
  - Desk review of country trade experiences

### Portfolio background:

- The Bank has been a leader in the provision of financial and technical support for trade to developing countries.
- Between fiscal years 1987 and 2004, the World Bank approved about US\$38 billion in loans to 117 countries for trade-related activities – 8.1 percent of total Bank lending.
- Most frequent focus of lending was to trade liberalization and supporting improved trade facilitation at the institutional level (e.g. improving the efficiency of customs services).

Approval FY	I	II	III	IV	V	VI	VII	VIII
	Trade liberalization	Trade facilitation		Trade financing		TA for WTO accession/ negotiations	TR-related Bank projects <sup>b</sup>	Total evaluated Bank projects <sup>c</sup>
		Institutional	Physical infrastructure <sup>a</sup>	Public	Private			
1987–94	135	122	44	24	39	1	247	1,841
1995–99	70	76	43	3	18	1	146	948
2000–04	25	65	35	3	11	2	116	191
<b>1987–2004</b>	<b>230</b>	<b>263</b>	<b>122</b>	<b>30</b>	<b>68</b>	<b>4</b>	<b>509</b>	<b>2,981</b>

Source: TAE project database.

a. Includes only lending components for physical trade facilities in projects that have also other trade-related actions.

b. This covers the same set of projects as in column IX, table C2.2. Columns I-VI do not sum to VII because the categorization of projects by trade-related theme is not mutually exclusive.

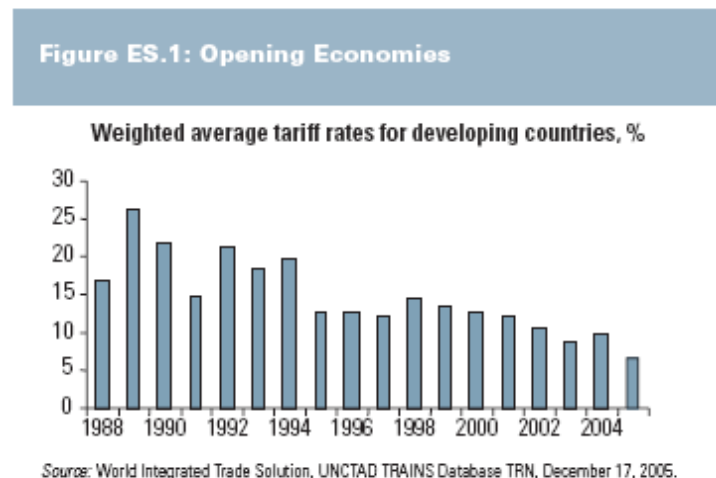
c. Total may not add up due to rounding.

### Bank's differing approach over three different time periods:

- 1980s-Early 1990s: Bank's focus was on traditional trade agenda and thus focused on opening up economies through significant trade adjustment lending.
- Mid-to-late 1990s: Bank's emphasis on trade declined – both lending and analytical trade work fell.
- Late 1990s: Bank's work on trade issue expanded with greater emphasis on advocacy and trade capacity-building. However, overall downward trend not substantially reversed.

### Outcomes

- Trade was significantly liberalized. Average import tariffs in developing countries have fallen steadily over the period (Figure ES.1)

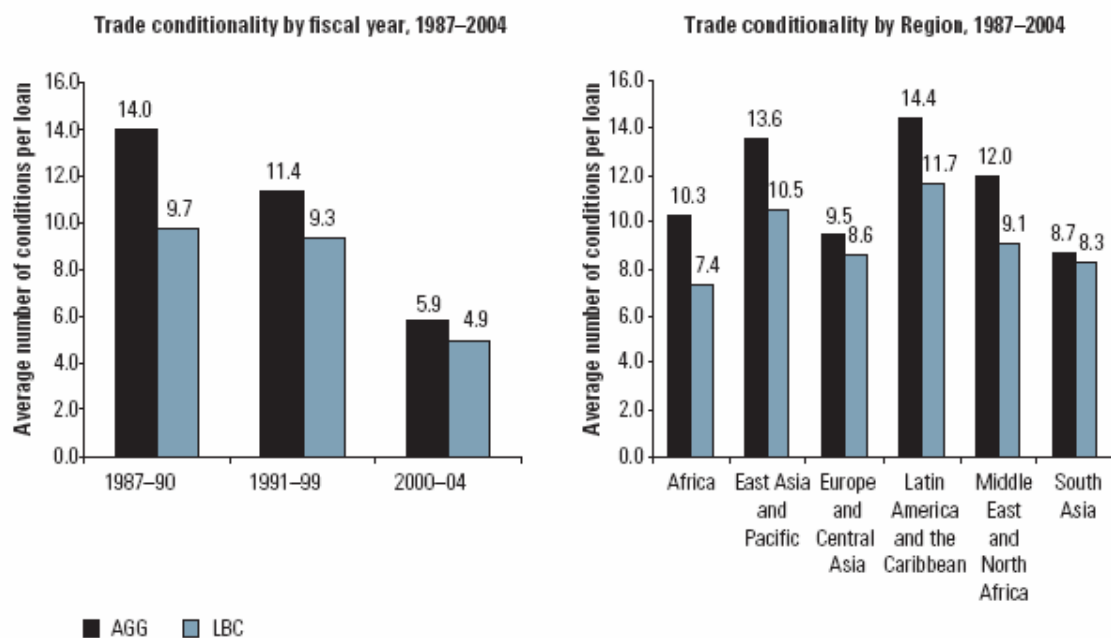


- Weighted import tariff fell from 24.6% at the beginning of their reforms to 7% after five years for all reformers.
- Non-tariff barriers fell from 59.1% of all import lines to 17.2% after five years of reform.

### Declining Conditionality

- At the height of adjustment lending in the 1980s, trade accounted for a quarter of all conditionality. The number of trade conditions has fallen steadily (from an average of 14 to 6) and across all regions.

Figure 3.5: Number of Lending Conditions Declined over 1987–2004



Source: Tsikata (2005).

Note: LBC - Legally binding condition; AGG - aggregate total conditions = legally binding plus desired (matrix) benchmarks.

**What is the IEG?** The Independent Evaluation Group (IEG) is an independent unit within the World Bank; it reports directly to the Bank's Board of Executive Directors. IEG assesses what works, and what does not; how a borrower plans to run and maintain a project; and the lasting contribution of the Bank to a country's overall development. The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank's work, and to provide accountability in the achievement of its objectives. It also seeks to improve Bank work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.