

## **World Bank's Independent Evaluation Group Issues Report Assessing Two Decades of Global Trade Programs**

### **Despite Greater Openness, Full Benefits yet to be Realized**

**Washington DC, March 22, 2006** – The \$38 billion in World Bank financing for trade programs since 1987 helped open markets, but were not as effective as anticipated in boosting exports and growth, and alleviating poverty, according to a new report issued today by the institution's Independent Evaluation Group (IEG).

According to the report, the World Bank's strategies on trade were successful in helping countries to liberalize trade, but the impact on employment and poverty was less than expected. If developing countries are to reap larger gains from trade liberalization, the reforms need to be complemented with investments and institution building and measures to mitigate adverse effects.

"The evaluation confirms that liberalizing trade alone is not enough to generate growth and fight poverty," said Vinod Thomas, IEG's Director-General. "The World Bank has done the right thing in promoting more open trade worldwide, but not necessarily done everything right to help generate the desired payoffs."

The evaluation recommends that the World Bank give greater attention to addressing poverty and distributional outcomes, and to cushioning shocks associated with trade policies.

The World Bank, said Yvonne Tsikata, lead author of the report, "was overly optimistic about the immediate and universal benefits of more open trade. It underestimated the constraints and local complexities involved in harnessing those benefits."

The comprehensive appraisal, *Assessing World Bank Support for Trade, 1987-2004*, analyzes the Bank's contribution to freer trade in poor countries and makes concrete recommendations on how to boost trade opportunities to better reduce poverty in the future. Between 1987 and 2004, 8.1 percent of total Bank commitments (US\$38 billion) went to 117 countries to help them become better integrated into the global economy.

The evaluation was carried out by the Bank's Independent Evaluation Group (IEG), an autonomous body reporting directly to the Board of Executive Directors of the World Bank to assess the effectiveness of the Bank's development efforts.

“This report is very timely. It is the first comprehensive and independent evaluation of Bank assistance on trade,” said Professor David Greenaway, Head of the report’s External Advisory Panel and Director of the Leverhulme Centre for Research on Globalization and Economic Policy (University of Nottingham). “This acknowledgement that developing countries must aspire for open markets while simultaneously receiving support to adjust to the impact on their local economies is most welcome, and a valuable contribution in informing ongoing trade negotiations.”

Overall, the evaluation found that the World Bank was effective in helping developing countries liberalize their trade regimes. Average tariffs fell, coverage of non-tariff barriers diminished, foreign exchange shortages shrunk, and the exchange rate became a more viable instrument for macroeconomic and trade policy. The developing world is far more open today than two decades ago.

However, these trade initiatives were less successful in generating a dynamic and sustained export growth path, especially in Africa. Many of the Bank’s clients in Africa have not succeeded in diversifying their exports, making them still vulnerable to commodity price shocks. Because of the lack of diversity in their exports, some of these reforming countries have not successfully integrated into the global economy and have actually lost market share. Complementary measures such as competition policy, reducing labor market rigidities, and improving the regulatory environment did not always accompany trade reforms recommended by the World Bank.

The Bank has also often promoted specific trade policies in countries without adequately assessing the potential impact they might have on affected communities. The IEG evaluation found little evidence that more recent trade-related operations are doing much better in identifying potential winners and losers of trade policies and of recommending specific adjustments. Between 1987 and 1995, 31 percent of trade adjustment loans included compensation or mitigation measures to cushion the social and economic effect of trade reform on the poor; since then 38 percent – a slight increase – of trade adjustment loans have done so.

At the same time, the report highlights the high quality of the World Bank’s research on trade issues and notes the important role being played by the institution in recent years in advocating on behalf of a more equitable global trading system.

“The speed, volume and complexity of global trading will only continue to increase,” said Vinod Thomas. “So too must the knowledge and capacity to generate and share the benefits of freer trade across the world with greater equity and sustainability.”

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