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**OED Evaluation of World Bank Assistance on  
Trade:**

**Feedback from Advisory Panel**

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## A. Context

1. The World Bank has global reach in matters pertaining to trade policy. Over the past 25 years it has been a key, possibly *the* key, agency in promoting research and outreach on trade policy reform and in initiating changes to the trade policies of developing countries. At the heart of this has been trade related Bank lending, supported by commitments to advocacy and capacity building.
2. OED's task in this assignment was not to review the activities of the recently created (virtual) Trade Department but rather to evaluate the effectiveness of Bank assistance and its relevance. The former was framed by reference to a series of input and output indicators; whilst relevance was assessed by reference to implementation, timeliness and the role of external factors.
3. OED's approach was evidence-based and relied upon a range of complementary tools and methods, including: reviews of World Bank trade assistance inventories and project appraisals; interviews with Bank and non-Bank principals; country case studies; and econometric analysis. The evaluation focused on the period 1987 to 2004, with analysis concentrating on two sub-periods, 1987-2001 and 2001-2004.
4. The Advisory Panel received the full array of background papers (with the exception of the econometric analysis and Indian case study) and received a series of helpful presentations in Washington DC. The Panel welcomes the transparency and thoroughness of the process. The evaluation has been informed by appraising a relevant and comprehensive evidence base and the lessons drawn can be traced to that evidence base.
5. As shown by OED, trade policy conditionality related to lending was a main pillar of World Bank activity until the 1990s. Gradually, the focus has shifted toward trade facilitation, research and advocacy. The OED identifies research, advocacy, trade-related capacity building and mainstreaming trade in country work as the four main pillars of current World Bank work. Given that a primary purpose of the evaluation is to provide advice for the future, the comments and observations from the Panel are clustered around these four pillars – although some comments apply to other issues.
6. The task of the Advisory Panel has been to provide feedback on the OED draft evaluation. When we comment on World Bank's trade-related activities in the following, the purpose is to address and adjust the perspectives of the OED draft evaluation, and not to make another assessment of the World Bank as such. This note was mainly shaped in July 2005, based on the OED draft evaluation at that time. We feel that our perspectives and comments have been

seriously and sincerely addressed by the OED evaluation team. This note from the Advisory Panel may nevertheless continue to serve a purpose by drawing attention to some aspects that we find important for the future shaping of World Bank activities in the trade field. During the meetings in Washington DC in June 2005, we also provided more detailed comments on the draft that we do not reiterate here.

## **B. Research**

7. The World Bank has been a major engine for trade-related research, not only in the form of direct outputs from the Research Department but also indirect outputs from Operations Departments and ‘country desks’. High quality research that survives the scrutiny of peer review is (rightly) viewed as essential to the credibility of the claim that policy advice is evidence based. The portfolio of trade research in recent years has included work on *inter alia* (i) the impact of multilateral liberalisation, with a particular focus on agriculture; (ii) the economics of regionalism and trade preferences; (iii) the role of contingent protection and standards; (iv) trade in services, (v) FDI and, (vi) migration . In these areas, World Bank research has been a timely and important input in global discourse, although there have been occasions when similar research activities have yielded different results and conclusions, thereby causing confusion.
8. The “ownership” of policies becomes important even in situations where conditionality plays a role. Given the controversies and conflicting interests associated with global development policy, the World Bank increasingly relies on research to underpin its policy advice and enhance its credibility. The Advisory Panel therefore strongly endorses the emphasis placed by OED on the Bank’s role as a research engine. It also concurs with the overall assessment that the average quality of trade related research is high and its policy focus appropriate. However, it sees some issues as meriting further investment of resources.
9. In recent years, the availability of trade and tariff data has improved sharply, and the World Bank has contributed through the WITS (World Integrated Trade Solution). Dissemination and research based on these resources should be promoted further. However, it is also important that evaluations of trade reforms do not rely too heavily on measures of nominal tariffs. Although a valid ingredient of any assessment, nominal tariffs are only one part of the picture and if instrument substitution occurs, reliance on nominal tariffs can be misleading. Since one under-researched explanation for variations in outcomes of reforms across countries is differences in implementation, this deserves more attention. There are lessons to be learned from failures as well as successes. The World Bank is well placed, maybe uniquely well placed, to progress this

agenda given the wealth of country specific evidence on non-tariff barriers and behind the border barriers, within the organisation. The Panel recommends that this be given higher priority.

10. Most emphasis on the consequences of trade reforms has tended to be placed on ‘aggregates’ such as imports, exports, growth, employment and so on. Yet we know that the focus with respect to outcomes ought to be on individual transitions: transitions into and out of unemployment; entry and exit of enterprises; redistribution of income across households, to cite just a few examples. Recent developments in the economics literature more broadly are yielding invaluable insights into the dynamics of individual transitions. Moreover, powerful econometric tools have been developed for interrogating large micro level datasets. The Bank is very well placed to take advantage of this technological progress as it sponsors micro level data collection on a significant scale. As reflected in the evaluation, the Panel recommends that greater emphasis be given to this in the research portfolio to better inform the analysis of what trade reform means for specific groups of workers, households, firms and so on.
11. More information on micro-level adjustment offers the opportunity for more focused work on adjustment policy. There are *always* adjustment frictions associated with trade reform and these impose social, economic and political costs which if underestimated can in themselves become an impediment to successful reform. Research on adjustment costs is largely missing from the Bank’s portfolio and as a consequence systematic research on adjustment policies that might smooth transitions and ameliorate the consequences of reform for the most vulnerable is limited. The Panel recommends greater priority is given to this issue.
12. A great strength of World Bank research over a long period has been large scale, comparative, cross-country analysis. Much has been learnt from this approach and although the number of countries featuring in the current evaluation is small (six in total), it offered variety and was informative. Lessons can be learned from comparative cross-country analysis of both successful and less successful experiences and the Panel recommends that the Bank’s commitment to this be sustained.
13. In its important work on trade facilitation, the World Bank has drawn on the recent literature on economic geography, e.g. concerning the role of transport costs and non-tariff barriers. We believe that this work on trade facilitation and export promotion could be further supported by research on sunk export costs and entry barriers in foreign markets, where a host of theoretical as well as empirical (micro-econometric) work has appeared recently. This is relevant also in the context of policies for diversification, since the extent of export

entry barriers may impact what is an “optimal” specialisation. Research in this field could also support World Bank activity at the country level. For example, export promotion activity implicitly often assumes the presence of “thresholds” or sunk costs in the exporting activity. Current research in this field could therefore give a better scientific basis for export promotion policies at the country level. This perspective could be useful in the Bank’s search for ways to integrate trade-related research and country-level activity.

14. In developing its evidence base, the Bank must continue to draw as widely as possible on external research and advice. It was noted that a large amount of similar research is being done by other organisations. Therefore, over-reliance on internal or internally commissioned work runs the risk of compromising the credibility of the analysis. Assessments should reflect outputs from external research and especially research undertaken locally in the target regions or countries. This is especially applicable to work in and on Sub-Saharan Africa and South Asia where growing capacity is generating an increased flow of outputs. The Bank also needs to keep the sources of external research and advice under review to guarantee its independence as well as its quality. The Advisory Panel believes that the World Bank is complementary to alternative suppliers among global, regional and national institutions and networks. In some areas such as technical barriers to trade, trade preferences and trade facilitation, the World Bank has played a leading role by initiating new research. It should therefore continue to play an active role in the field of trade-related research. In the OED draft evaluation, assessments of the role of the World Bank relative to other institutions could be emphasized even more.

### **C. Advocacy**

15. A range of instruments is deployed to promote the Bank’s advocacy role. These include the annual *Global Economic Prospects*, published papers, senior management speeches, op-eds and deploying missions to the WTO in Geneva. Advocacy applies to a range of issues, with most effort in recent years being applied to highlighting the costs and consequences of OECD agricultural subsidies for global markets in general and developing countries in particular. The Bank’s standing in the international arena and its resource base underpin this important function. However, the Panel recommends that the agenda be extended beyond agricultural subsidies, to embrace market access and competition issues more broadly, managing change internally and institution building.
16. Whilst applying pressure on agricultural subsidies is welcome, having this as the sole market access focus risks marginalizing other issues that are at least as important. Market access for manufactures, particularly labour-intensive goods, in OECD markets remains far from open, partly due to widespread tariff

peaks and escalation, and partly due to the prevalence of non-tariff barriers. Both are Doha Round agenda items and part of the broader Millennium Development Goals. The Bank has an advocacy role in exposing the costs and consequences of OECD protection and continuing in making the case for change that can lead to development and promote the eradication of poverty. The same applies to services, though the message here is clearly more nuanced. While agricultural liberalisation is crucial for a number of developing countries, manufacturing exports have been a core element in development for many. Hence a balanced approach to sectoral issues – in policy as well as research – should be guiding the World Bank.

17. A core feature of development over the last decade has been increased divergence among developing countries. In trade policy, this has been expressed for example in special trade preferences for these countries and the concern over how this divergence can be taken into account. In research, the World Bank has made an important contribution to the analysis of such issues. It is also a stated objective in the Bank's trade policy to focus on the poorest countries, whose interests are of course served by promoting development across the board. The Panel believes that these distributional issues are important in policy as well as research, and should be addressed by the World Bank.
18. Successful adjustment depends upon the (complex) interplay of a number of factors: initial conditions, design and implementation of reform programmes, communications, external factors, chance and contingencies. It also depends upon the way in which change is managed internally. There is an important advocacy role here in sharing of experiences from other developing countries and promoting awareness that change has to be managed. In this exercise the Bank will need to reach out to a large number of stakeholders in client countries through local institutions, always bearing in mind the need for clear and transparent communication.
19. Successful change management is of course fashioned by the quality of the institutional infrastructure responsible for implementing and sustaining change. Whilst recognising that institution building is a medium term objective rather than a quick-fix, the message that institutions matter needs to be conveyed as forcefully as possible. The Panel recommends that the advocacy agenda be broadened to promote the importance of managing change and the key role of institutions and stakeholders in so doing.

#### **D. Trade Related Capacity Building**

20. Effective integration of developing countries into the global trading system assumes the capacity to engage with the machinery of multilateral and

minilateral (or regional) liberalisation. The WTO has very limited resources to invest in this area, so World Bank support for developing countries is essential. This can also come through providing resources/inputs in TCB projects being implemented by other agencies. The Bank recognises its role in TCB. However, capacity building has not featured prominently in lending operations as yet and much of the Bank's support has been on investment in the capacity to negotiate in multilateral or minilateral trade negotiations.

21. The returns to TCB focused on the capacity to negotiate are limited. Hence TCB needs to include other trade-related capacities such as the capacity to produce, capacity to trade, capacity to move goods, capacity to adjust to trade related dislocations and capacity to comply. The World Bank has made an important contribution by raising awareness on these issues. The Panel recommends that these other important capacities be recognised and that building the infrastructure to support them be explicitly included in the TCB agenda. Furthermore it is also important to identify the role of "aid for trade" and how aid can be optimised to address transitions and adjustments that result from trade liberalisation, including erosion of preferences for LDCs and rising import bills for net food importing developing countries.

## **E. Mainstreaming Trade in Country Work**

22. For the Bank, mainstreaming refers to the incorporation of trade into country assistance strategies and country poverty reduction strategies. Given the ripple effects of trade reforms, mainstreaming is an important objective. The agenda is essentially one of internal knowledge transfer: ensuring that those charged with responsibility for developing country strategies are fully apprised of the distributional implications of trade and trade policy and aware of the most up-to-date research and analysis. The OED evaluation concludes that progress with mainstreaming has been limited and needs to be promoted. The Panel concurs.
23. Efforts towards mainstreaming trade in country work have been constrained by insufficient country-specific research. Several low income countries are increasingly defining their trade policy in a regional context. Recent moves notably in Africa, to explicitly take into account the regional integration process, as well as incorporation of micro data should continue.
24. In re-thinking strategy in this area, the Bank might reflect upon the way in which the message is communicated. 'Trade' can be narrowly defined. Yet it is clearly used to signal 'integration', which is perceived as rather broader in scope and in its effects. Integration incorporates trade, cross-border investment, migration, currency linkages, governance, regulatory standards and so on. All of these affect micro level adjustment, all impact on transitions, all

impact on development. A richer message along these lines could help raise the visibility of 'trade' and persuade those responsible for country assistance strategies and poverty reduction strategies how vital an element it is in both.

25. There have been occasions when trade has been rather more visible within the Bank. This was partly fashioned by the prevalence of trade conditions in structural adjustment loans and partly by the presence of a champion at the apex of the organisation of which there are several examples. There is an obvious lesson here. Moreover, an internal champion can be supported by external advocates, able and willing to reinforce the message of 'trade's' centrality to country adjustment and poverty reduction.

## **F. Conditionality**

26. The OED evaluation contributes importantly by providing new analysis of the role of trade-related conditionality in structural adjustment programmes, and the division of labour between the World Bank and the IMF in that context. Given how controversial the issue is, more evidence in this field is needed. The OED evaluation characterises the nature of conditionality and its change over time. It does not resolve all the controversies surrounding conditionality, but emphasizes its declining role over time. The evaluation could have been more explicit on what did and did not work in earlier World Bank policies, but it contributes with increased transparency on World Bank practices, as well as new econometric analysis.

## **G. Concluding remarks**

27. "Mainstreaming" may also be obtained in a more fundamental sense by sharpening and clarifying the overall trade strategy of the World Bank. In our discussion, we have raised some dilemmas and ambiguities that may be important in this context, and which were not fully accounted for in the OED draft evaluation. For example: (i) domestic reform versus market access, (ii) the role of different sectors in growth and labour market adjustment, (iii) the role of trade policy differentiation between countries, (iv) the need for liberalisation in rich vs. poor countries. Clarifying these issues, and adding the focus on micro-issues, adjustment and poverty, could create a credible trade policy framework for the World Bank. So far its trade mission has been pursued without an explicit strategy, so OED's evaluation will make an invaluable contribution to the construction of a strategy that factors in all the distributional dilemmas involved when undertaking reform.