

FIAS CONSULTATIVE COMMITTEE OF DONORS MEETING
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FIAS Crisis Response: Trade Logistics Initiative

**Responding to the post-financial crisis world:
Building efficient trade logistics systems in Low Income Countries**

Concept Note

Summary:

The current financial crisis has severely impacted trade in developing countries, undermining their efforts to promote economic development. As a primary factor of growth, trade is a vital component of any country strategy to transition out of poverty. Efficient and accountable trade logistics services and systems are fundamental to facilitating growth in trade and investment. Firms in most developing economies face long delays, high costs and significant damage and losses in getting their goods and services to markets. With the crisis, faced with even more competitive markets, firms are demanding efficient, easy and accountable import and export procedures that will have a direct effect on their costs and create greater access to world markets. This demand has energized governments to seek reforms in trade logistics services. In response, the Investment Climate Department (CIC) of the World Bank Group proposes to address the impending situation by expanding its post crisis response work under its Global Trade Logistics work program. CIC will leverage its knowledge base and capacity to provide advisory services to poor countries which will need to make needed reforms that will streamline their trade transactions processes, by simplifying and clarifying regulatory and administrative systems governing trade logistics. Extrapolating from the current high demand for the trade logistics work undertaken by CIC under the FIAS umbrella, it is expected that demand for trade logistics advisory support will continue to escalate from low income countries in Africa, Latin America, South- Eastern Europe and Central Asia. To that end, a Trade Logistics crisis response is proposed to improve the trade competitiveness of client countries while laying the foundation for long-term, systemic reform that will prepare clients to take better advantage of future trade growth.

I. Introduction

International trade is the engine of growth, particularly in developing countries, and the ongoing global economic crisis severely impedes trade. Much of the crisis response thus far has been to recapitalize financial institutions and to focus on trade financing gaps. However, the crisis response must include a portfolio of measures to achieve maximum value. This proposal highlights trade logistics reform as a component of a comprehensive crisis response.

Trade fuels economic development. Efficient and cost-effective trade logistics services and systems are fundamental for sustainable growth in trade. Faster, leaner and more responsive supply chains are essential for businesses to survive in a competitive globalized world. Firms increasingly use global sourcing strategies that demand flexible, speedy and cost effective solutions. The current crisis heightens this importance and creates an urgency driven by several factors including shrinking export markets, low capital availability that constrains already scarce working capital available to firms in developing countries and the importance of trade revenue. Developing countries are in an especially precarious position because of their strong dependence on weak OECD markets and the relative inefficiency of their trade logistics systems and services.

The trade logistics supply chain includes all activities necessary for getting goods from origin to destination – some examples include preparing trade related documentation, getting required signatures and approvals, having cargo inspected and cleared by customs and other technical control agencies. The time and costs associated with these activities have a significant impact on firm level productivity and their costs – longer trade transactions times imply that firms require relatively greater levels of inventory in stock or in transit that effectively ties down the scarce working capital of firms in developing countries. This clearly increases their cost of production, and impedes their ability to use their resources most effectively. It also severely limits a country’s ability to be a competitive player in markets. The efficacy of reforming trade logistics systems is particularly important in developing countries where the time and costs related to trading goods are considerably higher than in OECD countries. Thus, the rationale for pursuing a trade logistics crisis response program today is threefold:

- 1) **High Impact/Low Cost:** The time required for addressing regulatory and administrative activities along the trade logistics supply chain can often account for over 50 percent of the total time to import/export goods (column 7 in Figure 1 below). Reforming the administrative systems, procedures, and documentation represent high-impact/low-cost solutions for dramatically reducing the time and costs to trade. These reforms also complement infrastructure improvements, which are also necessary, but are generally high-cost, long-term projects usually not feasible during a crisis response.

Figure 1. Sampling of Export Time Compositions. (Days)

	Document Preparation	Customs and Tech. Control	Port and Terminal Handling	Inland Transport	Total	Time for Document preparation and Customs and Tech. Control (%)
Mongolia	28	2	2	14	46	65%
Niger	36	3	7	13	59	66%
Honduras	14	4	1	1	20	90%
Ethiopia	25	10	5	9	49	71%

- 2) **Short-term Considerations:** Given the current credit crisis, the pressure on firms to reduce supply chain costs to improve performance is seen as a key element of firm strategy. Countries must compete to demonstrate that they can supply high quality goods to markets at competitive prices.
- 3) **Medium-term Considerations:** The crisis period that has resulted in lower trade volumes in many countries actually offers a window of opportunity to implement reforms that would be substantially harder to execute during heavy trading periods, thus preparing the ground when the crisis ends so countries are ready to take off with leaner and more competitive supply chains.

The financial crisis's impact on developing countries will vary by a number of factors including typology of countries (poor, not well integrated with world financial systems and commodity markets versus mineral rich countries; economies like China and India with large domestic markets; export oriented countries versus countries that primarily import, etc). In developing a Trade Logistics crisis response, considerable care must be taken to address the unique needs and concerns of individual countries while developing a solution framework that is standardized, scalable and expandable.

II. Description of Trade Logistics Product

The primary **objective of the Trade Logistics product is to improve trade logistics systems and services in developing economies so as to reduce the total time and cost to trade, creating lean, efficient supply chains that have direct cost savings for firms.** The Trade Logistics product is the first to operationalize the *DB Trading Across Borders* indicator. It typically focuses on the following **implementation solutions:**

- 1) Simplification and harmonization of procedures and documentation along the supply chain.
- 2) Implementation of electronic processing and automation, and in selected countries, developing *single window* systems for trade.
- 3) Introduction of risk management approaches in border inspections and clearance.

Implemented in close partnership with IFC Facilities, the Trade Logistics advisory product integrates collaboration with partners like the Doing Business Reform Advisory, World Bank transport and trade groups, client governments, external donors, international and regional agencies, non-governmental organizations and crucially, the private sector. The Trade Logistics product supports IFC's ongoing efforts to improve the business enabling environment in client countries and is potentially linked with other areas in which IFC is engaged such as infrastructure, agribusiness, tourism etc. in all of which the policy and regulatory issues addressed by the Product relate. Moreover, the Trade Logistics Product fits squarely with the main WBG criteria of providing advisory services for the poorest, conflict, and frontier countries: the product focus is on IDA countries.

The overall impact of the Trade Logistics product is to help client countries: (i) increase investment in key tradable sectors; (ii) increase share of exports in markets; and (iii) create productive jobs.

III. Proposed Work Plan and Funding Envelope

The Investment Climate Department (CIC) is facing steeply rising demand for Trade Logistics advisory services. Projects in Colombia, Burkina Faso, Liberia, Rwanda and regional programs in the East African Community and the Caribbean are underway in addition to a number of collaborative efforts with DBRA, IFC Facilities in Latin America and South East Europe, World Bank and others in Armenia, Kazakhstan, Guatemala, Honduras, Albania and other countries/regions.

In addition to these projects, there is demand from countries including Brazil, Mexico, Sierra Leone, South Africa, Zambia, and others. Demand is expected to remain high even as countries begin to recover from the acute impact of the crisis.

The proposed initiative would expand the services provided by CIC under its Global Trade Logistics program and enable the department to respond to new client demand which is emerging as a result of the crisis. The proposed activities directed at developing and scaling up the delivery of a menu of solutions in trade logistics would include:

In FY10:

- **Streamline the Trade Logistics product** to emphasize quick wins while maintaining the product's emphasis and scope
- **Review and analyze** the impact of the crisis on trade in a typology of countries to classify patterns and depth of impacts
- **Examine existing literature and technical assistance programs** focused on pinpointing high-impact, quickly deployable solution packages and delivery methods
- **Identify Best Practices through** rapid review of previous crisis on countries by typology. Quick analysis of DB10 top 38 trade reformers to identify key success factors and prioritize reforms by typology
- **Develop evaluation framework** for assessing the impact of trade logistics reforms on private firms and on the economy
- **Initiate and convene Technical Advisory Group** comprised of 10 – 15 academics/practitioners/policy makers that meets regularly to help develop specifics of the crisis response and provide objective feedback and guidance
- **Begin work in selected countries** based on demand and country need highlighted in aforementioned review and analysis

In FY11 – FY13:

- **Develop modular assistance tools** (light, mezzo and systemic) by typology of country and expand reach through close collaboration with field offices
- **Ramp up Trade Logistics program** with specific targets for FY11 and FY12

- **Organize regional workshops/conferences** in collaboration with other relevant partners, for key stakeholders from the countries providing a forum for collaborating and sharing experiences/ best practices
- **Create web-based dissemination tool** allowing easy access to modular assistance tools

Funding Envelope: The total estimated funding envelope required for the implementation of the proposed initiative over the given time frame is approximately US\$6 million, which includes the costs of both KM (modular assistance tools and best practice analysis) and operations.

For further information on the proposed initiative, please contact:

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