

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

Cancels & replaces the same document of 08 November 2006

OECD/DAC Project on Trade Facilitation:**Making Technical Assistance and Capacity Building for Trade Facilitation Effective and Operational****DAC meeting, 15 November 2006**

This document is circulated to the DAC FOR COMMENTS and APPROVAL under item 4 of its agenda. Written comments can be send to the Secretariat until Wed. 29 November 2006.

This study concludes phase 2 of the DAC Project on Trade Facilitation. It supplements the Review of Technical Assistance and Capacity Building Initiatives for Trade Facilitation (Phase 1, DCD/DAC(2006)7/PART1/REV1 and DCD/DAC(2006)7/PART2/REV1).

The study was undertaken by Praximondo Consultants, Mr. Matthias Meyer and Mr. Manfred Elsig. Progress has been monitored by an informal steering group of experts from DAC Member countries and "Annex D" international organisations (i.e., World Customs Organisation, UNCTAD, World Bank and IMF).

The Secretariat proposes to publish the Phase 1 and Phase 2 studies together in the DAC Guidelines Series. This work complements the Trade Committee work on trade facilitation [COM/DCD/TD(2005)1/FINAL].

Miss Caroline Lesser - Tel.: +33 (0)1.45.24.90.46; E-mail: caroline.lesser@oecd.org

JT03217370

TABLE OF CONTENTS

TABLE OF CONTENTS.....	2
EXECUTIVE SUMMARY	4
1. Introduction	4
2. Key findings and recommendations	5
2.1 Demand for capacity building is strong and diverse.....	5
2.2 Donors should profit from international experience	5
2.3 Donors should tap top expertise in trade facilitation	6
2.4 Costs for donors are likely to increase.....	6
2.5 The WTO connection brings issues that need to be solved	7
2.6 A solid needs' assessment will prepare the ground for reform success.....	7
2.7 Donors participate in aid matching and capacity building plans	7
2.8 The capacity building project drives the transition to treaty compliance	8
CHAPTER 1: TRADE FACILITATION - THE DEMAND FOR CAPACITY BUILDING.....	9
1. New Patterns of Trade and Transport.....	9
2. The Reform Steps in Trade Facilitation	10
2.1 Level 1: transparent and accountable border agencies.....	10
2.2 Level 2: more efficient border clearance	12
2.3 Level 3: best practice in trade facilitation.....	13
2.4 Measures beyond single reform steps	14
3. Trade Facilitation Reform in Developing Countries	14
3.1 Measuring output: what do benchmarks tell us?.....	15
3.2 International rules, standards and best practice	17
3.3 What do case studies tell us?	18
3.4 The trade facilitation status in short.....	20
4. Demand for Trade Facilitation Reform	21
4.1 Economic self-interest	21
4.2 Regionalism and preferential trade agreements.....	21
4.3 Transit and corridor development.....	23
4.4 Trade facilitation at the WTO	24
CHAPTER 2: EFFECTIVE DESIGN AND DELIVERY OF TA/CB	26
1. Lessons from Experience	26
1.1 Aid effectiveness: the Paris Declaration	26
1.2 Ownership.....	27
1.3 Harmonization and alignment.....	29
1.4 Managing for results	31
1.5 Needs assessments	32
1.6 A management approach.....	33
1.7 Automation and single windows.....	35
1.8 Relations with the private sector.....	36
1.9 Comprehensive trade facilitation reform	37

1.10	The regional perspective	38
1.11	Monitoring and evaluation	38
2.	Capacity Gaps in Donor Agencies	39
3.	Capacity Building: Trends in Cost and Demand	41
3.1	How much does TA/CB cost?	41
3.2	Present funding levels of TA/CB	42
3.3	What is the outlook for TA/CB?	43
CHAPTER 3: THE WTO CONNECTION		44
1.	The Negotiations at WTO: Expectations	44
1.1	Aid for trade and trade facilitation	44
1.2	How demanding will trade facilitation obligations be?	45
1.3	Transition periods	45
1.4	The concrete aid link	45
2.	Overarching aid issues to be solved	48
2.1	How to incorporate lessons of aid experience?	48
2.2	Aid targeting versus non-discrimination in trade	49
2.3	Can subsidies that substitute for self-help be avoided?	49
2.4	Are members really bound to achieve the agreement's trade facilitation obligations?	50
3.	Aid effectiveness: step by step	51
3.1	Needs assessment: a good start is decisive	51
3.2	Notification of exceptions	52
3.3	Aid matching	52
3.4	Capacity building plans	53
3.5	Capacity building: implementation	54
3.6	Entry into force of obligations	55
REFERENCES		56

EXECUTIVE SUMMARY

1. Introduction

1. Trade facilitation reform refers to simplification and harmonisation of international trade procedures, *e.g.* practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade. OECD research demonstrates that the benefits of trade facilitation reforms are multiple and occur on different fronts and for different stakeholders (*i.e.* government, private sector and consumers).

2. More efficient international trade procedures and customs operations can significantly reduce trade transaction costs, which results in increased volumes of trade and welfare gains, particularly for developing countries. In addition, more efficient trade procedures can increase a country's competitiveness and help attract foreign investors, enhance the collection of trade taxes and help prevent corruption and smuggling. Committing resources to support such reforms is a thus sound and cost-effective investment that can have multiplier effects on development.

3. In 2004, Members of the World Trade Organisation (WTO) agreed on modalities for negotiating international commitments in the area of trade facilitation. The Negotiations aim to clarify and improve relevant aspects of Articles V (freedom of transit), VIII (fees and formalities) and X (publication and administration of trade regulations) of the GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit (Annex D, Decision Adopted by the WTO General Council, 1 August 2004). Members then recognised that "the extent and timing of entering into commitments shall be related to the implementation capacities of developing and least developed countries" and emphasised the vital importance of delivering *effective and operational technical assistance and capacity building* (TA/CB) to developing and least developed countries for negotiating and implementing international commitments. In addition, Members agreed to review the effectiveness of assistance provided and its ability to support the implementation of the results of the negotiations. The Negotiations thus represent the first attempt to link in a structured way aid delivery with trade policy commitments.

4. In this context, WTO Members invited the OECD and other international organisations to undertake a collaborative effort to make TA/CB more effective and operational and ensure better coherence. This call was reiterated in the 2005 WTO Hong Kong Ministerial Declaration. Against this background, the OECD Development Assistance Committee (DAC) initiated a project on trade facilitation. The 1st phase of this project consists of a *Review of Technical Assistance and Capacity Building Initiatives for Trade Facilitation*, which provides an overview of key trends in official development assistance committed between 2001 and 2004 and highlights key lessons learned from eight country and regional case studies.¹

5. This study constitutes the 2nd phase of the OECD/DAC project. It complements the *Review*, by providing further guidance to aid practitioners and WTO delegates for ensuring that TA/CB for trade

1. The review was endorsed by the DAC in February 2005, DCD/DAC(2006)7/PART1/REV1 and DCD/DAC(2006)7/PART2/REV1

facilitation be designed, delivered and monitored and evaluated effectively at country and global (WTO) levels, taking account of the principles of the 2005 *Paris Declaration on Aid Effectiveness*. In addition, it takes a systemic view on how to link TA/CB with future WTO obligations.

6. Such guidance remains essential despite the current suspension of the WTO negotiations on trade facilitation, as trade facilitation reform and TA/CB continue to be undertaken in several developing countries notwithstanding the suspension, as is explained below.

2. Key findings and recommendations

2.1 Demand for capacity building is strong and diverse

7. Many developing countries have profited from much faster international transport and better efficiency in trade facilitation, thanks to their own investments in trade facilitation reforms, private projects and external aid. A small but significant number of countries – from emerging markets to least developed countries (LDCs) - have in fact become champions of reform by introducing far-reaching reforms (e.g. introducing single windows, efficient risk management and post-clearance audit) and have today highly performing Customs and other border controls. This is, for example, the case of Senegal, Ghana, Mauritius and Mozambique. In addition, a sizeable majority of developing countries are firmly engaged in elementary reforms (e.g. establishing enquiry points for traders and simplifying and harmonising trade documents), having more accountable and transparent border agencies. They are completing these reforms and venturing into higher level reforms (e.g. risk management) and automation (e.g. implementing UNCTAD's Automated System for Customs Data, ASYCUDA) in order to further reduce clearance times. However, approximately 20 countries (frequently small, poor and land-locked, but including some oil countries) have not been able to follow this trend. Transaction costs are a major impediment for trade and investment in these cases, because they are still struggling with elementary trade facilitation reforms.

8. The reform speed is likely to be maintained or will even increase in the future. Many countries have recognized trade facilitation as an important element to enhance revenue collection or improve competitiveness in trade and investment and will continue to push for progress with their own means. In addition, regional integration has become an important driver for higher trade facilitation efficiency, as trade facilitation is an essential element of the economic integration agenda (e.g. in the APEC and COMESA regions). Models of successful transit arrangements and transport corridor developments, which often comprise trade facilitation reform, are finding imitators (e.g. the Northern Corridor, Maputo Corridor and Trans-Kalahari Corridor in Sub-Saharan Africa). Finally, a successful conclusion of the WTO negotiations on trade facilitation will lead to an additional aid effort as TA/CB will become a necessary companion of complying with trade facilitation commitments under the agreement.

2.2 Donors should profit from international experience

9. When engaging in capacity building projects it is essential to refer to the core **principles of the 2005 Paris Declaration**. Whenever possible, improvements in the planning and monitoring of development cooperation that have occurred in specific countries should be used for trade facilitation projects. TA/CB for trade facilitation should also become initiatives in their own right for better aid coordination, harmonization of action and procedures among donors, and the alignment to domestic priorities and processes. Specifically, recipient-owned trade sector strategies and action plans (like the ones developed under the Integrated Framework) should be used as a point of departure for trade facilitation reforms, stakeholder groups should participate in all stages of the reform and TA/CB cycle, and project management should be part and parcel of domestic reform management, departing from the practice of some (bilateral and multilateral) donor agencies that do not delegate capacity building management.

10. Finally, if it is possible to integrate trade facilitation operations efficiently into an operational sector program, or if it is possible to integrate trade facilitation policy (*e.g.* legislation, public sector reforms) into policy-based programs, these opportunities should be seized. Obviously, some of these tools cannot be used in all cases, if trade facilitation projects extend to a sizable majority of developing countries.

11. Trade facilitation projects should be designed using **thorough needs assessments and capacity building plans**, and should be monitored systematically, like all capacity building projects. Reforms have to be conceived with a view to the long term, leading to sustainable management, self-financing or securely funded institutions, and an efficient and flexible process of inter-agency decision-making. Policy changes (*e.g.* Customs' legislation or staff policies) have to be prepared and their approval ensured. Outputs, outcomes and the expected impact of the project have to be quantified or operationally described and justified. Links with policies and projects that concern other parts of the trade sector or related government functions have to be explored. The lessons of previous and ongoing trade facilitation projects have to be integrated in the project design. Domestic and regional expertise has to be used as much as feasible and a comprehensive monitoring and evaluation mechanism established.

12. Finally, the particularity of the **trade facilitation process** has to be recognized. For instance, the functions of Customs have to be taken into account as the pivotal point for border clearance, handling a considerable flow of goods and networking with public agencies and other mostly private national and international stakeholders. In many developing countries, Customs are part of public administration and function under conditions that are often an almost insurmountable obstacle to substantive changes in efficiency and management style. This means that any trade facilitation reform attempt (and TA/CB to support reform) has to grapple with management systems (including personnel policies and fraud). Furthermore, options on the automation of data flows and administrative decisions have to be explored and their implications compared. The options for the long-term organization of the Customs function have to be compared *e.g.* public agency or public-private partnership. Cooperation has to be developed with the private sector as the main "client" or beneficiary and potential contributor to reforms. Also, coherence should be sought with border clearance processes of neighbouring countries and with regional integration organizations.

2.3 Donors should tap top expertise in trade facilitation

13. Capacity building is very demanding because trade facilitation is a special area of expertise that is not widely present in development agencies. Particularly small donor agencies should create a core group of internal specialists and should seek new alliances and partnerships. Reliance on the Customs' agency of the same country, delegation to specialized international agencies (such as the World Customs Organisation, UNCTAD and the UN Economic Commission for Europe) and the use of private services' agencies are good options. Yet, other channels should also be explored that enhance ownership and absorption capacity in the partner country: the use of a successful trade facilitation champion in the developing world through delegated cooperation, the support of regional integration secretariats in their capacity building efforts with member countries, and, finally the establishment of regional training centres (specialising in the training of trainers) through an international expert agency.

2.4 Costs for donors are likely to increase

14. Trade facilitation reforms are often financed, fully or partially, by partner governments or private stakeholders owing to the high benefits of their success, both increasing government revenues and lowering transaction costs for traders. Therefore, donor funding has to be seen as a **complement** and not a substitute for self-help. While elementary, first level reforms are usually not very costly and require no or moderate amounts of TA/CB funding, the same is not true for more ambitious efficiency-driven reforms. A

good quality of risk management which requires advanced automation, or the establishment of a single window might require an investment of USD 5 to 10 million, distributed over several years. If intense reform is considered the best course – meaning replacing Customs’ management by external experts and rebuilding a local staff base over time – the cost might reach USD 30 to 50 million, as demonstrated by several examples, such as Mozambique.

15. Although the levels of development cooperation on trade facilitation projects have increased considerably over the last years and are scheduled to increase further, it is expected that particularly the aid link of a future WTO trade facilitation agreement might increase the upward pressure on donors’ budget. Two reasons lead to this assumption. First, the number of requests for support will be closely related to transitional exceptions to provisions of the trade facilitation agreement, made by developing countries. This concerns many, if not most, poorer countries while TA/CB support has, so far, focused on a minority of LDCs. Second, while in a first stage funding will often concern small amounts and elementary reforms, reform ambitions will increase over time and will concern more expensive trade facilitation efficiency measures.

2.5 *The WTO connection brings issues that need to be solved*

16. Three main risks will have to be mitigated in the WTO “aid link”. First, lessons of reform and aid experience will have to be incorporated in the different steps of associating trade facilitation cooperation with the transition of developing countries to assuming treaty obligations (this will be further treated in the next paragraphs). Second, financial support should be differentiated between developing countries, taking account of aid eligibility rules, which guide aid agencies to focus grants on countries that have a low debt-contracting capacity and loans on middle-income developing countries. Third, aid should not become a substitute for self-help and private funding. One way to address this problem is to include a “need for aid test” in the needs assessment and capacity building plans.

2.6 *A solid needs’ assessment will prepare the ground for reform success*

17. The needs assessment has to explore technical and efficiency gaps in trade facilitation and put them into the context of trade facilitation management and policy. Stakeholders have to be closely associated, not the least so that they might take an active (financial) role in reform implementation. Reform attempts and projects in the past and present should be reviewed and regional links examined. A strong independent expert input is decisive at this stage, be it domestic or international. According to present WTO Member proposals, each country will then be able to flag exceptions to immediate compliance with WTO trade facilitation obligations.

2.7 *Donors participate in aid matching and capacity building plans*

18. Many developing countries will find it useful to associate one or more donors to the design and implementation of trade facilitation reforms. This choice will often be prepared during the needs assessment and depend upon the previous involvement of donors in trade facilitation or trade support. If an action plan for the trade sector has been prepared (e.g. as part of Integrated Framework activities) and a national trade facilitation stakeholder group, which includes donors, has participated in planning, the selection of donor interventions at country level should be straightforward. Some WTO Members propose that a future WTO Trade Facilitation Committee and the WTO Secretariat should help in finding a donor partner, if matching at the country level is not successful. Such provisions give confidence in future aid matching, even in countries where aid relations are incipient or weak. If a more solid guarantee is deemed necessary by developing countries, other options would have to be planned, which would become operational only if the agreed mechanisms turn out not to work.

19. The developing country and its donor partner(s) - which is (are) ready to support trade facilitation reform and capacity building - will then prepare a capacity building plan together. A checklist of quality aspects should be heeded and terms of reference should be used that are aligned with the conclusions of the needs' assessment. A national stakeholder group should be associated to the formulation of the capacity building plan as well as with the monitoring of its implementation.

2.8 *The capacity building plan drives the transition to treaty compliance*

20. The capacity building plan has to be notified to the WTO. This normally includes changes in the anticipated completion of the trade facilitation reform and the dates of readiness to comply with each provision of the trade facilitation agreement to which an exception has been made. According to current WTO Member proposals, "international consultations" on the capacity building plan are possible at this stage. It is suggested that the capacity building plan, which in complex cases will comprise a long-term reform design that includes several multi-year steps, could be discussed in the WTO Trade Facilitation Committee, if requested by Members.

21. The implementation of trade facilitation reforms and TA/CB should be monitored mainly in the **developing country itself**, using a national stakeholder and donor group as a sounding board. Short annual reports to the WTO Trade facilitation Committee on the status of reform would keep the international community informed. Recourse to the WTO Trade Facilitation Committee will be called for when difficulties appear in the reform process, which requires a change in completion dates. The Trade Facilitation Committee should then discuss the recommendations made by the project partners.

22. A similar presentation of a report by the project partners to the WTO Trade Facilitation Committee will be necessary when an implementation period (for compliance with a specific WTO obligation) ends and the developing country is not in a position to assume the obligation. Otherwise the country simply informs WTO of its readiness to assume the agreement's obligation.

CHAPTER 1: TRADE FACILITATION - THE DEMAND FOR CAPACITY BUILDING

1. New Patterns of Trade and Transport

23. Over the last decades, trade in goods has expanded more quickly than economic growth. Many developing countries have been able to increase their shares in world trade and have diversified their exports. Manufactured goods are now the dominant part of their exports and trade among developing countries has become substantial. At the same time, the international transport of goods has become cheaper and faster, not only because of higher freight volumes but also as a result of innovations in transport techniques and logistics. Containers have become the prevalent mode for shipping goods and liner shipping companies call regularly – and with vessels that carry a high volume of freight – on many more ports than in the past. It is possible today to use information and communication technologies (ICT) to track the geographical position of freight, to contract transport, insurance and warranties, to send shipping and Customs documents in advance to ports and Customs offices, and to pay transport bills and Customs duties.

24. This progress has been helped by a growing number of international rules and standards that facilitate more secure and faster transport as well as more efficient clearance of goods at borders.² These regulations are quite comprehensive and broadly accepted in the case of procedures and data flows with border agencies. In international transport, there are still important gaps in establishing secure and equitable rules *e.g.* on who is liable for loss in the case of maritime and multimodal transport (UNCTAD, 2004). Lower border tariffs have also been an enhancing factor for trade. They are the result of the last global trade negotiations, the Uruguay Round, and of tariff preferences conceded unilaterally by industrialized to developing countries or agreed between members of regional and bilateral trade agreements.

25. Many developing countries have been able to seize the opportunity of more accessible markets and – to enhance their competitive position – have made a strong effort to reform their own Customs and other border policies and to abolish protectionist and inefficient transport practices.³ Besides their own initiative and private support, they have benefited from a steep increase in TA/CB aid over the last years (OECD/DAC, Phase 1 study). But the track record for others has been mixed. Some low-income countries and LDCs, and particularly those who are land-locked, have had to bear very high transport and trade facilitation costs, because of their own difficulties in lowering trade transaction costs, remaining obstacles in neighbouring countries (particularly when these neighbours provide transit), and a considerable distance particularly on land, to their main exporting markets.

26. The study explores the considerable differences among developing countries in their present trade facilitation efficiency, and therefore the unequal challenges they will have to meet to continue to lower

2. These standards are referenced and described in (OECD, Phase 1).

3. Such practices comprise *e.g.* regulations for vehicle use which force importers to transport freight, special liability insurance for local transport, prohibition for foreign truck drivers to drive in the country, harassment through frequent police controls on the local road network, long waiting times for ships that call in ports, etc.

transaction costs. But before that, the main technical and institutional steps that lead to effective trade facilitation are identified.

2. The Reform Steps in Trade Facilitation

27. Trade facilitation deals mainly (but by no means exclusively) with border controls of goods and, correspondingly, with administrative processes, forms and data flows.⁴ Internationally, these practices have either been codified or at least have developed into models that are considered exemplary. It follows that a specific country moves forward on this reform path when it gradually changes its national rules and practices and adopts international rules, standards and models. Below, some of the main steps of reform that are involved are sketched, and what some experts consider being a possible sequence for implementing these steps. It is understood that each country is idiosyncratic in its institutional experience and policy-making. Also, the sequencing of reform steps will depend on the starting point of each country.⁵ Three levels of reform, according to their complexity, are being distinguished to indicate the general course of the reform movement.

28. Many of the steps described below are the object of proposals made by members of WTO in the current negotiations on trade facilitation, which will be discussed in Chapter 3. However, these reform steps should not be interpreted as a suggestion of what should be the rules in the future agreement. They represent a stock of rules, standards and practices that are commonly accepted and widely used by governments. Members of WTO are far from reaching a consensus on these rules. Also, the trade facilitation negotiations focus on incorporating in the agreement indications on what performance should members achieve when they introduce specific trade facilitation reforms. A related discussion is how internationally codified standards, as for instance those of the WCO, the UN, and ISO (OECD/DAC, Phase 1 study, Annex C) should be taken as reference when judging the treaty compliance of a member country. Finally, as is explained below and in Chapter 2, trade facilitation practices can only improve in a sustainable way when the specific reform steps (described below) are part of a comprehensive management and institutional reform.

2.1 Level 1: transparent and accountable border agencies

29. *Publish border regulations and create enquiry points.* Traders and trading intermediaries need to be able to anticipate the different steps of border clearance, fees and charges, and certifications to be obtained, be it for imports, exports or the transit of goods. The information should not only be available in the national language or languages but also in a widely used language in international trade. Enquiry points should be able to answer questions not only about typical Customs functions but also about all the other permits to be obtained for the clearance of goods. Such enquiry points are already part of agreements on SPS, TBT and TRIPS at WTO.

30. *Simplify trade documents and align them to international standards.* According to UNCTAD, traders in developing countries face on average 40 forms and 200 data elements, a lot of which appear many times in different documents (UNCTAD, 2006b, page 45). Many developing countries have made

4. This is trade facilitation in a narrow sense, trade facilitation in a broader acceptance tackles also border-related issues such as storage and handling of goods in ports as well as local and international transport issues more generally.

5. The following sections are mainly based upon a survey of trade facilitation experts by the Asia-Pacific Research and Training Network on Trade (Duval, 2006), OECD policy papers on the cost of trade facilitation (OECD, 2004) and on trade facilitation automation (OECD, 2005c), on Part I and II of the trade facilitation Handbook by UNCTAD (UNCTAD, 2006), and on UNECE policy guidelines and case studies on single windows (UNECE, 2005, 2006a, and 2006b).

progress in rationalizing this paperwork, particularly if they have started using electronic data systems (like ASYCUDA, the most commonly used). Harmonized data sets, coding, semantics, and layout are available from UN agencies (OECD, Phase 1). A harmonized goods classification (HS classification) is used almost universally. While this work is time-consuming, usually involving coordination among many agencies, it is an important prerequisite to automate Customs, a “higher level” reform tool that yields significant benefits.

31. *Provide advance rulings on the origin and classification of goods.* For a potential exporter to a country (and the corresponding importer) it is essential to know whether a preferential tariff is applicable because of the country of origin of the good. It is also important to know how the good will be classified (most frequently according to the HS classification), since this will determine the tariff rate applied. It is expected that, upon request, the Customs Office of the importing country is in a position to provide a binding ruling in advance, as this might be a necessary element to conclude a sales contract. Such a ruling would also be important to determine the value of the imported merchandise, which will be used to calculate the amount of Customs duties (and sometimes other taxes) to be paid. However, quite a few developing countries have a hard time to introduce the valuation method prescribed by the WTO because it requires Customs to verify the transaction value for the good concerned. If the actual invoiced price appears to deviate from that benchmark, the prices of identical or similar transactions have to be used as reference. This is why advance rulings on valuation are usually considered to be part of advanced reform steps (mentioned in Level 2).

32. *Consult national stakeholders.* There is an obvious case for consulting with representatives of directly concerned public and private stakeholders when reforming and monitoring a public service organization, in trade and in all other sectors of public activity. Almost all OECD countries and a number of developing countries (24 according to a recent estimate in UNCTAD 2006a, page 10) have had experiences with national trade facilitation committees. In the developing world, their impact has sometimes been very positive, sometimes negligible, depending on the importance given to it by key public and private leaders, and the conviction of business organizations that their views and suggestions make a difference (UNCTAD, 2006a in a review of four case studies). Annex D of the WTO July 2004 Package (OECD, Phase 1) mentions specifically the need to include cooperation with stakeholders in the trade facilitation negotiations. Sometimes, following such an association in the planning of reforms, some private stakeholders become directly involved in implementing electronic “single windows” and form public-private partnerships as in Ghana, Mauritius and Senegal (UNECE, 2006a).

33. *Establish and enforce the right to appeal border decisions.* Traders can contest decisions by border agencies in a great majority of countries by seizing higher officials. In many cases a final judiciary review is also possible. Yet, often the judicial process is lengthy, costly and of doubtful equanimity and, therefore, traders have lost confidence in justice being served. Important corollaries are that goods can be released against payment of a guarantee during the appeal, and that the motivations given in the review decision are made public. Some experts consider these latter two steps more complex to institute (Level 2).

34. *Coordinate border agencies.* The main traditional role of Customs (which is usually part of the Ministry of Finance and often affiliated to its revenue/tax department) is to apply the country’s tariff code and make sure that the imputed tariffs are paid. Yet the release of goods will depend on the trader complying with quite a few other requirements that are often administered by specialized agencies. For imports that can be, for instance, the payment of a value added tax, health and environmental certificates, a quota license for agricultural goods, a certificate of compliance with a technical standard, and a special certificate in case of dangerous goods or endangered species. If exports are concerned, the list is usually shorter but could comprise tariff draw-back forms for inputs, an export registration and control form, a certificate of origin, phyto-sanitary and sanitary certificates, and a sustainable wood production certificate, if a tropical wood product is exported. The need for reducing the number of documents required in this process is already mentioned. Independently from that, all border agencies, usually led by Customs,

necessarily have to cooperate in devising a consultation process and internal paper flows that lead to acceptable clearance times.

35. *Simplify the transit of goods.* Increasingly, trade in goods involves the crossing of more than one, and often several borders and requires transit controls that are different and much simpler than import clearance. Complex and corruption-prone transit regimes are a major trade impediment and affect particularly land-locked developing countries. Efficient transit requires regional cooperation and a well-functioning banking system since a guarantee is necessary to cover the risk of deviating transit goods onto the market of the transit country. It also requires internationally harmonized and simple transport documents and good communication between the exit and the entry border points, to be able to release the guarantee as soon as the transit good leaves the transit country. All this is to say that transit reforms, to be truly efficient, are part of higher-level reforms. But even without major investments and institutional change, reforms are possible. They consist in simplifying transit procedures and documents (taking for instance the Revised Kyoto Convention of WCO and the United Nations Lay-Out Key as reference), establishing a simple guarantee system to avoid the need for transit convoys, and – in consultation with the transport and business sector – removing protectionist or arbitrary transport policies concerning *e.g.* vehicle registration and insurance, visas for truck-drivers, and high-way police controls.

2.2 Level 2: more efficient border clearance

36. *Enhance transparency by using automated tools.* Enquiries of traders, agents and the general public can be answered more readily and access to official publications is greatly facilitated if Customs creates a website which comprises these features. This step is typical for all measures mentioned in Level 2: the introduction of e-tools will have considerable equipment and training costs and will take time, but has the potential to increase substantially the efficiency of trade facilitation reform and the benefits to traders. Automation is not a necessary condition but a desirable investment allowing for a virtuous reform cycle leading, if sustained, to “state of the art” border management. The role of automation as a driver of reform is described in Chapter 2.

37. *Rule on the value of a trade in advance.* This service to traders will help them to make a decision on a contract knowing the border transaction costs. It completes the rulings on tariff classification and origin, envisaged in previous paragraphs, but is considerably more complex as it relies on the specific circumstances of the transaction and on the possibility to compare with the cost of similar transactions. Customs will need a data bank to establish the correct value which will be useful also in identifying potentially fraudulent, “high-risk” transactions (necessary for risk management). Many experts question whether it is appropriate to provide this service as some cost elements cannot be determined in advance and propose to limit the advance ruling to explaining to the trader the method of verification that will be employed.

38. *Verify and approve documents before border clearance.* This measure will accelerate the clearance of goods after their arrival (imports) or before their departure (exports). It contributes also to reducing staff working on clearance. If used in combination with selective physical clearance (risk management), and good cooperation with other border agencies, its rationalizing benefits are substantial. This requires at least electronic packing of documents because of the important data volume (*e.g.* floppy disks used in Latvia: OECD 2004).

39. *Release goods against a guarantee, separating release from clearance.* This procedure goes against the practice - still used in unsophisticated Customs’ Offices - that goods are only released when all controls have been completed and duties and taxes paid. It is useful when the clearance process is

unusually lengthy which might be owing to a complex value assessment of the imported ware,⁶ missing documents, or additional time required to calculate and collect amounts due (UNCTAD 2006b). This procedure is only possible when local banks establish guarantees and when traders are well established. A special case is the release of goods under appeal. It is often tied to the practice of audit-based controls and adequate risk assessment techniques.

40. *Apply risk assessment and audit after clearance.* This is probably the single most important step to accelerate the release of goods and rationalize the border process. What it means is that each important element of import verification (e.g. type of good and its valuation and tariff classification, origin, route, mode of transport, type of trader) is looked at for its potential of leading to inaccurate or fraudulent Customs declarations. This risk profiling is mainly based on past experience (border analysis, seizure of goods, audit results) both in the country and elsewhere in the world. Accordingly, only high risk goods are selected for clearance and post-clearance audits, reducing border controls to a fraction (usually 10% to 20%) of a 100% control regime. This method, which has to be periodically updated, relies on a mass of data and requires therefore almost necessarily an automated Customs environment. Its efficiency is closely tied to post-clearance audits at the point of destination of the good, since audits are an alternative to physical border controls. Risk profiles can also be used for the processing of goods before arrival or departure, the separation of release of goods from clearance and special procedures for authorized traders, enhancing the efficiency of these other Customs' tools.

41. *Coordinate border controls with your neighbours.* Beyond introducing global international standards and automation, further trade facilitation improvements will require to align Customs procedures with the neighbouring countries and in the context of regional integration. Joint border controls and transit agreements, implying the exchange of border documents and harmonized risk management, will bring major progress.

2.3 Level 3: best practice in trade facilitation

42. *Create and gradually integrate trade facilitation processes in a single window.* The concept refers to a central "one-stop shop" that clears goods (imports, exports, and transit goods). Traders and their representatives are only in contact with this instance, which is usually part of Customs. Public agencies that contribute to border clearance through examining or providing certification or licensing or those involved in the payment or guarantees of border operations are integrated in the network of the single window. In its simplest form, the single window can rely exclusively on paper-based transmission (as a well managed form of agency cooperation) but, in the real world, single windows are associated with a high degree of automation leading in some cases to a (mostly) paperless administration of border decisions. Most or all measures mentioned above in Level 2 are handled through single windows. Seven single windows in developing countries are mentioned in a recent review (UNECE, 2006b): China, Ghana, Guatemala, Malaysia, Mauritius, Senegal and Singapore but several reform and TA/CB projects in other countries are heading in the same direction. Some single windows are limited in scope (in Guatemala the window only deals with exports), in other cases they go beyond border agencies and include shipping and port operations. Singapore is considered a model in this field both because of the new software that was developed on that occasion (and that is now used by some other countries) but also because Singapore is one of the most efficient operators in trade facilitation world-wide. This has led to Singapore's port becoming one of the largest cargo handling centres in the world.

43. *Expedite procedures for authorized traders.* This modality can be considered a form of advanced risk management. A carefully selected group of traders (or their local representatives or warehouse operators), benefit from accelerated, and separate clearance procedures (e.g. self-assessment, simplified

6. A modality mentioned in Article 13 of the Agreement on Implementation of Article VII of GATT 1994.

declaration, examination at approved premises or at separate inspection lanes). The selection is based on the track record and business standing of the trader, the frequency of trading, and also on the special type of shipment, as in the case of multinational Express Carriers.

2.4 *Measures beyond single reform steps*

44. To achieve lasting progress in reforming trade facilitation, it is not sufficient to plan and implement a step-by-step process as described above. When designing reforms, three overarching elements have to be considered (to be further explored in Chapter 2):

- Trade facilitation reform usually concerns several public or private agencies. Often, reform is only possible if the management and staffing of these agencies is overhauled and relations between agencies are improved. Typical public management problems will have to be solved, like how to attract highly skilled staff when only low salaries are available, or how to create the right incentives for high work ethics in a corruption-prone environment. Hence, trade facilitation reform is management reform.
- The description of reform steps leads to an obvious observation: a gradual automation of Customs and other border agencies is an important component to sustain reform and reach high levels of efficiency and effectiveness. The automation process is an underlying factor of trade facilitation reform and, therefore, has to be planned and implemented taking into account international experience.
- Border controls are an essential but not the only element in the international trade chain and trade facilitation. Today, most reform efforts are concentrated on Customs and other border agencies. From a trader's perspective, other reforms are also important: those that liberalize each country's regulations in transport and logistics' services (a policy area negotiated for instance in the GATS negotiations at WTO), those that create a lower risk environment and more agile procedures in international transport, banking insurance, and exchange controls, and those that render the handling processes for goods in ports, airports, railway stations and warehouses less time-consuming.

3. Trade Facilitation Reform in Developing Countries

45. The following analysis on the reform status of trade facilitation in the developing countries is based upon interviews with trade facilitation experts and on a review of literature, including a series of case studies. Three aspects are highlighted: performance benchmarks, the use of international standards and guidelines, and the "ranking" of countries as taken from case studies and surveys. A caveat is in order. The data available is scarce and at times equivocal. There is lack of critical evaluations on the actual trade facilitation performance level of specific developing countries. Therefore, the following overview can only serve as a rough guide.

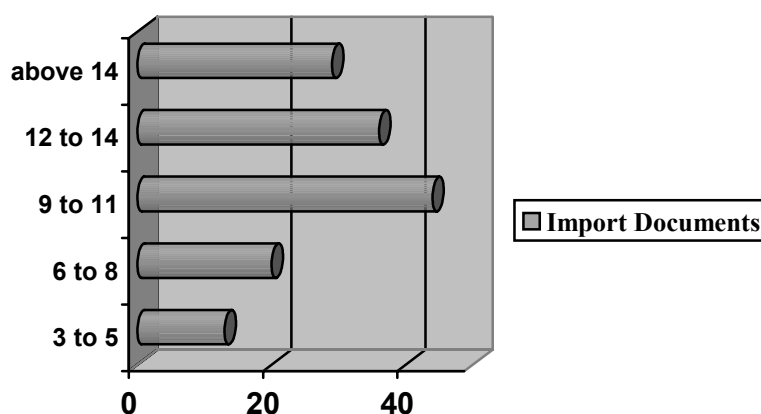
46. Yet, comparable data across countries are improving. The WCO is in the process of conducting over a hundred diagnostic country studies on reform needs in Customs until July 2007. Generally these studies are confidential. The World Bank has carried out seven in-country gap assessment and costing studies. Based on the first three assessments, the World Bank observes that a number of "Level 1" reform measures (transparency and due process as well as first stage process rationalization) have been undertaken and required technical support, at that level, will not be important. Yet, higher level measures, implying efficient risk management and automation, are at their beginning. More substantial and longer-term TA/CB support would be required in the three countries, if performance standards were to include such reforms.

3.1 Measuring output: what do benchmarks tell us?

47. An interesting insight can be taken from the World Bank's Doing Business Study which includes a specific chapter on "trading across borders" (World Bank, 2006). The compiled data provide an overview on specific elements (the number of documents to be presented, the number of signatures on documents, and the time spent for the whole trade process).⁷ The overall number of documents and signatures illustrate the importance of regulatory hurdles (Figure 1).

48. The difference (variance) across nations is not very large. Whereas OECD countries demand on average 6.9 documents, other regions in the world request between 10.3 and 12.8 (World Bank 2006). Figure 1 groups about 30 nations that require more than 14 regulation-related documents for import, thus potentially affecting trade much more than necessary. Two-thirds of these are WTO members.

Figure 1. Average import documents



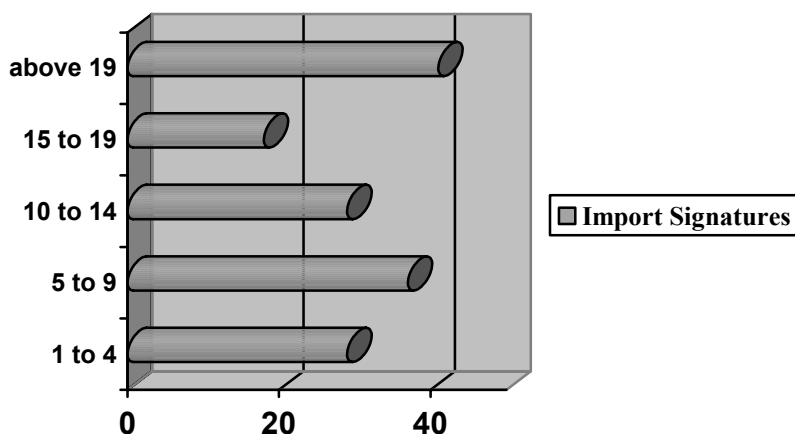
Source: World Bank, *Doing Business 2006*, and authors' calculations (x-axis: number of countries; y-axis: number of documents).

49. The number of signatures required for importing to the country might be a more accurate indication for administrative barriers. The OECD-median is 3.3, whereas in Sub-Saharan Africa it is 29.9, in South Asia 24, and in Middle East and North Africa 21.3 (World Bank, 2006). Figure 2 provides a snapshot for the number of signatures required. Of the 41 countries requesting more than 19 signatures, 70% are WTO-members. At the end of the spectrum are primarily countries from Sub-Saharan Africa (e.g. Central African Republic: 75; Nigeria: 71; Mali: 60; Burundi: 55; Republic of Congo: 51).⁸

7. The study provides data for 155 nations, developed and developing countries. Some small WTO members are not included (World Bank, 2006).

8. Total 41 above 19 signatures: 24 LDCs, 9 other low income countries (OLIC), 6 lower middle income countries and territories (LMIC), 2 upper middle income countries and territories (UMIC). Total 17 countries above 40 signatures: 10 LDCs, 2 OLICs, 5 LMICs (categories according to OECD DAC list of ODA recipients).

Figure 2. Average import signatures



Source: World Bank, Doing Business 2006, and authors' calculations (x-axis: number of countries; y-axis: number of signatures).

50. A third measure for import barriers to trade is the total time spent to import.⁹ The average time for OECD countries is 14 calendar days; most time is needed in Sub-Saharan Africa (60.5), South Asia (46.5), and Europe/Central Asia (43).¹⁰ Import times are further subdivided to measure the average number of days spent at Customs inspection and clearance (figure 3). With the exception of three countries, all OECD countries are listed in the first group (1 day).¹¹ 105 countries use on average two calendar days and more. Over 20 countries of the 105 perform poorly needing more than six days. Roughly 75% of countries that need a very long Customs clearance are WTO members, including Angola (22 days); Kenya (13); Haiti (12); Nigeria (12); and Central African Republic (11.5). Ten countries belong to the LDCs, 5 countries to the OLICs, 5 countries to the LMICs and 2 countries to the UMICs (Saudi Arabia and Venezuela). 80% of the LDCs (and over 70% of OLICs) have clearance times between 2 and 6 days, which means that there is ample room for improvement.

51. Time delays at Customs are, however, only about 10% of the total time used for products to be purchased and received.¹² Waiting times at terminals and ports, as well as time used for arranging transport and transporting goods inside a developing country often account for a similar "loss of time". The World Custom Union's time release studies give additional information on specific cases as they include processes before and after clearance (e.g. waiting times at ports).¹³ As a rule of thumb, inspection and clearing time could be reduced in more than 100 countries. Substantial reform is required in approximately

9. The time calculation for a procedure starts from the moment an import is initiated (including time used for purchase) and runs until the good arrives at the destination.

10. In addition, Middle East/North Africa (41.9), Latin American/Caribbean (37), East Asia/Pacific (28.6).

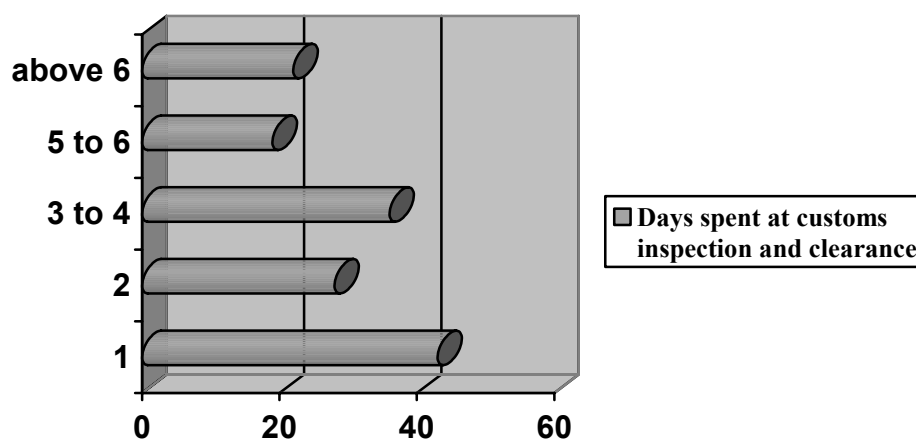
11. For statistical use 1 day refers to processes less than one calendar day. Greece, Iceland and Japan are listed with an average of 2 days for customs inspection and clearance for imports.

12. On average, Customs-related time accounts for 9.5% of the total time (with a standard deviation of 9.71%).

13. The studies are not made public by the WCO, unless assessed authorities decide otherwise, e.g. Kenya, <http://www.revenue.go.ke>

40 countries where time spent at Customs is more than 4 days on average.¹⁴ However, in order to decrease waiting times at Customs, other governmental agencies that demand additional requirements including special permits, certificates and other examination need to be involved in trade facilitation reform.

Figure 3. Days spent at Customs inspection and clearance



Source: World Bank, Doing Business 2006, and authors' calculations¹⁵ (x-axis: number of countries; y-axis: number of days).

52. The above benchmark studies suggest that “trading” time lost at Customs is still substantial. 80% of the LDCs (and over 70% of OLICs) have mediocre clearance times of between 2 and 6 days, 20% of LDCs and roughly 30% of OLICs perform poorly. Some highly dynamic traders are not exempt from low performance. In Brazil, Customs inspection and clearance takes 6 days on average (World Bank, 2006).

3.2 *International rules, standards and best practice*

53. The number of countries that have ratified international legal obligations, use globally and regionally developed standards and subscribe to guidelines is ever increasing.¹⁶ Standards and guidelines are voluntary by nature, and it is difficult to monitor implementation, except through country assessments as practiced by WCO. Enforceable rules are not sufficiently implemented and need to be clarified. The WTO Customs Valuation Committee's granting longer transition periods in the past illustrates the difficulties for a number of developing countries to implement agreed rules. In addition, the current WTO trade facilitation negotiations build on existing obligations and “aim to clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit” (WTO, July 2004 Package).

14. This category includes 22 LDCs, 7 OLICs, 7 LMICs and 3 UMICs.

15. If clearance times for transit goods and for final destination differ, the average is calculated.

16. There are few international binding obligations (WTO/GATT obligations) but many voluntary standards that guide countries in implementing reforms, including WCO standards and UNECE recommendations. For an overview: OECD, Phase 1. A growing number of developing countries (including LDCs) have adhered to the revised Kyoto Convention of the WCO; among the 50 subscribing parties, there are 18 developing countries: 5 LDCs, 5 OLICs, 7 LMICs, and 1 OMIC.

54. The Harmonized System classification of goods is widely used. More than 170 countries apply it for their Customs tariffs and for the collection of international trade statistics representing over 98 % of international merchandise trade.¹⁷ Also, most countries have implemented, totally or in part, transparency and accountability standards that we mentioned as Level 1 reforms earlier in this chapter. Yet, the picture is different when it comes to higher standards, such as risk management, post-clearance audits, fast-track procedures for authorized traders, or electronic single windows. For instance, only few developing countries operate single windows, although the number is quickly increasing. Also, joint border controls are still rare. In many cases, some advanced reforms have been introduced but are not applied efficiently, thereby reducing considerably potential benefits.

55. An important driver for trade facilitation reform is experience with automation (OECD, 2005c; DeWulf and McLinden, 2005). To know a country's specific use of IT tools helps to appreciate its trade facilitation reform status. More than 80 developing countries have in some form implemented UNCTAD's ASYCUDA.¹⁸ About half of the countries use the basic version of the system, the other half uses an updated version (ASYCUDA ++); two countries have opted for the most recent version (ASYCUDA World). The first generation ASYCUDA offers basic tools and is concerned with creating an electronic data bank storing the forms and data related to Customs. ASYCUDA++ builds on the initial software and offers in addition an electronic data exchange platform between different actors involved in the process. Finally, ASYCUDA World provides an internet-based interface where traders, Customs and other officials interact virtually. This leads eventually to a paperless environment. ASYCUDA has a number of modules that can be used to facilitate trade (manifest management, transit, statistics, special regimes, risk, etc.). Thirty-three LDCs (66%) and eleven OLCs (61%) use ASYCUDA. The overall figure on applying automation increases when the use of competing software by a number of countries is taken into account (DeWulf and McLinden, 2005).¹⁹

3.3 *What do case studies tell us?*

56. A number of case studies and evaluation reports offer a more nuanced picture on trade facilitation reform. An evaluation of COMESA's effort to harmonize trade statistics of its 20 East African member countries shows that most of them have set up automated border systems (COMESA, 2005b, annex VIII). Every country is at a specific point in its learning curve and the use of automation yields different results. Yet common benefits are that the border process becomes more transparent and makes arbitrary actions by Customs agents less likely. Also, the speed of clearance increases.

57. The World Bank's Customs Handbook describes the prominent role of automation and calls for its upgrading. IT is crucial for automated clearance processes, risk-assessment leading to fewer physical inspections, post-release audits and a tightening of revenue control (Duran and Sokol, 2005, page 114). Case studies in Peru, Morocco, Philippines, Turkey, Bolivia, Ghana, Uganda and Mozambique show the importance of IT use in the reform process and discuss conditions for successful applications (World Bank, 2005b).

17. The HS is a multipurpose international product nomenclature (WCO). It comprises about 5 000 commodity groups, each identified by a six digit code.

18. www.asycuda.org, visited 1 June 2006. ASYCUDA is a computerized Customs management system which covers most foreign trade procedures. The system handles Customs declarations, accounting procedures, transit and suspense procedures.

19. These software programs include Trade-Net implemented by Singapore, Mauritius and Ghana; SIMBA in Kenya, LUCIA in Uruguay, TIMS in Mozambique and Angola, SOFIX in Paraguay and Argentina, MicroClear in Russia, China and India, ALICE in Bosnia-Herzegovina, etc.

58. The trade sector studies of the Integrated Framework are an additional important source for assessing trade facilitation reform in the larger context of tackling trade-related obstacles.²⁰ These studies describe forthrightly difficulties faced in designing and implementing reform. Benin has introduced a “guichet unique” that has not simplified Customs procedures. In the case of Rwanda, progress in trade facilitation has been made in introducing an automated system; however, impediments to trade and transportation are still manifold. Progress and higher efficiency depend on careful implementation of the reform steps, which must be accompanied by management changes and capacity building that make the use of new tools effective and sustainable (e.g. in Ghana, 600 Customs officers were trained over a period of 12 months, and 1,500 users were trained in one-week courses over 18 months according to UNECE, 2006). A number of trade sector studies in LDCs confirm these findings (e.g. Zambia, Djibouti). At times, Customs officials only reluctantly accept ASYCUDA. Sometimes computer systems have been subverted by introducing parallel manual structures (e.g. Malawi). In the case of Mali, the European Commission supported the construction of joint border controls with Senegal and Ivory Coast. These posts have not yet materialized.

59. UNECE encourages single windows and has recently reviewed some country experiences in setting them up (UNECE, 2006). The study demonstrates the high potential of single windows to facilitate trade and to maximize revenue. Single windows can be used for different purposes. Some have partial applications, such as in Guatemala, where the window is only used for exports. Benefits have been considerable when the introduction was successful. In the case of Ghana, Customs’ revenues have increased by 35% in the first year and 20% per year from the second year on. Clearance has become faster and more transparent, Customs as an organization has become much more professional, and financial flows handled through direct banking have vastly increased. In Mauritius, clearance time at Customs has passed from 4 hours to 15 minutes for non-litigious declarations. In these two last cases, Customs works 24 hours/7days a week, substantially all goods and declarations pass through the single window, and the window is managed by a public-private partnership that associates Customs, some public and private national partners and an external technical agent. Regional benefits accrue when administrations start to exchange information (e.g. Ghana, Senegal). Malaysia works with other members of ASEAN on setting up single windows in the region based on a recent ASEAN agreement (Kuala Lumpur, 9 December 2005).

60. An analysis of obstacles for exporting Indian goods to other markets, based on a broad survey of Indian exporters, looks at the interaction between standards, Customs and transport issues (Ace Global Private Limited 2005). Indian exporters affirm that, overall, they face more trade-related problems in India domestically than in the destination countries of their exports. Exports to other Asian countries, Africa, and Latin America meet obstacles that are often of an elementary bureaucratic nature and could be addressed in the current WTO trade facilitation negotiations by strengthening existing rules.²¹ The case of Brazil, which in the judgment of Indian exporters has rather tedious procedures (e.g. apparently licenses are required for most imports) indicates that highly dynamic traders may not have cleaned their house. Inefficient trade facilitation is not exclusively an issue for LDCs and OLICs but also for some emerging markets. The study further demonstrates that trade facilitation issues vary considerably among groups of products and, therefore, there is a case for focused regulation and pragmatism. Finally, transport inefficiencies and transit barriers (including Customs, warehouses, and ports) remain an important impediment to Indian exports in quite a few developing countries.

20. www.integratedframework.org

21. The principal problems are: lack of dissemination of regulations and procedures, lack of clarity and process descriptions followed in inspection, variations in procedures under the same regulations, lack of appeal mechanisms and confirmatory procedures, and use of discretionary and non-prescribed actions in the disposal of products.

61. In a recent diagnostic study of Ethiopia, the WCO emphasized the pivotal role of the legal framework in which Customs operates (WCO, 2005). Laws that create clear responsibilities and sanctions for the main actors in trade facilitation transactions will influence Customs officials' work ethics as well as traders' compliance. A recent World Bank study on Uganda mentions that a detailed audit found that up to 70% of import invoices have a false value and classification. Where inspections rates are high, "facilitation money" might play a prominent role. Trade facilitation reform needs to address obstacles to a better trading environment that are beyond border controls: infrastructure, transit, broad regulatory reform and governance. In these areas, LDCs and other low income countries usually lag behind the more advanced developing countries.

3.4 *The trade facilitation status in short*

62. At first sight, the level of trade facilitation reform appears to be more advanced when a country has a dynamic and diversified export sector (and, therefore, requires a strong flow of diverse imports). While this rule of thumb holds true in many cases, there is quite some variance. Some LDCs and OLICs engage in far-reaching trade facilitation reform, including successful risk management and single windows. They have become champions in their own regions and beyond, and create positive peer pressure for their neighbours. There are also dynamic traders and emerging economies that have a legacy of relative trade facilitation inefficiency.²²

63. The benchmark studies suggest that a small minority of roughly 20 countries still has to fight with elementary trade facilitation bottlenecks like a high number of signatures and forms for each border transaction, and very long time periods required to move goods in international trade. These are countries that can make quick and solid progress by giving priority to more accountable and transparent trade facilitation (Level 1), profiting from the experience of their neighbours. Several reasons may account for their very high trade transaction costs in the past. Morose growth and trade reflecting a little diversified economy, a land-locked situation and generally weak public institutions might be one of them. High dependence on oil and mineral exports might be another reason (since some major African oil and mineral exporters are part of this group). Finally, political instability might be a third important determinant of weak trade facilitation performance.

64. A sizable majority of LDCs, OLICs and middle-income countries have a solid track record of trade facilitation reform, performing reasonably well on elementary trade facilitation measures and venturing into higher-level reforms and automation. This has also been the group that has received most external support in recent years. Difficulties with progress in this group are often associated with a narrow focus of reforms on specific trade facilitation tools (like the introduction of trade facilitation software) disregarding the need to embed trade facilitation reform into change management in the public sector and modifications of the legal framework. This broader concern might include also a focus on transaction efficiency inside and beyond the border that is crucial for traders.

65. Finally, reliable sources to establish the state of trade facilitation reform are scarce. This underpins the importance of a technical needs assessment in each country before a country designs a reform action plan. The diagnostic studies carried out by the WCO and the World Bank (as well as present efforts by developing countries themselves) will shed light on where countries stand. Such information will be essential to determine reform priorities, sequencing and the modalities of external support required.

22. The examples that were found in the statistics and reports, India and Brazil, are definitely not the only ones. A particular problem of economies with a huge territory and a very important internal market is that the institutional challenge for trade facilitation is commensurate with the size of the country.

4. Demand for Trade Facilitation Reform

66. Four factors are responsible for trade facilitation reform to be highly relevant over the next years: Economic self-interest of developing countries, for which inefficient trade facilitation is an obstacle for development; a dynamic regional integration and preferential trade process; transit agreements and trade corridor development that are of great importance particularly for land-locked countries; and the potential results of the present trade facilitation negotiations and other WTO agreements that have an incidence on trade facilitation.

4.1 *Economic self-interest*

67. Probably the most important reason for a country to engage in trade facilitation reform is its interest in receiving more revenues from its border controls, in expanding its external trade, in helping its enterprises to become internationally competitive and in attracting foreign direct investment. The international business environment has changed: overall, border tariffs and international transport costs have decreased considerably and transport times have been cut (the “death of distance”). This has contributed to allow for a more intense international division of labour, increased international intra-firm trade, and just-in-time production (UNCTAD, 2005b). More attention is now being paid by enterprises to non-tariff impediments to trade behind the border (*e.g.* standards, infrastructure, and transport services) or at the border (Djankov et al., 2006).²³

68. Reforms in Customs services are generally less costly than other trade-related reforms and yield benefits that are tangible in the medium term as a number of case studies illustrate (OECD, 2004; 2005b).²⁴ Not only big national companies but also a number of small and medium-size enterprises profit from better trade facilitation which helps to overcome resistance from those profiting from the system in place and helps alleviate the so-called “capture-mechanism” (Stigler, 1971). As interests of office holders and some business sectors converge, public-private partnerships become possible that define practical reforms and, in some cases, also cooperate in implementing trade facilitation reforms (*e.g.* Mauritius, Ghana and Senegal).

4.2 *Regionalism and preferential trade agreements*

69. The number of preferential trade agreements has grown for some time but the pace of growth has increased out of proportion in the last few years (World Bank, 2005c). This trend is set to continue. PTAs appear to become more attractive when WTO trade negotiations are stalled or are sluggish (Mansfield and Reinhardt, 2003). The US, which provided 10% of TA/CB in trade facilitation from 2001 to 2004 (OECD, Phase 1), normally includes clauses to improve Customs procedures and trade facilitation in its bilateral free trade agreements.²⁵ EU and EFTA free trade agreements with developing countries often do the same. Trade agreements among developing countries frequently include objectives to foster trade through transport and trade facilitation (including regional agreements and corridor development). However, the so-called spaghetti-bowl of trade agreements will also make trade facilitation more complex, for instance by defining special rules of origin for goods from member countries (Roy and Bagai, 2005, page 23).

23. In addition, since 2001 new security standards have had tangible reform impact on Customs at important seaports and airports with large container shipments (*e.g.* US CSI, IMO’s ISPS, WCO’s Framework SAFE, APEC’s STAR).

24. On overall welfare effects, Wilson et al. (2004).

25. US FTAs with the South usually emphasize existing WTO obligations on Customs rules and procedures (*e.g.* CAFTA, Colombia, Morocco, Panama, Peru) and add new obligations with more advanced developing countries (*e.g.* Chile). On trade capacity building in CAFTA, Miller (2005).

70. The “new regionalism” could lead to a substantial increase of demand for trade facilitation reforms in the coming years. Two elements are to be distinguished: firstly, the increasing number of regional arrangements for economic cooperation, investment and trade in Asia, Africa and (less) in Latin America (World Bank, 2005c); secondly, the EU’s trade strategy which has a strong interregional perspective (Aggarwal and Fogarty, 2004). As the World Bank’s report on Global Economic Prospects indicates (World Bank, 2005c, page 83), formal regional trade agreements help “entrench and enhance facilitating initiatives beyond what is possible through cooperation alone” (World Bank, 2005c, page 84). In addition, they can serve as forums for discussion, mutual understanding and allow for positive peer pressure. The regional forum often also helps depoliticize issues in transport and Customs (Schiff and Winters, 2002). This is why donor agencies should work with regional secretariats as cooperation partners for trade and trade facilitation, as the EU has done for some time.

71. APEC has been at the forefront of trade facilitation in developing countries (*e.g.* Trade Facilitation Action Plan of 2002). Trade facilitation, in a large sense, is one of three main pillars to achieve the so-called “Bogor Goals”: lowering transaction costs for business by 5% over five years.²⁶ APEC does not have sufficient tools for technical assistance and capacity building, yet provides for diagnostic studies and creates action plans. Other regional cooperation arrangements (either Custom unions or preferential/free trade agreements or cooperation agreements) with increased emphasis on trade facilitation include *inter alia* the Andean Community, ASEAN, CAREC, COMESA, EAC, ECO, ECOWAS, EUROASEC, MERCOSUR, UMEOA, SADC, SAFTA, and SCO (World Bank, 2005c).²⁷ Trade facilitation in the regional context is often a mix of Customs’ reforms and transport facilitation measures.²⁸

72. An important actor in promoting regional development is the European Community.²⁹ The first phase of this project indicates where trade facilitation is geographically situated. It comes with no surprise that the EU’s Close Neighbourhood Policy determines a large amount of technical assistance in trade facilitation reform.³⁰ In addition, in the EU’s cooperation and association agreements in the interregional context (*e.g.* the Andean Community, Central America, MERCOSUR) or the bilateral context (*e.g.* Chile, Mexico), display trade facilitation as an important component of technical assistance in meeting standards and improving Customs services. The technical assistance programs in relation to trade in the MEDA countries has been characterized more by bilateral than regional approaches (ADE, 2004).³¹ In the case of ASEM, trade facilitation is still in the stage of awareness-building for the time being. Yet, as the EU is to turn more attention towards spearheading trade agreements with Asian regions and countries, trade facilitation will clearly be an important tool of increased economic cooperation.

26. APEC has engaged also in complementary initiatives, including “Secure Trade in the APEC region” (STAR); APEC Transparency Standards; and Santiago Initiative 2004 to answer to business calls to cut red tape, improve automation and work on harmonizing standards.

27. On the so-called Regional Trade Facilitation and Customs Cooperation Program (RTFCCP) in CAREC: ADB (2000; 2004).

28. However, NAFTA and GCC have no associated Transport and Trade Facilitation programs (World Bank, 2005c, page 93).

29. During the 2001-2004 period, the EC has provided for 54% of the total volume for TA/CB (OECD DAC Phase 1).

30. See for instance the TTFSE (Trade and Facilitation in South East Europe) regional program supported by the EU, the WB and bilateral donors.

31. For a study on the impact of regional integration and trade facilitation in MEDA Region (Allen, 2006).

73. In the same vein, the new economic partnership agreements (EPAs) with the ACP States foresee six inter-regional preferential trade agreements with groups of ACP countries.³² The strategy follows a two-step approach by fostering trading among members of ACP groups and the gradual liberalization vis-à-vis the European Union. TA/CB to reform Customs will play an important role. This is confirmed in the evaluation report on the EU's trade-related technical assistance programs (ADE, 2004) which highlights the strong focus on regional clusters in ACP countries.

4.3 *Transit and corridor development*

74. In transit agreements, Customs reform is an important pillar alongside other matters, such as transport, storage, insurance, and mutual recognition of licenses. An often cited example of best international transit practice is the "Transport International Routier (TIR)" system which sets a high standard.³³ However, its replication to other regions has been rather difficult (Arvis, 2005).³⁴ The closest system to TIR is the "Transit Routier Inter-Etats"(TRIE), in West Africa, an agreement administered by ECOWAS.

75. A number of transit agreements, that include provisions for increased border efficiency, are linked to regional integration agreements. In Asia, these include ASEAN's Framework Agreement on Facilitation of Goods in Transit, the Greater Mekong Sub region Agreement (GMS) of Facilitation of Cross-Border Transport of Goods and People and ECO's Transit Framework Agreement. In the African continent, transit systems have been developed by COMESA (including COMESA's agreement on a single administrative document), EAC, SACU and SADC.³⁵ First evidence seems to suggest that the outcome of Customs reforms triggered by transit agreements to be rather modest (InfraAfrica, 2001; UNCTAD, 2003). If such initiatives are embedded in ambitious regional cooperation agreements, outcomes are more sustainable (COMESA, 2005). Many case studies give anecdotal evidence of slow progress (DTIS on Rwanda, WB case study on Uganda). For Ugandan traders, the delays in ports in Kenya and Tanzania as well as border-related problems in the Republic of Congo are important impediments.

76. In Sub-Saharan Africa, a number of corridor-based initiatives are being pursued, on the Northern Corridor, the Maputo Corridor, the Dar Corridor, the Trans-Kalahari Corridor and the North-South Corridor (UNCTAD, 2006b). Corridor development often goes beyond the creation of transit and trade facilitation agreements. UNCTAD (2003) mentions two initiatives that seem to have gathered substantial support among stakeholders: Walvis Bay Development Corridor Group (including Trans Kalahari)³⁶ and

32. EPAs are in negotiations with West Africa, Central Africa, Eastern and Southern Africa, SADC, Caribbean and Pacific.

33. "The United Nations Economic Commission for Europe (UNECE) established the TIR Convention which is managed by the International Road Association, a business umbrella organisation. It has 65 contracting parties, covering the whole of Europe, North America, the Middle East, Central Asia and several countries in South America, including Chile and Uruguay. Other countries in Africa, Asia and South America have recently expressed interest in joining the Convention. Therefore, the TIR system is in fact international rather than regional (UNCTAD, 2006b, page 72)."

34. Main difficulty was to set up a recognized guarantee system (Arvis, 2005).

35. The UMEOA Commission (2000) estimated that Customs rules for transport and transit regimes in Western Africa derived from bilateral treaties (34%), from regional treaties (24%) from national legislation (24%) and directly from Customs (15%) (World Bank, 2005c, page 93)

36. See <http://www.wbcg.com.na/>. The Trans Kalahari Corridor involves South Africa, Botswana and Namibia. Whereas Customs-related delays have been improved, Botswana unilaterally decided to increase road charges, which have significantly affected the amount of goods transported (World Bank, 2005c:82).

the Northern Corridor Transport Network.³⁷ Strong and dedicated clusters involving private corridor users and transport companies are a quasi necessary condition for success in improving trade facilitation along corridors (GFP, 2005; Arvis, 2005).³⁸ The UNCTAD approach focuses on a corridor value chain strategy based on stakeholders' collective ownership of the corridor. The EU for its part has greatly supported the TRACECA program, a transport corridor on a west-east axis from Europe to Central Asia.³⁹

77. Work on corridor development is of utmost importance for land-locked, small and vulnerable economies (e.g. UN Almaty Ministerial Conference). Access to ports need to be designed and managed in broader corridor schemes. Anecdotal evidence suggests that even though the transit countries can profit from increased trading and transit, they often exhibit a lower interest in corridor development, and at times engage in anti-competitive behaviour which in turn leaves some land-locked countries in a delicate position. The more corridors that are embedded in functioning regional agreements, the greater is usually the political support for the projects, involving the construction of related infrastructure, increased collaboration in transport regulation, and better coordinated border processes. New international obligations for regional neighbours of land-locked countries, for instance through a WTO agreement on trade facilitation, could be of particular help to land-locked countries by increasing the pressure for regional cooperation and harmonization.⁴⁰

4.4 *Trade facilitation at the WTO*

78. The prospect of a WTO Agreement on Trade Facilitation has clearly affected the priorities given to Customs reform in many developing countries.⁴¹ The availability of TA/CB from OECD countries has increased steeply (OECD, Phase 1). More attention is also paid to trade facilitation in trade studies (DTIS) as part of the activities of the Integrated Framework as well as in poverty reduction strategies. (OECD, Phase 1; Finger and Wilson, 2006).⁴² In addition, the updated Integrated Framework will put increased emphasis on regional and cross-country needs (IF regional window, IMF/WB 2005).⁴³

79. The negotiations on a new agreement on trade facilitation started in the fall of 2004.⁴⁴ The main intent of the negotiators is to define performance rules for Customs and other border agencies that would become a binding commitment for member countries. Before a consensus is reached in the negotiations, it is difficult to anticipate the demand for the provision of TA/CB implicit in the future agreement. Most of the reform steps mentioned under Levels 1, 2 and 3 are part of the negotiations. Except for a number of

37. See <http://www.ttcanc.org/>. This initiative helps landlocked Uganda, Rwanda, Burundi and parts of the Democratic Republic of Congo to increase transport systems along a corridor through Kenya (Arvis, 2005).

38. See also GFP (2005).

39. The program's auditing of border crossings has led to a number of suggestions that contribute to demand in form of technical assistance in Customs reforms (Arvis, 2005). Traceca also attempts to improve the workings of the TIR system with the International Road Union (IRU) (www.traceca-org.org).

40. UNCTAD works with stakeholders in landlocked and transit developing countries under the Development Account (UNCTAD, 2006c).

41. The negotiations on transport services in GATS have not had a similar mobilizing effect but contribute to trade facilitation reform.

42. Some regional development banks (e.g. ADB) play an important role in facilitating trade facilitation (Roy and Bagai, 2005).

43. During the 2001-2004 period, the World Bank has provided for 22% of the total volume for TA/CB (OECD DAC Phase 1).

44. The ministerial decision included trade facilitation as a separate negotiation item in the Doha Agenda through Annex D of the July 2004 Package.

African countries, negotiators appear to agree that the standards to be reached over time by all members should correspond to best practice followed by a number of OECD and developing countries. Obviously, a lot depends on how these requirements will be concretely defined, whether efficiency benchmarks will be used, and whether global technical agreements and guidelines, which have been established mainly by the WCO and by UN agencies, will serve as reference to interpret the compliance with specific obligations.

80. If this is the case, a trade facilitation agreement at WTO will become a driver for trade facilitation reform and, through its link with TA/CB provided by donors, an important source for additional cooperation. The agreement would promote a very operational form of “aid for trade” leading to an acceleration of the already quite considerable speed in trade facilitation reform that could be observed over the last years. It would particularly become a tool to catch up for a group of countries that, today, are severely hindered by lacking expertise and resources to perform well in trade facilitation, even at an elementary level of transparency and efficiency. Many in this small minority have not been able to follow the model of some “pioneer” countries in their regions. Yet, the trade facilitation agreement might also be useful for the many developing countries that are at the brink of modernization of their border agencies, starting to use risk management techniques and automation, but having a difficult time to adapt their processes to the opportunities of reform provided by automation. The present expectations for the negotiations and the concrete aid link are explored in Chapter 3.

CHAPTER 2: EFFECTIVE DESIGN AND DELIVERY OF TA/CB

1. Lessons from Experience

1.1 *Aid effectiveness: the Paris Declaration*

81. Aid practitioners, in developing and OECD countries alike, have been confronted for most of the era of development cooperation with the same elementary conditions for the success of cooperation: projects and programs have to be part of local priorities and planning, not only of partner governments but also of concerned local constituencies. They have to rely on financial and institutional tools used by partner governments themselves, to the extent that this remains compatible with the responsible use of aid resources. Also, all donor agencies should coordinate their activities among themselves taking priorities and implementation modes of the partner government as a guide.

82. Over time, these concerns gave way to several initiatives, usually taking their origin in international agencies. Mid-term country programs have been negotiated with each partner country leading more recently to poverty reduction strategies designed by developing countries and common programs agreed with several donors by a partner country. Instead of funding only specific projects, aid agencies have engaged in funding balance of payments' and budget gaps tying disbursements to institutional and policy reforms. Donors have rallied around sector development programs using common aid delivery tools. Today it is exceptional when a project unit is not part of the local administrative unit that is in charge of the tasks pursued through a project. Aid coordination has been organized through periodic "consultative group meetings" or "round table meetings" of all donors with the concerned government. Soon it became clear that such meetings were just the tip of the iceberg. They have been followed by more frequent meetings on specific sectors or policy areas, informed by strategy documents prepared by, or having the support of, the partner government. Partner governments have extended the aid dialogue increasingly to local groups and associations outside the government.

83. This passage to a more recipient-led and more effective aid process has not been easy to complete. It has required organizational capacities and flexibility on both sides of the aid relationship which have been difficult to muster. Also, successful models of cooperation have not spread easily to other partner countries. The UN Monterrey Conference in 2002 (UN, 2002) and the Rome Declaration on Harmonization (World Bank, 2003) revived the impetus for reform and led to the **Paris Declaration on Aid Effectiveness**, signed in March 2005 by all donor governments, 60 developing partner governments, all significant international development agencies, and a number of civil society organizations (OECD, 2005a). The Declaration is considered a breakthrough because it commits cooperation stakeholders to best practice in a simple and transparent way, and extends this commitment to action, in the sense that indicators of progress with the target date of 2010 are spelled out, and progress is scheduled to be monitored locally and globally. These indicators measure progress in:

- **Ownership** by partner countries through the presence of operational development strategies reflected in expenditure plans and budgets.
- **Alignment** of donor policies to the priorities and operational processes of partner governments (which are asked to improve their systems of public finance and procurement), to be measured by seven indicators concerning the predictability and untying of aid flows, their integration in

national budgets, the use of the partner country financial and procurement systems, better coordination of TA/CB flows, and avoidance of parallel project units.

- **Harmonization** of aid by using increasingly common program-based approaches and country analytical work, as well as by mounting joint donor missions.
- **Managing for results** by establishing indicators in partner countries to assess performance of projects and programs against planning targets.
- **Mutual accountability** in the sense of evaluating jointly (and through independent channels) the commitment to make aid more efficient and effective.

84. The following text will analyze how these principles of aid effectiveness, striving at recipient-led aid relations at the aggregate level, could be used when TA/CB is provided for trade facilitation. Besides aid principles, the long international experience with the design of TA/CB is also important to consider. Finally, the specific elements in play in the trade sector and in trade facilitation are the source of good project practice on their own. The findings should become part of a checklist when donors embark on new TA/CB in trade facilitation and want to achieve good “quality at entry”.

1.2 *Ownership*

85. The experience of development cooperation to date suggests that reforms (and associated external project support) have the best chance to succeed when they correspond to a great concern of the partner government and the local agencies that are directly involved in the reforms. On balance, the legal and institutional changes pursued have to be wanted more than resisted; the leaders who are for a change have to be more influential than the leaders who are against it, and – depending on whether “democratic” practice is followed in the specific national context – the views of the users or other directly concerned groups should influence the outcome. In that sense, it is too simplistic to identify ownership with “political will”, as is often done in the way of a shortcut. Only the observation of the concrete institutional and political context will make it possible to appreciate the risks of lacking ownership.

86. This also means that external support should not be limited to cases of full ownership but that its often vacillating nature has to be taken into account when the scope of the trade facilitation reform program is discussed with the government and with local stakeholders. Promotional work with stakeholders, particular reform roles of private sector groups, a change of lead agency or cooperation with a regional integration organization might mitigate ownership risks. In DAC’s aid-for-trade pyramid, which reflects the partnership commitments and objectives of the Paris Declaration, ownership is at the top. A partner government “owns” aid-funded reforms and programs when it has clear strategies and priorities and tells donors how it wants them to cooperate (OECD, 2006a, page 51).

87. In the case of trade facilitation, aid practitioners express the fear that views might differ considerably between a country’s WTO negotiators and national decision-makers. It happens frequently that the trade sector does not sit at the table when the recipient government discusses its priorities with donors. While this is true – particularly in developing countries that are not well integrated in the international economy – available evidence indicates that many developing countries have shown a considerable drive in the past and perform well on ownership.⁴⁵ They have made progress on trade facilitation simply because they considered it to be in their interest, realizing how important the benefits of reform were going to be for trade expansion, foreign direct investment, and, generally, the international competitiveness of local enterprises (besides often leading to considerable increases in revenues).

45. Here reference is made to case studies and to the reform demand identified in the first chapter.

88. In those cases, the leadership for reforms has been with the government, links with the private business sectors have been sought, and automation tools and assistance have sometimes been funded with local means. Some governments have also been careful in ensuring that trade facilitation functions become sustainable by funding and operating them through user fees and public-private partnerships. They have given priority to trade facilitation in their aid budget, as evidenced by the steep increase of aid for trade facilitation. Many governments have assumed international obligations to reform trade facilitation, for instance in the context of regional agreements. Finally, many low-income and least developed countries participate actively in the trade facilitation negotiations of WTO, a good sign that they will take into account the results of the negotiations and use international obligations as a welcome push for internal reform. In the case of international commitments, an assumption of ownership is also in order because reforms are monitored by the international community and there are risks of sanction in case of prolonged non-performance.

89. In the context of project design, how is ownership verified and how should reforms be designed so that they carry full ownership? OECD suggests following a “Drivers of Change” approach or stakeholder analysis in trade sector support (OECD, 2006a). Several indicators come to mind:

- Trade facilitation reform ranks high in the priorities of the concerned government as evidenced by its planning decisions, for instance its poverty reduction strategy, public investment program or action plan coming out of the country study (DTIS) in the case of the Integrated Framework. The trade facilitation reform program is reflected in the government’s medium-term expenditure framework and in its annual budgets.⁴⁶
- The trade and trade facilitation reform team is professionally strong and has access to the levers of power.
- The focal agency to be strengthened, usually Customs, has a pro-reform management and, overall, has the support and confidence of its employees. If not, a management reform and personnel changes have preceded reform implementation.
- Business groups and other users are pro-reform on balance, and in the best of cases are major drivers of the reform. Their advice and their proposals are taken into account by the government.
- The government has successfully undertaken reforms already and needs support for advanced stages. It has funded some reform stages through its own budget, and private sector groups have participated in reform design, have contributed to its financing and have taken on an operational role in reform implementation.
- The government is under external pressure to implement trade facilitation reforms. This impetus may result from peer pressure (*e.g.* ministerial meetings of APEC on trade facilitation) or from obligations under international agreements that might carry sanctions in case of non-respect (WTO or regional agreements, like ASEAN).
- In spite of the long-term nature of the institutional change that is required, the government and the border agencies demonstrate that they have the stamina to keep reforms on course. These signs are, for instance, that i) a new government has not reversed the reform priorities decided and enacted by the former government and has kept reform protagonists on board, ii) staff incentives have been enacted to reduce the turnover of key reform agents (*e.g.* IT staff

46. This is a specific indicator of progress decided upon in the Paris Declaration on Aid Effectiveness (OECD, 2005a, page 9).

responsible for introducing a broader use of IT tools), and iii) the government has a track record of sticking to over-arching policy choices even if they are unpopular and might reduce chances for re-election.

1.3 *Harmonization and alignment*

90. Donors should espouse the development goals and operational means used by the partner government. Accordingly, they should cooperate among themselves to make the aid process less cumbersome for the partner government and avoid discrepancies in purpose. Practically, such changes have taken place in a number of countries through a more intense and deepened dialogue taking periodic consultative group or round table meetings as a point of departure.

91. In **Rwanda**, for example, besides annual high-level consultative aid meetings – including headquarter aid officials, the business sector and civil society – a coordination group of resident development officials and of government representatives has been created. It meets every two months to discuss and monitor the government’s development policy and Paris Declaration reforms. Seven sector and thematic clusters, among which one dealing with private sector concerns, study sector policy and rationalizing measures in aid implementation. This partnership works with annual action plans of “deliverables in aid coordination, harmonization and alignment”, supports the government’s central coordinating unit with a UN-sponsored team (capacity building and operational support), and runs an excellent website.⁴⁷ In 2006, aid partners focus on making inputs to a second poverty reduction strategy (that should incorporate the economic and trade sectors better than a first strategy in 2002); preparing measures to increase the efficiency and output of clusters and decentralized action groups; and preparing and implementing a new Aid Policy that the Government endorsed in July 2006. This policy interprets and sets concrete objectives for the principles of the Paris Declaration: *e.g.* the use of the country’s financial management and procurement systems, and the preference for general budget and sector budget support while not excluding stand-alone projects.⁴⁸

92. A number of LDCs and OLICs have gained experience with similar aid partnerships as Rwanda, some starting long before the Paris Declaration. Interesting achievements on that road are *e.g.* considerable improvements in public financial management, procurement and the business climate; a successful practice of multi-donor budget and sector support (the latter often through common basket funds); country assistance strategies that are agreed between a partner country and a group of donors; independent monitoring of progress in aid effectiveness, and analytical work that is shared between different agencies and the government. The World Bank’s Global Monitoring Report (World Bank, 2006b) estimates that four countries have made substantive progress in this recipient-led aid policy agenda, seven others are moderate reformers (substantive progress in three areas), and five countries are in the first stages of aid reform. This is a small fraction of the present and potential partners of TA/CB for trade facilitation, if the observations made in this report on demand are reliable.

47. www.devpartners.gov.rw . All specific documents mentioned in the following text on Rwanda are found on this website.

48. The twelve objectives are to: a) create coherent linkages between the poverty reduction strategy and sector strategies, public expenditure programs, and district development plans, b) strengthen public financial management, procurement and reporting systems, c) align all aid flows to national strategies, and report them on the government’s budget, d) focus technical assistance on knowledge transfer and deliver them in coordinated programs, e) pass through national public financial management and procurement systems when delivering aid, f) avoid parallel project units, g) disburse assistance as scheduled and make medium-term projections reliable, h) reduce untied aid, i) increase assistance through sector-wide approaches, j) increase joint donor missions and joint analytical work, k) harmonize conditionalities and performance indicators across programs, and l) create an independent monitoring mechanism.

93. Which part of this emerging practice is relevant for support to trade facilitation? It is possible to identify five elements: a) the presence of a country-owned trade sector strategy; b) a cluster of stakeholders that helps to harmonize and align donor interventions in the trade sector; c) joint aid instruments; d) procedures for stand-alone projects that ensure local leadership in the institutional reforms pursued; and e) an independent monitoring of the effectiveness of aid links. Other, more general aid coordination tools, like annual consultative aid meetings, have a strategic and political function and are difficult to use for discussing trade facilitation reforms and matchmaking for trade facilitation-related TA/CB. If the trade sector is given priority in the agenda of such meetings, pledging might sometimes be possible. In most cases, trade sector meetings or specific trade facilitation meetings are a far better occasion for initiating matchmaking.

94. Studies on **trade sector development** have only recently become frequent, mainly through the Integrated Framework initiative for LDCs. They are essential for partner governments to be able to define coherent policies and set priorities for investments and externally supported projects and TA/CB. (The need for a comprehensive view of trade facilitation reform will be explained further). After having set project priorities for the trade sector, and having assessed needs for trade facilitation reform, a partner government is in a good position to organize **planning and matchmaking meetings with donors**. An analytical basis is also necessary to be able to discuss action plans, program priorities and their monitoring in a **sector group** that includes government trade and cooperation officials, donors active in the sector, business groups and civil society representatives. Such a group is well equipped to assume critical functions in the TA/CB for trade facilitation cycle, like reviewing needs assessments, capacity building plans and their implementation to the extent that it includes a critical mass of national and international trade facilitation and TA/CB specialists.⁴⁹ As part of the Integrated Framework activities such groups are active in a number of LDCs. An alternative might be to use a specific trade facilitation stakeholder group, as such groups have been formed in a number of countries and are considered to be an essential sounding board for trade facilitation reform. They normally do not include donors and often work exclusively as lobbies for reform but it should not be a problem to confer a more operational function to such groups and include donors active in trade facilitation and trade.

95. It is not easy to use program-based **joint instruments** to implement trade facilitation reform. General budget support should not be used to earmark expenditures which would be unavoidable in the case of TA/CB (OECD, 2006c). It is possible to include reform legislation for Customs and trade facilitation in budget support as a condition for disbursement, although this may be difficult to synchronize with the capacity building and management part of the program. There is no history of including trade facilitation support in trade sector development programs, as part of a **sector wide approach** (SWAp). In fact, SWAps have been used mostly in health, education, infrastructure and agriculture, maybe because they can be managed by a single public policy and planning agent (usually a ministry) and there is no active project role of the business sector (OECD 2006c). There are many public actors in the trade sector and direct beneficiaries of projects and capacity building are international and national business, a series of autonomous public regulatory agencies, infrastructure providers as well as policy units for international trade and trade negotiators. An example of an operational instrument at the sector level is Vietnam's recently prepared program "Beyond WTO" which will use a fund – to be alimented by donors and the government – to finance a series of trade projects and TA/CB operations (Vietnam Government, 2006). Donors will keep the option to fund individual projects.⁵⁰ The integration of trade facilitation projects into

49. The WTO Task Force on Aid for Trade recommends to create "National Aid-for-Trade Committees" (WTO, 2006, pages 5 and 6).

50. OECD, Phase 1 describes a Cambodia trade facilitation reform program that is supported by an IDA grant (Cambodia Trade Facilitation and Competitiveness Project). A stand-alone TA/CB with an important equipment element will provide support to introduce a single window and, additionally, to stimulate exports and manage foreign investment. Australia, Japan and the IMF contribute with technical assistance

an operational sector framework will be particularly difficult if the project is partially or mainly financed by private sources, as *e.g.* in the case of some single windows.

96. It is assumed, therefore, that in most cases TA/CB for trade facilitation will continue to take the shape of **individual operations**, maybe co-financed by several donors, as in the case in Cambodia, because they are already active in trade facilitation in a country or because project costs are very high (which is exceptional). The external support should be managed by the unit of Customs that is in charge of trade facilitation change management and reforms. The main reason is that trade facilitation reform is a long-term activity and becomes an integral part of the management of Customs. To be sustainable, reform policies, management reforms and external support have to be managed in unison, which also means that funding for this process has to be secured for the long term. The only valid exception is the procurement of (some) international experts, which is often done by the donor or delegated agency itself (“in-kind provision of services”), provided that project management is given the right to approve the choice and the selected experts report to it. Such an alignment of project funding and management is contrary to the practice of some bilateral and international agencies.⁵¹

97. Finally, development partners are mutually accountable for the aid partnership and benefit from a periodic independent look at the quality of its instruments. **Independent monitoring** is desirable also for the individual programmatic elements of the partnership and particularly for trade facilitation reforms, when donors have been involved in earlier stages and a new reform stage is planned.

1.4 *Managing for results*

98. Often expected outputs and outcomes are not well defined in projects in the trade sector, leading to a lack of focus in project activities and difficult monitoring of progress (OECD, 2006b). This should not be a problem in trade facilitation projects as trade facilitation is related to technical standards and regulations that are internationally codified. The previous chapter has described the most important reform steps that should be taken by developing countries. Yet it is true that achieving a specific standard or reform step is not sufficient. A longer-term vision of the efficiency of border agencies has to be defined to make reform sustainable, as the institutional and technical pillars have to be constructed that underlie lasting reform progress. These pillars are *e.g.* political ownership for the reform process, management reform of Customs and of other border agencies, a choice made on automation tools, an association of private and public stakeholders, and trade facilitation beyond border controls of goods. These project design elements are described one for one in the text below.

(through independent projects) mainly to strengthen Customs’ management. Such a combination of autonomous donor interventions guided by a local steering committee and a specific government plan to improve trade facilitation is probably a form of “soft” harmonization and alignment which will be more frequent than a pooling of resources at the sector level.

51. Often, projects for technical assistance and capacity building are managed, totally or in part, by donors themselves. Also, management is sometimes delegated to a international agency. In the UN sphere this means often that an UN agency acts as executing agency for a project and does not delegate project implementation. The Standards and Trade Development Facility follows this pattern too. It was jointly established by several international partners to give support to countries in sanitary and phyto-sanitary regulation in the context of WTO. There are practical reasons (financial management and procurement) which justify this support mode when short-term and limited activities are financed (*e.g.* the project consists mainly in delegating staff from the international or bilateral agency or experts hired by it). But when more complex and long-term support is at stake as in the case of management and process reforms of trade facilitation, project management should be delegated to the local agency in charge of the reforms being pursued.

99. Trade facilitation efficiency is increasingly seen as an international public good, like trade liberalization, in the sense that – taking the case of a transit country – not only are the country’s main trading partners and members of the same regional integration agreement interested in lower transaction costs at its border but also the land-locked neighbour that wants to rely on smooth transit. For this reason, and also because trade facilitation standards are universal, it is reasonable to postulate that the long-term reform goals are the same for all countries: a Customs Office able to apply efficient risk management and all the collateral efficiency measures when border clearance can be dissociated from (selective) controls and payments. An ultimate “best practice” is to establish an electronic single window that is used for all the information flows between traders, border agencies, Customs and critical transport interchanges, and eventually also between Customs agencies of different countries. A number of countries that are presently struggling with basic transparency and accountability at Customs will be able to reach such an ambitious objective only in the long term. These are the countries that ask for 20 to 40 import documents from traders and demand 40 to 70 signatures on documents, leading to a full import process of more than two months (Chapter 1).

1.5 *Needs assessments*

100. The first and major step in reform preparation is to assess reform needs by analyzing the present efficiency and organization of Customs and other border agencies, and their institutional environment. This will give a government the first elements to define reform ambitions. When TA/CB is involved, such a diagnostic is often done as a joint government/donor effort. Some donors have not been thorough in this type of institutional check in the past (OECD, 2006b). The methodology used is of essence, as its scope and quality will determine priorities and policy recommendations (*e.g.* Roy and Bagai, 2005). Most of the so-called Annex D Organizations have experience in carrying out need assessments and have developed methodologies, some also tool kits for developing countries.⁵² Tool kits help building local capacities in needs assessment.

101. The WCO focuses on the management of Customs and a bottom-up diagnosis looking particularly into clearance procedures. It refers to its own agreements and guidelines in assessing country performance (OECD, Phase 1, Annex C). Benchmarks, such as the Time Release Study (TRS) are used. TRS measures the average time taken between the arrival and release of goods. In addition, important stakeholders, including other ministries and representatives of the business community are consulted (WCO, 2003). The WCO also developed a self-assessment tool (OECD, Phase 1, Annex C).

102. The World Bank has always been involved in trade facilitation diagnosis through its project funding but lately also through the trade sector studies (DTIS) as part of the Integrated Framework’s interventions in LDCs. The analysis comprises trade logistics and transport infrastructure as well as border issues and relies much on stakeholder expectations and reporting (World Bank, 2006). Only in the most recent DTIS and in seven ad hoc needs’ assessments (conducted in the first semester of 2007) have Customs procedures and management been studied in more depth. The World Bank also makes available a Trade and Transport Facilitation Toolkit (Raven, 2001).

103. UN agencies working on trade facilitation, that is mainly UNCTAD and UNECE, but also other regional commissions like UNESCAP, treat Customs and transport issues as two sides of the same coin. UNECE’s work on the setting of standards for data transmission, codes, definitions and formats (OECD, Phase 1, Annex C) is important to take into account in trade facilitation diagnosis. This is true also for its

52. These are the organizations mentioned in Annex D of the WTO July 2004 Package. Footnote 82 in Chapter 3 provides details.

recommendation on stakeholder consultation⁵³ and on establishing single windows, for which a series of country case studies were undertaken (UNECE, 2006). UNCTAD, an agency that has a long experience in TA/CB for transport and trade facilitation, follows a three-step approach to assess reform needs. Firstly, it looks at the primary trading partners and export markets of a country to get an indication on export potential (trade baseline analysis). Then it ranks trade facilitation-related impediments to trade with targeted markets. Finally, an action plan is drafted to abolish the obstacles to an efficient and safe transfer of goods and services (UNCTAD, 2005b).

104. Developing countries have to be able to count on solid needs' assessments in the present WTO negotiations on trade facilitation to adapt their negotiating position to their interests. Later on, they will have to decide how much time they need to be able to comply with specific standards in the future trade facilitation Agreement, and whether they require external assistance to reach some of these standards over time. This will be the critical moment for designing a sustainable path to trade facilitation modernization. A good practice for donors is to engage together in a needs' assessment with a developing country or a group of countries as a first step to a harmonized and aligned approach to trade facilitation support in the sense of the Paris Declaration. Such an approach was followed in the Transport and Trade Facilitation Program in South-Eastern Europe (OECD, Phase 1). Hopefully, future trade studies of the Integrated Framework (and particularly their trade facilitation part) will have a similar function.

1.6 A management approach

105. A modern Customs Office, in any country, has to function as an efficient and highly specialized service provider to be able to cope with international trade facilitation performance standards. In many developing countries, Customs are part of public administration and function under conditions that are often an almost insurmountable obstacle to substantive changes in efficiency and management style (like the introduction of results-based management with the periodic monitoring of efficiency and effectiveness indicators). This means that any reform attempt (and TA/CB to support reform) has to grapple with management systems. It also means that the pace of reform might be conditioned to some extent by the priority which a government gives to general civil service reform. Personnel policies are an important case in point. As an illustration, Customs staff in Ethiopia receives on average lower pay than what is usual in the Ethiopian civil service. This contributes to a high staff turn-over which makes any attempt at training and improvements in professional standards very cumbersome. To manage its emerging electronic management, a group of IT specialists have been hired. But their turn-over is high as well, as demand for IT specialists in the private sector is strong and pay levels much higher than at Customs (WCO, 2005, pages 14 to 16, 29/30). In many public administrations, hiring practices are more often than not influenced by connections and ties of solidarity and less by merit. The feat is to institute personnel practices that favour merit and a stable career path but do not create destructive conflicts and tensions with the rest of the civil service. A case where a solution was found to this dilemma is Bolivia (World Bank, 2005b).⁵⁴ Other examples are private-public partnerships that implement Customs reform and are paid from user fees (e.g. Mauritius, Ghana and Senegal, mentioned in UNECE, 2006b).

106. One aspect of management reform is to find solutions to smuggling and informal payments to Customs officials, mainly to avoid the payment of tariffs. This topic is treated in international integrity

53. In 1999, UN/CEFACT updated Recommendation No.4 of 1974 to promote the establishment of National Trade Facilitation Bodies.

54. Customs' staff was completely renewed to tackle corruption. Staff was selected by third parties (external consultants) on the merits of qualifications (education, experience and personal integrity).

guidelines. Based on the Revised Arusha Declaration,⁵⁵ the WCO offers a number of tools including an Integrity Self-Assessment Guide, the Model Code of Ethics and Conduct, and a Compendium of Integrity Best Practice.⁵⁶ Management reform needs to strike a balance between sticks, *e.g.* sanctions and audits, and carrots *e.g.* leadership and promotion (McLinden, 2005). As the case of Bolivia shows, a market-based salary system including promotion opportunities is an important element (World Bank, 2005b).⁵⁷ In addition to staff remuneration, mobility and random job assignments, training, performance evaluation, credible audit and investigation and high morale and organizational culture contribute to fighting corruption.⁵⁸ Customs organizations can rely on the earlier mentioned integrity codes to train their officials. Disciplinary measures need to be enforceable and supported by a legislative framework. Automation is an additional useful tool to improve integrity by increasing transparency and traceability. It decreases officials' discretion by minimizing face-to-face contacts with traders.

107. The management of specific reform projects and external support for them (TA/CB) is another aspect that has to be analyzed and prepared. The need for an aligned approach (in the sense of the Paris Declaration), integrating aid into reform management with a long-term horizon is described above. Based on a review of case studies, the WCO has concluded that the lack of human and financial resources has often hampered improvements in Customs' reforms (WCO, 2003). A comparative evaluation of projects indicates that insufficient and unpredictable funding can be detrimental for project management and the sustainability of the reform process (OECD, 2006b). But also inflexible processes (*e.g.* rigid tendering procedures) may at times create unintended barriers to successful reform (ADE, 2004). Project management must be organized in a way that it can react and adapt to changing political and regulatory conditions.

108. One important challenge in such an institutional approach is to ensure the smooth operation of trade facilitation services once reforms have been implemented. In many countries, Customs are submitted to linear or other government budget cuts when tight budget management is called for, independently from their operational needs. Financial autonomy of Customs (partially) based on the direct use of service fees is a way to gain management flexibility. Public-private partnerships based on a capitalized company structure are a more extreme solution that has been successful in the cases mentioned above.

109. Finally, trade facilitation reform does not only concern Customs but the Customs Office is usually its pivotal point. Efficient management has to extend to parts of other border agencies, to the coordination of data needs and decision-making among all border agencies, to coordination with the banking sector and to transparent and predictable relations with traders and their agents. Needs assessments, trade facilitation reform design and the TA/CB feasibility study will have to give answers to the management questions and options mentioned in this section. This is why TA/CB design has to be

55. The revised declaration features ten elements: leadership and commitment, regulatory framework, transparency, automation, reform and modernization, audit and investigation, code of conduct, HR management, morale and organizational culture, and relationship with the private sector.

56. Other codes of conduct are the United Nations International Code of Conduct for Public Officials or the ICC integrity toolkit.

57. On the other hand, a trade sector study in Mali indicates that the practice of sending top level managers and directors abroad for training purpose, while others have little or now professional training, is not satisfactory (www.integratedframework.org).

58. Tangible autonomy in carrying out reforms and fair and clear evaluation criteria to measure whether objectives have been met, are additional anti-corruption drivers. Customs' reform in Peru tells us that reform prospects improve if mechanisms for good performance are built-in. Personnel must have a direct interest in achieving high service standards and revenue collection.

thorough, look at the long-term beyond specific reform steps and take the reform design, driven by stakeholders in the partner country, as main point of reference.

1.7 *Automation and single windows*

110. Information technology can act as a driver for reform (UNCTAD, 2006a). It opens the door to a number of steps that modernize trade facilitation. In Morocco the use of automation-based risk analysis made inspection rates come down from 100% in 1996 to 35% in 2000 and 10% in 2004. This has led to the issuing of release notes in one hour on average. In Peru, the use of an integrated computer system allows for fully automated clearance and post-release audits leading to substantially reduced clearance times (World Bank, 2005b). All Customs offices are interconnected through an e-mail system and foreign trade operators can exchange electronic data online. The statistics are reliable and are produced rapidly. Customs controls are not applied to more than 15% of shipments. Duties and fees can be paid via banks; advance declarations and a temporary admission system work. In spite of very selective controls, revenue collection has increased. Finally, ISO 9000 has been introduced to optimize service.

111. Taking the figures on the use of ASYCUDA as a guide, it is estimated that about a hundred developing countries use this or other software. Automation has been part of more than 90% of the World Bank's projects with a Customs' component from 1994 to 2002 (OECD, 2005c, page 8). Yet, this potential is used to varying degrees. In a first stage, information technology is employed only as a rudimentary tool. Computers are used to process goods' declarations and revenue assessments, replicating manual work. In a second stage, traders declare goods using electronic means as an option, while government agencies exchange information and decisions via computer. The admission of goods can often be decided electronically, and the way to engage in well-founded risk management is open. In a third stage, single windows are used, usually in the form of an inter-active website (De Wulf and Mc Linden, 2005a, citing Appels and Struye de Swielande, 1998).⁵⁹

112. A number of issues need to be considered when a country engages in increased automation. Firstly, the legal framework is pivotal for introducing changes in automation (OECD, 2003). Secondly, implementation presupposes a certain quality of infrastructure and availability of financial resources. More importantly, trained or trainable staff has to be available (OECD, 2005c). A recent WCO diagnostic study in Ethiopia shows the need for investing in a proper telecommunication structure to tackle connectivity problems (WCO, 2005). Thirdly, the use of technology needs to be integrated into a comprehensive modernization effort across all Customs' units (DeWulf and McLinden, 2005a).

113. Investing in automation can be ineffective if projects are badly designed. Providing for sufficient funding of IT departments is necessary in order to engage in proper training tools and halt high turnover of staff.⁶⁰ Many projects employ short term advisers and limit long term advisory support, thus not paying attention to post-implementation (WCO, 2003). Often systems are implemented without allocating sufficient funds for the running of the system. In the case of Uganda, some of the staff trained to implement computerized Customs management received other assignments (World Bank, 2005a). Zambia had difficulties in providing training, and in-house support; it relied too much and for too long on external assistance.⁶¹ In the case of Bolivia, where ASYCUDA++ is used, not all Customs officers work with the new system. In Nepal, the main problem in automation is inadequate support (Rajkarnikar et al., 2006).

59. A good explanation on the technical options of single windows is to be found in UNECE's Recommendation No. 33 (UNECE, 2005).

60. The Philippines had a five year budget for implementing ASYCUDA. Yet, the budget failed to provide for the funding of IT maintenance.

61. www.integratedframework.org

These case studies suggest that the building-up of local capacity takes time and that automation has to be part of management reform. A long term commitment of the government and the donor community is crucial (OECD, 2005c).

114. Single windows allow for building a platform on which trade facilitation efficiency tools can be added progressively. UNECE illustrates different types of single windows *e.g.* a single authority, a single automated system, and an automated information transaction system (UNECE 2005). They are mostly administrated by Customs, but other bodies (*e.g.* other ministries, public-private entities) act also as administrators. Time and cost for adaptation are important, as long-standing practices of officials and traders are modified, and a major institutional overhaul accompanies the introduction. For example, it took ten years for Senegal to establish a window, including three years of intermission. From more than 4.5 days before the introduction, clearance at Customs takes now less than one day on average.⁶² Single windows can have positive externalities as in Guatemala, where internet use by small and medium traders has increased following the establishment of the window (UNECE, 2006). Following Singapore's lead, several countries have embarked on setting up such facilities (*e.g.* Ghana, Malaysia, Mauritius, Senegal, Thailand).⁶³

1.8 *Relations with the private sector*

115. The role of the business sector is crucial in trade facilitation reform as the examples of Morocco, the Philippines, Turkey, Ghana and Tunisia demonstrate (Duran and Sokol, 2005; and World Bank, 2005a). There are many roles the private sector can play. In Morocco, export industries pushed steadily for reform. In the Philippines, the private sector (port operators, the banking community, chambers of commerce, brokers, forwarders and transportation companies) provided substantial financial and material assistance, including contributions to the renovation of buildings. In Turkey, the business community built border posts and managed these under the Build, Operate, and Transfer model. In Ghana, an international inspection firm was responsible for the software development for the single window, using Singapore's TradeNet software. The reform was funded mainly through capital shares of the public and private enterprises participating in the partnership, including the foreign private partner. Finally, the Tunisian electronic network is jointly controlled by the state and the private sector.

116. Customs and traders need to work closely together. A precondition for cooperation is a degree of trust to bridge the private-public divide. But business circles, and especially SMEs, in developing countries often encounter difficulties to get organized and speak with one voice. More generally, in the perception of private operators, there is often no platform to exchange views and voice concerns.⁶⁴ A remedy are national facilitation committees in which state authorities and business partners work alongside in a non-hierarchical way (case studies in OECD, Phase 1, US FASTrade Project in Central America and Pakistan). According to UNCTAD (2006a), a total of 24 such committees exist in developing countries. They are usually organized as public-private partnerships (PPPs) and create country-specific *modi operandi* to drive the process.

117. PPPs are also important in transit and corridor development. The international transport sector⁶⁵ has been actively engaged in cooperating closely with Customs organizations in an authorized transporters

62. Information provided by a Senegal official at the Regional Trade Facilitation Forum (organized by OECD and the Cameroun Customs Office) on September 27 and 28, 2006.

63. On Thailand, WTO TN/TF/W/61.

64. At the international level, this has led for instance to the creation of the Boksburg Group, a platform in which business and officials can exchange informally views (Wakeford, 2005).

65. Concretely, the International Road Union with headquarters in Geneva, Switzerland

scheme, the so-called TIR. In the management of transit corridors, bi-national bodies of corridor users, so-called clusters, have appeared and push for more efficient border passage. UNCTAD suggests that these clusters should take a “value chain approach” to corridor development.⁶⁶ In addition, issue-specific international PPPs have been created, such as the Business Alliance for Secure Commerce, which attempts to bring together business and Customs, governments and international organizations to develop supply chain security standards and procedures.⁶⁷

118. New national and regional PPPs can draw on the lessons learned from a growing number of countries that have special trade facilitation-related committees (UNCTAD, 2006a).⁶⁸ Case studies on Albania, Nepal, Pakistan and Thailand shed light on the factors necessary to create sustainable bodies. Most of the time, Committees were set up when specific trade facilitation reforms were started, sometimes they relate to broader frameworks, such as ASEAN’s regional trade facilitation initiative. There is an inherent danger that when projects end, Committees struggle to continue. Adequate funding of their activities is crucial. In addition, the selection of experienced managers, leadership by “champions” and strong links to national and international institutions and trade bodies is important. International assistance for initial guidance, assessment of needs and the definition of objectives can also contribute to long-term sustainability (UNCTAD, 2006a). A clear allocation of roles and responsibilities is crucial. In addition, decision-making structures need to be designed to allow for transparent operations and access for all key stakeholders. They need to meet high standards of internal and external accountability.⁶⁹

1.9 Comprehensive trade facilitation reform

119. trade facilitation reforms need to be embedded in larger programs, addressing the business climate, tackling infrastructural constraints and strengthening the rule of law (combating corruption).⁷⁰ This form of alignment to national priorities is one of the main messages of the Paris Declaration. Evenett (2005) argues that the different components of a nation’s trade-related capacity are interlinked. Thus, investment in one element of trade facilitation is not independent of investment levels in other areas. For example, investment returns in Customs modernization (*e.g.* joint border controls) or the efficient use of transit modules of ASYCUDA are greatly reduced if Customs’ integrity is weak, road blocks hinder transit or regulatory barriers to transit are widespread (*e.g.* liability insurance, transport monopolies).

120. TA/CB has to be comprehensive and systemic in two ways. First, immediate TA/CB goals have to be a step on the road towards long-term reform. This vision (efficient risk management, single window) implies that the project design seeks to modernize Customs’ management and inter-institutional relations (*e.g.* other border agencies, banks and insurance). Second, project design needs to factor in reforms and action in related areas that contribute to the improvement of trade facilitation in the large sense. This means that complementary activities should be planned and funded (by internal, private or external public resources) in the foreseeable future that deal *e.g.* with telecommunications, port handling facilities and other elements of trade logistics, international transport links, the renovation or creation of Customs points, laboratories for Customs and border agencies, modern control equipment, and the reform of international

66. www.gfptt.org.

67. www.wbasco.org.

68. PRO stands for “procedures”. These PPPs draw on UNECE’s Recommendation No.4 of 1974 (UNCTAD, 2006a, page 7).

69. Trade facilitation Committees have been created in a number of developing and transition countries, including Azerbaijan, Brazil, Fiji, India, Kazakhstan, Mongolia, Nepal, Nigeria, Philippines, Republic of Moldova, Senegal, Uzbekistan, Vietnam (www.unece.org/cefact/nat_bodies.htm).

70. A recent WCO diagnostic study suggests the importance of the legal framework to conduct TA/CB in trade facilitation (Ethiopia).

regulations for the different transport modes and for multi-modal transport (*e.g.* liability insurance). This does not imply that all elements have to be approached at the same time but that the analysis, identification, priority setting, sequencing and search for funding are organized in a coordinated fashion.

1.10 The regional perspective

121. When engaging in design and delivery of TA/CB, the regional perspective merits particular consideration. Notwithstanding the level of automation, risk assessment tools, warehousing and port capacities, cooperation across nations and across borders is crucial to reap the benefits of trade facilitation reform. Regional integration and transit agreements, as well as corridor clusters are primary drivers of trade facilitation efficiency and facilitate the design and delivery of TA/CB at the national level.

122. A report by COMESA highlights the regional context of capacity building. In the case of COMESA, a number of regional trade facilitation reforms have the potential of lowering transaction costs substantially. Cooperation in automation is helped by the fact that most members' Customs use ASYCUDA. Some transport and finance-related issues can best be tackled regionally, such as harmonizing axle load controls, establishing Customs bonds, licensing clearing agents, and providing insurance services. Finally, working towards joint border controls receives political backing through the decision to create a Customs Union over time (COMESA, 2005).

123. A trade and transport facilitation audit carried out in Mozambique yields interesting insights on bi-national transport and Customs issues (Meeuvs, 2004). Border crossing is a huge impediment to trade mainly due to red tape, bureaucracy and corruption. Moreover, the report shows how trade facilitation reform needs to go beyond Customs, especially where obstacles to transport are numerous. This makes the design and putting up of an efficient management structure for reform more challenging. A multitude of actors from the private and the public sector across borders need to be involved in the reform process and institutional and organizational rules need to be aligned. Taking up transport issues will increase the demand for infrastructural investment and cooperation (and thus increase the cost for TA/CB considerably). Only the efficient use of different transport modes (roads, railway, ports, air transport) and their interoperability (efficient inter-modal connections) will make most out of Customs-related trade facilitation reform. Key for reform is an integrated border and corridor management (*e.g.* DTIS on Tanzania). A study on Uganda shows that transit cargo to the Democratic Republic of Congo is often illegally re-imported into Uganda. Such a problem requires a regional approach, such as electronic monitoring devices used in the region to track the trucks.⁷¹

124. There is need for mixed strategies as EC CARDS suggests (OECD Phase 1, case study 2). The project design for TA/CB should allow for complementary processes on the national and the regional level. While national strategies are aligned to national priorities, emphasis is placed on a regional co-ordination mechanism to include regional challenges to trade facilitation in order to increase overall benefits of various reform steps. This also helps prioritize reform steps and address the sequencing issue.

1.11 Monitoring and evaluation

125. As mentioned above, ex-post and independent evaluation studies of trade facilitation projects are rare to find. This lack of information hinders progress as feedback from trade facilitation reform is the best tool to improve the efficiency and effectiveness of reform projects in the future. Donor agencies have not had enough recourse to independent evaluation. Also, when evaluation reports exist, they often are not in the public domain. Taking a recent review of evaluation reports in the trade sector as evidence (OECD,

71. ASYCUDA++ offers a transit tool that is similar to a so-called electronic seal. There are efforts in SADC countries to regionally coordinate transit controls.

2006b), it is to be expected that outputs and outcomes are not always operationally defined and that performance, covering efficiency and effectiveness, is not being tracked regularly during implementation.

126. It is relatively easy to monitor trade facilitation and border reforms to the extent that they relate to the sequencing and the complexity of border procedures and to staff use. It is more difficult if management reforms of agencies are directly covered. If Customs are able to store data on clearance processes electronically, the time for release of goods can be measured. More and more, such data are used by Customs offices to accompany reforms indicating how ongoing organizational and process changes affect release times. Combining release time with the waiting cost for trucks allows for measuring savings for traders from more efficient procedures (World Bank, 2005a, pages 14 and 15). Usually, warehousing fees have a high incidence on costs too. The measuring of the rate of physical inspection is directly related to progress made in risk management. Relating Customs revenues or trade volumes to the number of staff, the efficiency of staff use can be observed over time. Comparisons can also be made between countries as for instance in the regional trade facilitation project in South-Eastern Europe (World Bank, 2005a, p.16). Some of these indicators are put by Customs agencies on their website, accessible to the public (*e.g.* Morocco, World Bank, 2005a).

127. Of course, monitoring indicators should be identified and built into implementation processes also for the progress and efficiency in TA/CB activities as opposed to trade facilitation reform itself. Unfortunately, for training and advisory activities, it is difficult and costly to go beyond process and output.⁷² The main point to make is that care has to be taken in the preparation of capacity building plans to address monitoring tools and measurement of trade facilitation operations as well as of capacity building itself. This will allow for reviewing the reform measures periodically and will facilitate the ex-post evaluation of the trade facilitation reform and the TA/CB provided.

2. Capacity Gaps in Donor Agencies

128. 105. How can bilateral donor agencies cope, when they are faced with the demanding conditions for effective TA/CB in trade facilitation – as reflected in some of the lessons learned above – and the rising demand for assistance? A summary of recent evaluations of TA/CB in the trade sector, covering bilateral and international projects, tells us that often the lessons have not been learned (OECD, 2006b). Most frequent weaknesses concern incomplete needs assessments, weak project structures, insufficient integration with other development assistance projects and the programs of other donors, weakly defined operational results as guide for the program, unclear linkages with poverty-reduction goals, and a disregard for “binding constraints”, that is policy options and intervention strategies at the sector level (OECD, 2006a, page 61). These criticisms are also taken up in a draft outline of the WTO Working Group on Aid for Trade which talks about an “inadequate and uncertain donor response to trade priorities”, a “lack of coordination and coherence in donor response”, and “slow, duplicative and bureaucratic processes in the assessment and delivery of trade assistance” (WTO, 2006).

129. An important reason for inefficiencies is the lack of seasoned aid-for-trade practitioners in aid agencies, leading to an over-reliance on the analysis of external consultants (OECD, 2006a). This last observation is particularly valid for trade facilitation, a technical field which has not been a focus of smaller donor agencies. However, several major agencies like the European Commission, USAID and DFID have been very active in the trade sector and in trade facilitation, and have been able to overcome

72. In the case of training, typical questions refer to the methods and tools used in training, training intensity and integration with work place realities, selection methods of teachers and trainees, as well as the number and training performance of people trained. Exit evaluations made by participants and teachers are also common. The difficult part is to measure effectiveness and impact which is only possible by tracing trainees in their future careers and evaluating their work performance.

skill gaps in their own staff. These agencies have also drawn on Customs and trade facilitation practitioners in the planning and managing of trade facilitation programs. The EC, for instance, consults frequently with its own Customs policy' arm (DG TAXUD) in preparing and implementing Customs' projects. It relies on international institutions like EUROCUSTOMS – a non-profit organization that recruits Customs' experts from member countries – to provide expertise for capacity building and out-sources programs to WCO and UNCTAD. It also organizes the twinning of Customs' offices in developing countries with those of EU Member States. Finally, it often partners in projects with secretariats of regional integration agreements, which makes it possible to extend Customs' reform to a group of countries. DFID often relies on Crown Agents⁷³, as a pool of expertise for reform programs (e.g. Mozambique) while USAID often cooperates with the US Government's Trade and Development Agency (USTDA).

130. Smaller donor agencies, which now are called to scale up their involvement, have to give themselves the means to provide high-quality TA/CB. This means in the first place that they should reinforce their internal trade facilitation expertise and associate Customs' experts in their own countries. In the planning of interventions they can increasingly rely on the Integrated Framework in the case of LDCs and also on JITAP.⁷⁴ The trade sector studies and action plans that are developed with the support of the IF focus now more on trade facilitation than before. They have the possibility to out-source TA/CB projects to specialized international agencies (so-called delegated cooperation) or private service firms that have specialized in trade facilitation.

131. There are also new ways for aid agencies to ensure “multiplier effects” of know-how transfer in trade facilitation that improve ownership and absorption of partner countries:

- Countries learn best from successful neighbours or other countries that are comparable in their economic and institutional identity. There are quite a few champions in trade facilitation among developing countries and their experience and knowledge should be fully used. In fact, this has been the way some of the single windows have been set up. This potential support has to be built into the feasibility studies for capacity building. One simple way might be to include champion countries in delegated cooperation.
- Secretariats of regional integration agreements have a strong stake in trade facilitation and can count, in some cases, on peer pressure and treaty obligations to induce change in their member countries. Regional capacity building programs would also be able to work with a number of countries at the same time but might have difficulties to cover sufficiently management and institutional elements of reform.

73. Crown Agents has provided trade and procurements services to the UK Government and developing countries since colonial times. It has recently become a private firm, and has specialized in capacity building. Other international trade firms, particularly those specialized in goods' certification and inspection, have become involved in capacity building for Customs, while before they focused on pre-shipment inspection services (PSI). A new modality of their intervention is to become a technical partner of Customs for trade facilitation reforms, particularly introducing single windows, and to be a major shareholder in the public-private partnerships that operate automated Customs in some instances. This has been the modality adopted in Ghana (with Société Générale de Surveillance as technical partner), and in Senegal (COTECNA as partner).

74. The Joint Integrated Technical Assistance Program (JITAP, www.jitap.org) provides technical assistance and capacity building in the trade sector to African countries. 16 countries are now included. Their TA/CB partners are the ITC, UNCTAD and WTO. It is funded by 13 bilateral cooperation agencies. Needs assessments are established and several assistance modules have been developed. So far, trade facilitation has not been a focus of assistance.

- International trade facilitation agencies, where much of the trade facilitation know-how is concentrated, should get support to establish regional training centres in developing regions that would specialize in the training of trainers for Customs and trade facilitation activities.

3. Capacity Building: Trends in Cost and Demand

3.1 How much does TA/CB cost?

132. As support for trade facilitation in partner countries is likely to be tied to their obligations under the future WTO trade facilitation agreement, it is legitimate to inquire on the price tag of such an effort of donors. Yet such an endeavour has to be put into perspective. We know from recent studies that successful Customs and trade facilitation reforms have had high financial and economic benefits that outweighed reform costs by far.⁷⁵ Trade facilitation agencies usually work more efficiently afterwards which means that unit costs and staff numbers decrease, leading to important budget savings. Customs revenues may increase quite spectacularly, if a comprehensive reform has been undertaken (*e.g.* the case of Mozambique) or revenues don't decrease, even if tariff levels do (OECD, 2005d). Sizable positive effects on trade volumes and on foreign direct investment have also been observed. For aid agencies, this means that it is very likely that trade facilitation reform is a good investment in development.

133. Because of high benefit expectations, many governments absorb some reform costs in their regular Customs' budget and fund TA/CB provided by private or public external sources by themselves. This can be observed even in some low-income and least-developed countries that, for instance, finance technical assistance of UNCTAD for the introduction or upgrading of ASYCUDA. Parts of reforms are also occasionally funded as a self-help effort by local business groups or in the name of good citizenship by international business groups and important traders. Consequently, the demand for donor-funded TA/CB does not equate reform cost. As part of capacity building plans it is essential to verify which other sources of funding are available to avoid a substitution of local and private funding by aid monies. This will be particularly important in the WTO context (see our recommendation in Chapter 3).

134. Elementary improvements of Customs' operations, the ones which we characterized as belonging to level 1 (Chapter 1), often do not require expert support or their cost can be absorbed by the budget or user fees. This is the case, for instance, of the publication of applicable laws and regulation, consultation mechanisms with the private sector and other stakeholders, cooperation with other border agencies or setting up enquiry points or a website (OECD, 2005e). Others usually do require support in training and advice, if skilled staff is not available, as the reduction of trade documents (with the goal to get to a single administrative document to present at Customs) and the use of international standards for the classification of goods, data presentation and coding. Support might also be required for advance rulings on origin and the classification of goods, as well as for appeals procedures and efficient transit. Overall, the introduction of such measures takes anywhere from a few months to about three years in the case of least developed countries that initiate such reforms now, according to surveyed trade facilitation experts in Duval (2006). We estimate TA/CB costs from USD 200 000 to 1 million per year, taking into account that the various reform steps should be pursued concurrently and that they are part of a longer-term overhaul of Customs management preparing more demanding higher-level reforms.

135. Experts converge on the view that the cost and time required for the different steps of advanced level reform are much higher than the elementary improvements covered above. This concerns essentially the tools of efficient risk management which open up the field to other efficiency measures that separate payments and controls from clearance (pre-arrival clearance, post-clearance audits, release of goods against a guarantee, post-clearance payments). The same is true for establishing electronic single windows and for

75. We refer mainly to Duval (2006); OECD (2005b); and OECD (2005d, Country Case Studies).

special procedure for authorized traders. All of these measures have the greatest potential for efficiency when they are supported by automation and by a growingly efficient Customs organization able to rationalize processes, induce reforms in and better cooperation with other border agencies, the financial sector, transport modes, and neighbouring border agencies. Besides specialized staff and modern managers, these reforms also require expensive ICT equipment and scanning equipment for container cargo. They might also imply investments in the general telecommunications' infrastructure.

136. We assume that such reforms will take from three to ten years depending on the starting point of a country; they might take longer in a few isolated cases.⁷⁶ Here, as in the case of elementary reforms, the size and importance of external trade also play a role: Costs for training activities in China with a staff of over 48 000 are much higher than in Chile with 1 380 Custom officials (Wenjing and Wei, 2006).⁷⁷ Based on concrete examples, costs appear to range from a few million to a few hundred million USD. At the top end, China's estimated costs for hardware and technologies is around USD 230 million (Wenjing and Wei, 2006). In Russia, the estimated costs for Customs reforms from 2003 to 2009 are USD 190 million, of which USD 133 million for automation.

137. These amounts are much more modest in many (small) low-income and least developed countries. The basic reform mode for those countries has been a relatively low-intensity and long process that relies on internally-driven reforms and focused donor-funded TA/CB to aliment these reforms. Ethiopia is an example for this course (WCO, 2005). Such a process might imply TA/CB of 1 to 2 million USD per year, mainly related to the introduction of automation (UNCTAD, 2006b). Ghana might also be mentioned in this context. It relied very much on "South-South" technology transfer (Singapore/Mauritius) and private expertise when it introduced an electronic single window, at a cost of about USD 7 million.⁷⁸

138. The alternative is a form of "shock therapy" which is more intense and less controlled by internal decisions and processes. Key positions in Customs are temporarily occupied by international experts who spearhead reforms and do a lot of formal and on the job training with often newly recruited and well educated Customs staff. Two well-known cases are Mozambique and Angola, where Crown Agents was hired for this task. In Mozambique the first three reform years cost USD 37 million. Additional time was needed to complete the reform process. Cost and time requirements in Angola are comparable.

3.2 Present funding levels of TA/CB

139. The volume of TA/CB for trade facilitation has grown significantly in the past few years (Study Phase I). From 2001 to 2004, TA/CB increased 225% from USD 101 million to USD 328 million. The LMICs received 39% (Egypt 10%) of total commitments, least-developed and low-income countries 32%. Among least developed countries, 80% of funding was directed at six countries: Afghanistan, Mozambique, Tanzania, Bangladesh, Mali and Rwanda. Funding for LDCs grew 123% over the three years, while low-income countries saw an increase of 1143%.

140. The biggest part of financing for TA/CB is in form of grants (76%). The remaining 24% of assistance are provided in form of concessional loans mainly through the World Bank and the ADB. Concessional loans relate predominantly to physical support. The percentage of loans (and thus co-

76. Senegal took a total of ten years to introduce an electronic single window. Excluding a three year government-induced intermission, the implementation time was seven years (UNECE, 2006a)

77. www.aduana.cl.

78. Cases of ASYCUDA-based modernization are Bolivia (USD 9 million), Cambodia (USD 6 million including a single window), Jamaica (USD 5.5 million) and Haiti (USD 1.4 million). Senegal's introduction of a single window, developing its own software, cost EUR 3 million.

financing of trade facilitation reform) serves as an illustration for the willingness of countries to invest into trade facilitation. The main recipients of IBRD loans were Russia, Egypt, India, Brazil and China. But also smaller economies, such as Botswana, Pakistan, Gabon, Cameroon and Madagascar co-financed trade facilitation reform in the range of USD 0.5 and USD 1 million.

3.3 *What is the outlook for TA/CB?*

141. Although present levels of support are already high, we expect marked increases of TA/CB volumes over the next ten years. Independently from the future of the WTO capacity building mechanism, the main bilateral donors all have expansion plans. The EC, which has provided over half of TA/CB support over the last years, will not only continue its European Neighbourhood Policy, but it plans to promote trade facilitation reforms in parallel to its expanding web of inter-regional, regional and bilateral trade agreements. The US, with a past share of over 10%, has intentions similar to the EC. Trade sector studies of the Integrated Framework pay more attention than before to trade facilitation needs of LDCs while several regional trade organization recently have created treaty obligations for trade facilitation (*e.g.* ASEAN, single window) or have increased pressure on trade facilitation harmonization by making progress in establishing Customs' Unions.

142. The separate impact of a new WTO trade facilitation agreement will depend a lot on the way trade facilitation obligations will be negotiated. If high performance levels will be agreed upon with an explicit reference to global standards and guidelines of specialized organizations, namely WCO and UNEFACT/UNECE, and these standards will have to be achieved over time by all member countries, then the impact on the demand for TA/CB could be considerable, for two reasons:

- While at present trade facilitation support is provided to a minority of developing countries, and has not been focused on least developed countries, the demand in the future will directly be related to exceptions presented by most if not all low-income and least developed members. In addition, demand will be similar from the considerable number of accession candidates who, over the next ten years, will become members.
- In a first stage many demands will refer to a large extent to basic trade facilitation reforms and, therefore, their financial volume will be limited. But the number of countries that will engage in higher-stages of automation, risk management and single window development will probably be considerable over time, profiting from the experience of a growing number of reform champions among least developed and low-income countries. There is no reason quite a few of them would not choose expensive "shock therapy" as this course apparently has been quite successful so far. If this were the case, demand for TA/CB would be reaching higher levels than now, not immediately but in a few years. As mentioned initially, this is a high-case scenario. Less ambitious outcomes of trade facilitation negotiations at WTO (that is, trade facilitation obligations that do not imply higher-level trade facilitation reforms) would reduce considerably the demand for trade facilitation.

CHAPTER 3: THE WTO CONNECTION

1. The Negotiations at WTO: Expectations

1.1 *Aid for trade and trade facilitation*

143. The Doha Round of Trade Negotiations at WTO, also called the Doha Development Agenda (DDA), has already had some impact in stimulating trade facilitation reforms in particular countries and in increasing, correspondingly, the demand for TA/CB funded by OECD countries and international donors. “Aid for Trade” has been seen as a necessary corollary to trade policy commitments assumed by developing countries. A working group of WTO has fleshed out proposals on how to dimension such aid and how to make it effective and operational (WTO 2006).⁷⁹

144. TA/CB for trade facilitation is an important case in point for such a connection between aid and trade policy commitments. Aid has been defined as a prerequisite for developing countries to be able to enter commitments under a new agreement on trade facilitation which is being negotiated now.⁸⁰ It is understood that this aid consists in TA/CB that is directly necessary to undertake trade facilitation reforms and reinforce mainly Customs to cope with a future WTO obligation, when implementation capacity is lacking. Yet, the scope of this support is still open. Most negotiators limit the aid link to technical assistance, capacity building and equipment that are directly required to improve the border function and reach the future performance standards or regulations that will be the object of a WTO agreement. Mainly African negotiators would like to extend the link to transport infrastructure, seen as a major impediment to lower trade transaction costs in poorer developing countries. If such a broader definition of required support were to be admitted, trade sector investment and assistance programs would become a trigger for trade facilitation policy commitments in some countries. It is assumed in this report, as reflected in the latest text proposals by members (discussed in the following paragraphs), that such a broad view is likely not to find a consensus in the trade facilitation negotiations.

79. The Ministers at the Hong Kong meeting of WTO, in December 2005, asked the WTO Director General to establish a task force on aid for trade. The Task Force made recommendations to the General Council of WTO in a report dated July 27, 2006 (WTO 2006). The Task Force accepts a very broad concept of aid for trade which –beyond capacity building – extends to trade-related infrastructure, private sector development, and trade-policy induced adjustment. It endorses the Paris Declaration on Aid Effectiveness and recommends using the planning process and mainstreaming, now practiced in the Integrated Framework, for other “IDA-only” countries than LDCs, but under separate funding. It endorses country-based aid matching processes, establishing *e.g.* national aid for trade committees, and a “clearing house” function assumed by one agency in a country. It proposes a similar mechanism at the regional level and defines global aid for trade functions. Finally, it recommends establishing a monitoring body for aid for trade at WTO. This body would complement aid for trade reviews at the national and regional level as well as those by international aid institutions. It would also publish all relevant aid-for-trade reports on the WTO website.

80. The specific negotiating mandate is comprised in Annex D of the July 2004 package of WTO Ministers. It stipulates in particular in paragraph 2, that “...the extent and timing of entering into commitments shall be related to the implementation capacities of developing and least developed countries”.

1.2 *How demanding will trade facilitation obligations be?*

145. Present proposals made by negotiating countries concern— besides elementary “Level 1” reforms – single windows, risk management and other measures that require a modern Customs organization, the use of electronic tools, good networking among all border agencies and with banks and the ability to dissociate controls and payments from physical clearance. It is however not clear yet whether the definition of specific obligations would comprise indications regarding the efficiency required in applying an obligation (i.e., performance criteria). Another essential question being discussed is whether an explicit reference to standards and guidelines adopted by international institutions (e.g. WCO, UN) should guide the interpretation of trade facilitation commitments made at WTO. While current discussions reinforce the view that a consensus will emerge on a demanding performance of border agencies as a long-term objective, it is also true that the negotiations focus only on the export, import and the transit of goods at borders and do not encompass other, “non-border” policy reforms that could decrease transaction costs. The high level of ambition for border clearance has not been accepted by all negotiators and it is possible that the final compromise will be less ambitious and define standards only in general terms, avoiding specific performance criteria, or include some standards that are voluntary to comply with.⁸¹ This would, *ipso facto*, reduce the demand for TA/CB.

1.3 *Transition periods*

146. Developing countries are located at different points on the path of trade facilitation reform, as evidenced by Chapter 1. Many WTO members have recognized that each country will have to sequence in time the reform steps required to comply with future obligations. Also, for reforms to succeed, quite often TA/CB will have to be associated. A recent contribution lodged by some Latin American countries (W81) proposes that each developing member should notify temporary exceptions to complying with specific trade facilitation obligations that are part of the future trade facilitation agreement.⁸² When the country requires external support to reach a specific obligation— usually by building up its Customs’ capacity and efficiency – it will notify to the WTO its agreement with a donor to cooperate and indicate the expected reform time required before it can comply with the specific obligation. During this transition period, the WTO members will review periodically the reform status through a Trade Facilitation Committee. When the transition period is over, the Trade Facilitation Committee will either give further reform time to the country or decide that the country will now be bound by the specific treaty obligation.

1.4 *The concrete aid link*

147. In July 2006, two detailed WTO member proposals were made that cover each step of TA/CB integration in the agreement, from needs assessments to the entry into force of performance obligations.⁸³ Both are based on W81 by a group of Latin American countries and have the same thrust, W142 being in some ways a response to W137. They differ mainly on some aspects of monitoring and on the level of obligations to be incorporated in the trade facilitation agreement. Given the broad sponsorship of these two proposals – reuniting most of the active trade facilitation negotiators – it is reasonable to take their

81. Specifically, a proposal by the core group of developing countries (TN/TF/W142) dated July 31, 2006 establishes an undefined group of trade facilitation performance standards that would be voluntary to comply with for all members. It is suggested, though, that TA/CB would be provided also in those cases.

82. TN/TF/W/81 dated April 3, 2006

83. The first member proposal is dated July 17, sponsored by 21 countries, 16 developing (including China, Pakistan and Peru but no African members) and five OECD members (Canada, EC, Japan, Mexico and Switzerland), and registered as TN/TF/W/137 (**abbreviated as W137 in the text**). The second proposal was made by the Core Group of Developing Countries on Trade Facilitation (21 developing members, including six LDCs) with the code TN/TF/W/142. **It will be abbreviated as W142 in the text.**

common elements as an emerging consensus on the aid link. In this chapter, the lessons of experience presented in Chapter 2 will be used to examine options that could maximize the development effectiveness of the future WTO trade facilitation aid matching mechanism. As a reference, the main elements of the two proposals are shortly recalled here:

- *Needs assessments.* Before the agreement enters into force, each developing country is asked to assess its reform needs itself to be able to determine exceptions it wants to make to the immediate application of obligations in the trade facilitation agreement. It can ask for support from developed members and international organizations⁸⁴, and is reminded that toolkits for the diagnosis are available (e.g. from the WCO and the World Bank) and that some work might have been done already in diagnoses of the Integrated Framework and in regional integration efforts. W142 requests donor members to provide a timely and tailor-made response and to notify to WTO their engagements (in the same way they will have to notify the modalities and funding of TA/CB for later stages).
- *Notification of exceptions.* Each developing country will then have the right to notify temporary exceptions to complying with specific trade facilitation obligations, specifying whether TA/CB support is needed to reach them and after which time period it expects to be able to accept the treaty obligation. It is understood that normally more than one, if not many exceptions might be made, and that the transition to compliance might consequently happen in several successive or parallel steps. Exceptions and aid requests are posted on the internal WTO website and take the form of a “schedule”, the usual WTO way to embody a member’s commitments in a specific sector. Other members may ask questions on the terms of the notification (“international dialogue”) and the country may change the expected implementation periods before the general entry into force of the trade facilitation agreement. W142 creates two additional categories of trade facilitation obligations without specifying which rules would qualify. Some treaty obligations are considered automatic temporary exceptions for developing countries; they will not have to be notified initially and countries are only bound by them after a transition period including external support for TA/CB. Also, some standards (one may assume that these are the most difficult ones to achieve) are outside the trade facilitation agreement. Developing countries may choose to implement them and it is desirable that donors would commit TA/CB support but no recording or monitoring of these mutual commitments will be made in the context of the trade facilitation agreement.
- *Aid matching.* Developing countries requiring TA/CB support for preparing capacity building plans and implementing them should enter into discussions with bilateral donors or international organisations of their choice. The request for aid will appear on the WTO website and the WTO Committee on Trade Facilitation (W137) or a new trade facilitation support unit of the WTO Secretariat, that serves as technical anchor for the Committee (W 142) will play a facilitating role in matching, if necessary. W142 wants the agreement to specify a deadline for donor response to a TA/CB request.
- *Capacity building plans.* The country prepares a feasibility study with the help of the chosen donor or donors. A checklist of issues to be taken into account figures in both proposals. The plan will usually comprise several intermediary steps and implementation periods. It will then be notified with details on the time schedule, the specific treaty obligations that are targeted, associated donors and, if so decided, the implementing agency to which the assistance has been outsourced. W142 would also include benchmarks to be met by the TA/CB for the support to be effective. WTO members may “engage in consultations” with the country on the capacity

84. Reference is made to organizations that have specialized in trade facilitation: footnote 83.

building plans. The time schedule for implementation, that was notified earlier, may now be updated.

- *Capacity building implementation.* As for the feasibility study, a list of considerations or lessons are mentioned that should make capacity building effective and sustainable. The monitoring provisions differ substantially in the two member proposals. W137 proposes a periodic review by members of “progress in implementing notified obligations” without specifying the form and depth of the review or the relative focus on reform progress versus the efficiency of TA/CB. It specifies, however, that a change in the notification as a result of problems in implementation will have to be brought to the WTO Trade Facilitation Committee for decision. W142 wants the WTO support unit on trade facilitation, which reports to the Trade Facilitation Committee, to write annual monitoring reports on donor compliance with aid obligations as well as on donor performance in implementing TA/CB efficiently and effectively. Reform progress as such is not mentioned.
- *Entry into force of obligations.* When a transition period ends to achieve a specific obligation of the trade facilitation agreement, the implementing country will examine whether TA/CB has been effective and capacity sufficiently built to assume the treaty obligation. The country has the option to associate the donor and the implementing agency to this assessment. If the resulting view is affirmative, the country will notify WTO and the corresponding obligation will enter into force. If not, the country and its aid partners will seize the WTO Trade Facilitation Committee and recommend how to complete implementation. The Committee will then decide. W142 adds some nuances to this proposed process. If the country reaches the conclusion that it is not ready for compliance, it will seize the trade facilitation support unit which will look for solutions. If the support unit is not successful, it will ask the WTO trade facilitation Committee to decide. Also, for elementary reforms, even if supported with TA/CB, W142 proposes that the initial date given for entry into force will be applied automatically.

148. The proposals also mention good aid practices to be used along the TA/CB cycle. W137 refers to the Paris Declaration on Aid Effectiveness (OECD 2005a) and the OECD/DAC Guidelines on Harmonizing Donor Practices for Effective Aid Delivery (OECD 2003 and 2006c) while W142 mentions some of the guidelines without reference to OECD. Both documents recognize the need to coordinate and monitor in country and at global level international aid and to take into account ongoing reform projects – both those of private business and those that are donor-funded – when defining the trade facilitation capacity building needs. Assistance among developing countries should be promoted and capacity building plans should be embedded in a long-term vision. Sustainable Customs operations should be planned after TA/CB implementation. Finally, the proposals mention the cross-border and regional dimension of trade facilitation.

149. The WTO Committee on Trade Facilitation - a members’ committee to be established through the trade facilitation agreement - should transform itself into a facilitating and coordinating body for capacity building in the field of trade facilitation (“platform”), bringing together governments, trade groups, international programs (e.g. the Integrated Framework) and international organisations and intervening in the transition to trade facilitation commitments at WTO, when needed (W137). The proposal gives a concrete example: If a developing country is not able to complete a capacity building plan by itself and cannot find a donor to cooperate, the “platform” will mobilize a relevant international institution to intervene. It would also become a matchmaker to implement the capacity building plan, when problems occur. W142 reinforces the platform by proposing the creation of a new support unit for trade facilitation in the WTO Secretariat that would, in addition to the platform functions, monitor TA/CB progress in each country. The “platform role” of the Committee corresponds to some extent to the monitoring and

matchmaking role of WTO in the case of all aid for trade, as recommended by the WTO Task Force on Aid for Trade (WTO 2006).

2. Overarching aid issues to be solved

150. This will be the first time that practices of international development cooperation and those of global trade agreements are connected in a structured way. New solutions will have to be found in such a merger, requiring flexibility and imagination on both sides. An important step has already been taken in the member proposals W137 and W142. We will point to some general issues in this context in the next paragraphs, before commenting the steps of the aid-trade facilitation cycle.

2.1 How to incorporate lessons of aid experience?

151. Three distinct elements of aid experience have to be incorporated in trade facilitation reforms and TA/CB that are part of the transition of developing countries to compliance with obligations in the future WTO trade facilitation agreement:

- *Good practice on coordinating, harmonizing and aligning aid*, which is recalled in the Paris Declaration. Specifically, trade facilitation capacity building should rely in each country on a country-owned trade sector strategy, a sector or trade facilitation group of stakeholders that takes an active role in designing and monitoring trade facilitation reforms, operational sector mechanisms when feasible, and project management integrated with the domestic core unit responsible for trade facilitation reform.
- *Good capacity building design*. This refers to the quality of needs assessments and feasibility studies (capacity building plans) that have to be an instrument for long-term inter-agency and management reform. They have to identify operational results and transparently defined and justified activities and provide an institutional path towards sustainable management of trade facilitation once the reforms are completed. They should incorporate coherent links with the trade sector strategy and related government functions, define a funding strategy for the TA/CB that ensures predictable financing to support the reform and resort as much as possible to domestic and external expertise coming from developing countries. Finally, the needs assessment and capacity building plan should define a comprehensive monitoring and evaluation mechanism.
- *Good trade facilitation practice*. The situation of Customs as a specialized service agency has to be recognized, having to handle a considerable flow of goods, being tributary to administrative controls of many other public agencies and having a great number of domestic and international clients. Choices have to be made on automation tools and the speed of their introduction. Cooperation with the private sector has to be organized as main client and possible contributor to reforms. Links with reforms of neighbouring countries and with regional integration schemes have to be considered.

152. Donors will also have to take into account that the number of partner countries for TA/CB in trade facilitation will increase substantially compared to the past (as potentially most developing countries are concerned) and will include many countries that have not developed mature and recipient-based relationships with bilateral donors. In fact, the most comprehensive trade facilitation reforms will typically take place in countries that have weak institutional pre-conditions for reform. The aid mechanism put into place will have to serve all these cases, not only the countries which have been successful in their development management.

2.2 *Aid targeting versus non-discrimination in trade*

153. Aid financing is a scarce public resource. In bilateral aid, grants are generally targeted at least-developed or low-income countries in function of their low capacity to carry external debt. Most other developing countries are excluded from bilateral aid, except in some cases in regional or small technical assistance programs. International financial institutions follow a three-tier system: income-poor countries receive grants or very soft credits; middle-income developing countries are eligible for loans at low market rates but longer-than-market reimbursement periods; and higher-income developing countries have graduated from development loans. In the trade facilitation negotiations at WTO, the assumption so far has been that all developing countries, independently from their income per capita or other measure of relative wealth, will have the right to obtain grants for capacity building, that is, all developing countries are included in the linkage, provided they require exceptions to comply with one or more of the trade facilitation obligations. It is to be expected that aid demand will be much higher among poorer countries because - broadly speaking - they are less advanced in trade facilitation efficiency and because they are likely to have fewer national resources to finance reforms. But as discussed earlier, there are striking exceptions to this rule. What to do?

154. Several options could be considered:

- A) All developing countries are included in the linkage but – at the time of matchmaking with TA/CB support – countries that cannot find a bilateral partner because of their income status, will receive grants or loans from international financing institutions (in function of the internal financing rules of the institution). If international rules impede funding, the requesting countries will have to find other forms of funding (e.g. through trading groups or banks) or finance the capacity building assistance themselves, as they have often done in the past. They will follow the notification and review process for treaty exceptions in the same way as other countries.
- B) All countries that normally do not qualify for bilateral or international grant aid or soft credits declare unilaterally that they will not use their right to obtain TA/CB under the trade facilitation agreement. As in the first case (A), they will still follow the same notification and review process as aid recipients.
- C) All countries that notify exceptions but do not receive aid support (countries under A) and B)) follow simplified review procedures. They indicate the time period required to remedy their exception and will have to make a request to the Trade Facilitation Committee, if they need an extension to this period.

155. Obviously, this last solution is not compatible with many of the arguments of this report. The case is made that trade facilitation efficiency and obligations of the trade facilitation agreement are in the interest of the international community and are best obtained by planning and implementing “best practice” trade facilitation reforms and corresponding capacity building. If this argument is followed, all countries asking for treaty exceptions should be treated similarly, whether they need aid resources for their trade facilitation reforms or not. In particular, all countries should present reform and capacity building plans for review, justifying the implementation periods requested. Progress with reform should also be reviewed in these cases.

2.3 *Can subsidies that substitute for self-help be avoided?*

156. Aid funding is always a last resort and should never displace solutions found by the concerned partner. It is also true that efficient trade facilitation usually has a high return for both governments and traders, which justifies self-funding. This report has related earlier that some governments have engaged in

reforms using their regular Customs' budget, paying for external assistance or relying on the funding and participation of business groups. Would the "right" of a developing country to obtain TA/CB support be a disincentive to autonomous reform funding and management? Could such a disincentive be mitigated?

157. Different approaches could be considered:

- If normal aid eligibility practice is followed, a number of WTO developing country members would not receive TA/CB grants. Countries "in a position to help themselves" would receive market-based loans or no funding.
- When reform and capacity needs are assessed and before TA/CB partners are selected, a country would have to pass a "need for aid" test. It would have to demonstrate that all possibilities to fund the trade facilitation reform process without grant support have been explored and that ongoing self-help programs are not discontinued. We assume that a frequent result of such an exercise would be that the capacity building plan is co-financed, using private and recipient government funding and an external grant component. This would not be far from another time-honoured aid practice, namely that a small part of any aid program has to be self-financed, as a concrete demonstration of commitment and ownership.
- Aid funding would be discouraged, by exempting countries that decide not to use TA/CB funding from the notification and review process of capacity building plans. We argued earlier that such a solution might, in many cases, be detrimental to the efficiency and effectiveness of trade facilitation reform and would not be equitable.

2.4 *Are members really bound to achieve the agreement's trade facilitation obligations?*

158. This report has argued repeatedly that the efficiency of trade facilitation is very heterogeneous in the developing world, and that, for a number of countries, the transition period to "best practice" standards will probably take a long time to achieve. It is true, however, that the availability of new technologies, particularly in automation software and transport logistics, coupled with substantial economies of scale in international transport, has led to an acceleration of trade facilitation reforms in many countries. Still, it is very difficult to plan the speed of reform beyond a few years (like in any complex planning context), and, therefore, the time schedule of capacity building plans that cover four or five major reform steps is quite hypothetical. WTO members will not really know when a minority of member countries – the ones that have to cope now with highly deficient trade facilitation processes – will be able to comply with all the parts of the trade facilitation agreement.

159. To reduce this uncertainty, one possibility would be to fix a final date in the trade facilitation agreement by which WTO members have to comply with all treaty provisions. A later date for specific members would have to be agreed upon according to the same modalities used to prolong implementation periods of capacity building plans. Such a provision would reinforce the basic compact underlying WTO membership and avoid that some members are regarded as "second-class citizens". This end date might also be considered to be an ambitious deadline for the WTO to get all its members to converge on modern trade facilitation, making an important contribution to a globalization process that, eventually, creates a level playing field.

3. Aid effectiveness: step by step

3.1 *Needs assessment: a good start is decisive*

160. In a first stage, the developing country has to decide on the future of the trade facilitation sector: reform needs are identified and a decision has to be made whether exceptions to the compliance with the trade facilitation agreement should be notified. For countries that do not have transparent border procedures and take inordinately long to release goods, such a process amounts to a plan for trade facilitation reform, to be prepared and implemented in several multi-year steps, and a time horizon that might definitely be beyond ten years. In the majority of cases, reforms are well engaged and the need for support will be limited to make efficiency gains more sustainable. In any case, the assessment has to extend to assistance efforts in the past and present. In a number of developing countries, more than one donor agency has been involved in the trade sector, maybe the country has paid for assistance itself (*e.g.* many countries pay for ASYCUDA services), receives some support through the secretariat of a regional trade agreement it belongs to, and its business sector has organized self-help projects. All this means that it is at this stage that many countries need solid technical advice to identify a reform course that is informed by their own experience and best international professional practice.

161. Present proposals by WTO members leave it to the developing country to decide whether it will self-assess its trade facilitation sector or will ask a bilateral or international agency (particularly a “relevant” Annex D organization)⁸⁵ to provide support. If a country decides to rely on a self-assessment, it should make sure that it can mobilize sufficient local trade facilitation expertise. Otherwise, recourse to specialized trade facilitation partners is to be preferred. In general, trade facilitation is a relatively technical area, with global expertise on standards concentrated in a few international organizations, both those working on designing standards and guidelines and those specializing in TA/CB. A few bilateral donors – those that have important assistance programs in the trade sector – have also been able to mobilize considerable expertise. The same is true for some trade facilitation champions among developing countries (*e.g.* those that have successfully introduced single windows) and some secretariats of regional integration organizations. In any case, it is essential that the needs assessment be conducted at **country level**, in close consultation with a national trade facilitation or trade stakeholder group that includes directly concerned local agencies and business partners. The same group should be a sounding board and monitoring body in the design and implementation of the trade facilitation reforms. Where such groups do not exist, the trade facilitation reform related to WTO commitments would be a good occasion to establish them.

162. If one or several donors have been active in the trade and trade facilitation sector in a country, the need assessment should also evaluate the TA/CB provided so far. This is important both for the design of the reform, as one learns best from past success or failure, as well as for the choice of a future aid partner, which would participate both in establishing the feasibility of the capacity building plan and in its implementation. It might happen that no new support is necessary but that ongoing projects in the trade sector are re-oriented to focus on the outcomes of the new capacity building plan. An evaluation of the aid track record is also in the sense of “mutual accountability” of the Paris Declaration, which demands independent monitoring of the aid relationship. In this case, the recourse to trade facilitation experts that

85. This refers to the July 2004 WTO ministerial declaration which in its Annex D, paragraph 8, indicates the following: “In order to make technical assistance and capacity building more effective and operational and to ensure better coherence, Members shall invite relevant international organizations, including the IMF, OECD, UNCTAD, WCO and the World Bank to undertake a collaborative effort in this regard.” These organizations, as well as UNECE have developed international trade facilitation standards or self-assessment tools and have been active in TA/CB.

are independent from the present aid partners in trade facilitation and related areas could be a good option of support.⁸⁶

163. It is at this stage that the country and, possibly, its external partners in the needs assessment should make sure that all possibilities of self-financing and private funding of the future trade facilitation reforms have been verified.⁸⁷ The needs assessment should comprise detailed terms of reference for preparing the capacity building plan, in a number of cases identify private and external partners in the future reform process and present the information necessary for a country to notify exceptions to treaty compliance.

3.2 *Notification of exceptions*

164. According to present WTO members proposals, this first notification has to include a deadline for a country to comply with each specific treaty obligation to which an exception was made. The proposals indicate rightly that a country should have the possibility to change this date later on when the reform timetable and the capacity building plan are ready. Only then is it possible to make a sound judgment on the time required for “capacity acquisition”. While W137 proposes additionally a final date to comply in all cases, W142 leaves it to the developing country alone to decide on the time required to reach treaty conformity. Other WTO members can question these indications and ask for justifications (“international dialogue”). Such a dialogue on the realism of trade facilitation reform and capacity building might be more useful once capacity building plans are available.

3.3 *Aid matching*

165. If developing countries require an external partner, they will make their own choice according to present proposals. In fact, as mentioned earlier, this choice will often be part of the dialogue developed during the needs assessment, particularly when a national trade sector or trade facilitation group (that includes donor agencies) functions, sector priorities have already been discussed with donors at country level (e.g. in the context of an Integrated Framework process) or when some donors are already active in trade facilitation operations in the country. Requests for TA/CB support are also proposed to be published on the WTO website. The WTO Trade Facilitation Committee (and a trade facilitation support unit in the WTO Secretariat) will act as go-between in cases where matchmaking at the country level does not take place spontaneously.

166. It is to be hoped that such a flexible mechanism will lead to good results in all cases. This will depend in part on the importance of demand for TA/CB for trade facilitation in the WTO context. The assumptions made in this report are that the number of countries that will request TA/CB will increase markedly compared to today, that the group of requesting countries will include many “outliers” that have not been involved in structured aid relationships so far, and that in a number of cases the TA/CB programs will be long-term and comprehensive. Also bilateral donors have restricted budgets and, often, have to respect internal rules - usually decided in laws or in budget authorizations by Parliament – that oblige them

86. One way for Annex D institutions and UNECE to provide an efficient support to developing countries for trade facilitation needs assessments and more generally to the quality of trade facilitation reform would be to use their informal cooperation links (e.g. the Global Facilitation Partnership for Transportation and Trade, www.gfptt.org) to provide support to needs assessment upon request and to ensure the quality of their advice to countries by reviewing the reports made jointly by the country and the experts they delegated. Such a solution would complement the seven needs’ assessments assisted by the World Bank in the first semester of 2006 and the country assessments by WCO.

87. Just as a reminder: Ghana’s reform leading to a single window was entirely funded by local and external private resources through a public-private partnership.

to focus their aid on a limited number of partner countries. The experience of the Integrated Framework has been that the donor response to aid requests has depended considerably on the specific partner country: the response was often unrelated to the quality of a specific aid request. These arguments plead for caution regarding full aid matching. On the other hand, international financial institutions and other international or regional organisations are often able to compensate for bilateral restrictions, having a global or regional mandate; the track record of aid availability for trade facilitation has been very encouraging and there clearly appears to be a resolve in the international community to make this trade facilitation agreement work, as the integrity and global reach of an agreement with a particular development bent is at stake.

167. If these conclusions were to prove too optimistic, contingency planning could, for example include one of the following options:

- International development banks guarantee that one of them would substitute for bilateral donors, if a country is eligible under the WTO trade facilitation agreement for TA/CB support and bilateral aid does not materialize.⁸⁸
- Existing international funds could be used, as for example the Commonwealth Fund for Trade Cooperation or the Integrated Framework (Window 2).
- A subsidiary international fund could be established that might be alimented particularly by bilateral and private sources, particularly small donors, international companies, and foundations. To avoid the known difficulties to align so-called vertical funds to local planning and management, care would have to be taken that each funded project be managed effectively by the partner country's trade facilitation reform unit and be submitted to the scrutiny of local stakeholders.⁸⁹

3.4 *Capacity building plans*

168. The two WTO member proposals comprise a checklist of aid quality issues that will have to be studied and included in the capacity building plans. They refer also to the need of coordination, harmonization and alignment of the Paris Declaration. This will be very useful guidance and is similar to the lessons of experience described in Chapter 2 of this report. The more detailed analysis and checklist of this report could be used by partner countries and donors (particularly Chapter 2). The specific terms of reference to guide the capacity building should normally be an output of the needs' assessment. In a nutshell, these elements of guidance should ensure that the capacity building plan covers the main institutional challenges involved (*e.g.* Customs' management reform, development of automation); is integrated with broader trade sector reform and trade infrastructure investment; comprises a functional sequencing of activities, outputs and outcomes over time; uses synergies with other trade sector projects and with reforms of neighbouring countries; includes an operational consultation mechanism with trading interests and other stakeholders; and projects the funding and institutional sustainability of trade facilitation

88. As a gentlemen's agreement such a guarantee might be possible. If a formal guarantee is called for the legal modalities might be difficult to define. As most probably grant resources are involved, each development bank might formulate a technical assistance project, the implementation of which the respective executive board delegates to management. The conditions to trigger funding reproduce the access conditions to TA/CB in the trade facilitation agreement. Obviously, such funding allocations would concern limited amounts as free grant resources are scarce, even for development banks.

89. Such a fund could profit from the experience of the Integrated Framework windows and the Standard and Trade Development Facility (STDF) that have a similar purpose. STDF has been evaluated recently (Triple Line Consulting, 2005). The Fund could be attached to one or several of the "Annex D organizations", acting jointly.

after the implementation of reforms. A particular challenge will be to profit from know-how of successful reformers among developing countries and to associate experts from these countries, if possible, in the planning of capacity building. Finally, whenever possible, stakeholders should be closely associated to the formulation of the capacity building plan.

169. According to present intentions, once a capacity building plan is ready, it has to be notified to the WTO Committee on Trade Facilitation. It is possible now to estimate more accurately the expected time necessary for each implementation step, corresponding to each notified exception to the obligation comprised in the trade facilitation agreement. Therefore, the notification may also request a modification of the end dates of the exceptions. Should the Committee just register these notifications, including changes in implementation periods, allow for “international consultations”, as anticipated in the member proposals, or review the capacity building plans in the sense of a peer review? As these plans constitute the only substantive element that will determine the partial and temporary abeyance to the obligations of the agreement of an important part of WTO members - maybe its majority - a review by the Committee may be warranted, if members request it. Yet, being a WTO Committee composed of trade delegates, is it in a position to make a substantive review of a capacity building plan?

170. Quite a few WTO members are presently represented in the trade facilitation negotiations by Customs’ specialists and, on the occasion of reviews, could get comments from Customs and TA/CB experts in their countries or invite these to the Committee. Also, it is suggested that experts from Annex D organizations and UNECE (and other regional organizations) be invited to provide written comments to the Committee or be invited to participate in the meeting. In such meetings, which would only be organized upon a request from a minimum number of members, representatives of the national trade facilitation reform unit and local representatives of the associated donor should be present. Such a review would have a similar function as the IMF/WB staff review of Poverty Reduction Strategy Papers, presented to the Executive Boards of these two institutions by low-income developing countries. This would be a natural extension of the platform function of the Trade Facilitation Committee that member proposals call for.

3.5 Capacity building: implementation

171. The transition period can be quite short or very long; it all depends on the starting position of a specific country. Maybe it will take one to three years to comply, if one exception to treaty provisions was notified. It might take a very long time, if several exceptions were notified and implementation periods have to be staggered. Sequencing is necessary, when the compliance with a specific obligation is a prerequisite for achieving another, “higher-level” obligation or when the complexity of one reform step absorbs all administrative capacities and does not leave room for focusing on other reform gaps. It is in these complex cases that it is crucial to follow a detailed and technically sound capacity building plan and to monitor implementation more thoroughly.

172. The trade facilitation Committee, in its “platform composition”, will have to take stock periodically of the implementation status of trade facilitation reform and capacity building in specific countries. Member proposals diverge: While one proposal (W137) leaves the form of monitoring open but refers to the Trade Facilitation Committee when the notification has to be modified (that is when the implementation of the trade facilitation reforms runs into difficulties), the second proposal (W142) asks the WTO support unit to present annual reports on donor performance. Monitoring should be managed flexibly, because of the differing scope of reform and TA/CB in each country. It should definitely concern both the “performance” of the reforming country and donor support, and it should be based on the national project team, the donor and other stakeholders cooperating in the monitoring effort (in the sense of the Paris Declaration). A short annual monitoring report by the national stakeholders could be circulated to the members of the Trade Facilitation Committee. A more thorough report should be presented, when the scope of reforms and the time periods involved have to be modified.

3.6 *Entry into force of obligations*

173. Present Member proposals indicate two options: At the end of an implementation period the country notifies that it is now in a position to be bound by the treaty obligation. When all notifications have been made, the country is in full compliance with the Trade Facilitation agreement. If the country requires more time, it will make a reasoned request to the trade facilitation Committee that explains how the reform and the capacity building have deviated from their original plan and how the country will remedy this situation. It is understood that these decisions are made jointly by the reforming country and the associated donor (and the implementing agency, if TA/CB responsibility has been outsourced), and that, normally, the request is joint.

REFERENCES

ADB, 2002. Cooperation Program (Phase II). Manila: ADB.

ADB, 2005. REG-6058: Trade Facilitation and Customs Cooperation Strategy Paper. ADB Technical Assistance Consultant's Report. Manila: ADB

ADE, 2004. Evaluation of Trade-Related Assistance by the European Commission in Third Countries. Louvain-la-Neuve: ADE.

Ace Global Private Limited, 2005. Trade Facilitation Problems of Indian Exporters. Report Prepared for Govt. of India, Ministry of Commerce & Industry; UNCTAD, New Delhi; DFID/UK.

Aggarwal, Vinod and Edward Fogarty (eds.) 2004. EU Trade Strategies. Between Globalism and Regionalism. New York: Palgrave.

Allen, Dennis 2006. "The Impact of Regional Trade Agreements and Trade Facilitation," World Bank Research Paper WPS3837.

Appels, T. and H. Struye de Swielande, 1998. "Rolling Back the Frontiers: The Customs Clearance Revolution", The International Journal of Logistics Management 9(1):111-18.

Arvis, Jean François 2005. "Transit and the Special Case of Landlocked Countries," in Customs Modernization Handbook, Luc de Wulf Luc and José Sokol (eds.), Washington: World Bank, pp.243-64.

Bhattacharya, Debapriya and Syed Saifuddin Hossain 2006. "An Evaluation of the Need and Cost of Selected Trade Facilitation Measures in Bangladesh: Implications for the WTO Negotiations on Trade Facilitation," Asia-Pacific Research and Training Network on Trade, Working Paper Series.

COMESA 2005a. COMESA's Practical Experience on Trade Facilitation in Relation to Regional Economic Integration and Development. COM September 09/08(an)

COMESA 2005b. Final Evaluation of the Regional Harmonisation of Customs and Trade Statistics Systems. Draft Report, htspe (Heiser/Lewis/Porter), May 2005

De Wulf, Luc 2005. "Ghana", in Customs Modernization Handbook: Case Studies, Luc de Wulf and José B. Sokol (eds.), Washington: World Bank, pp. 19-32.

De Wulf, Luc and Gerard McLinden 2005. "The Role of Information Technology in Customs Modernization", in Customs Modernization Handbook, Luc de Wulf and José Sokol (eds.), Washington: World Bank, pp. 285ff.

Djankov, Simeon, Caroline Freund and Cong S. Pham 2006. "Trading on Time," World Bank Research Working Paper 3909.

Duran, Paul and José Sokol 2005. "Policy and Operational Lessons Learned from Eight Country Case Studies", in Customs Modernization Handbook, Luc de Wulf and José Sokol (eds.), Washington: World Bank, pp. 103ff.

Duval, Yann 2006. "Cost and Benefits of Implementing Trade Facilitation Measures under Negotiations at the WTO: an Exploratory Survey", Asia-Pacific Research and Training Network on Trade Working Paper Series, No 3, January.

Evenett, Simon 2005. "Some Tough Love on 'Aid for Trade'", *Intereconomics*, 40(6):326-329.

Finger, Michael J. and Wilson John S 2006. "Trade Facilitation, Implementation, the Doha Development Agenda, April 12, 2006. World Bank (mimeo), 38 pages.

GFP 2005. "Public-Private Partnerships in Trade and Transport Facilitation", GFP Explanatory Notes.

IMF and World Bank 2005. "Doha Development Agenda and Aid for Trade", prepared by the Staffs of the IMF and World Bank, September 9.

Infra Afric Ltd. 2001. Review of Progress in the Development of Transit Transport Systems in Eastern and Southern Africa. Prepared for the Fifth Meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions. Document UNCTAD/LDC/115. New York, July 31-August 3.

Mansfield Edward and Eric Reinhardt 2003. "International Determinants of Regionalism: The Effects of GATT/WTO on the Formation of Preferential Trading Arrangements", *International Organization* 57:4 (Fall 2003):829-862.

McLinden, Gerard 2005. "Integrity in Customs", in Customs Modernization Handbook, Luc de Wulf and José B. Sokol (eds.), Washington: World Bank.

Meeuws, René 2004. Mozambique - Trade and Transport Facilitation Audit. Rijswijk: NEA Transport Research and Training.

Miller, Erik 2005. "Achievements and Challenges of Trade Capacity Building: A Practitioner's Analysis of the CAFTA Process and its Lessons for the International System", The Institute of Latin America and the Caribbean, Occasional Paper 32, Buenos Aires.

OECD 2003. Harmonising Donor Practices for Effective Aid Delivery, DAC Guidelines and Reference Series.

OECD 2004. "The Costs of Introducing and Implementing Trade Facilitation Measures: Interim Report", OECD Trade Policy Working Paper No. 8.

OECD 2005a. Paris Declaration on Aid Effectiveness, DCD/DAC/EFF(2005)1/FINAL, Paris.

OECD 2005b. "The Economic Impact of Trade Facilitation," OECD Trade Policy Working Paper No. 21.

OECD 2005c. "The Role of Automation in Trade Facilitation", OECD Trade Policy Working Paper No. 22.

OECD 2005d. "Trade Facilitation Reforms in the Service of Development: Country Case Studies", OECD Trade Policy Working Paper No. 12.

OECD 2005e. "Annex III: Special and Differential Treatment in the Area of Trade Facilitation: Proposed Annex to TD/TC/WP(2005)27, The Costs of Introducing and Implementing Trade Facilitation Measures", Working Party of the Trade Committee, September 19, 2005

OECD 2006a. Aid for Trade: Making It Effective, Draft.

OECD 2006b. "Lessons Learned in Trade-Related Technical Assistance and Capacity Building – A Summary of Thematic Evaluations", COM/DCD/DEV(2006)1

OECD 2006c. Harmonising Donor Practices for Effective Aid Delivery, Volume 2: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management, Preliminary Edition.

Rajkarnikar Pushpa Raj, Nephil Matangi Maskay and Shiva Raj Adhikari 2006. "The Need and Cost of Selected Trade Facilitation Measures Relevant to the WTO Trade Facilitation Negotiation: A Case Study of Nepal," Asia-Pacific Research and Training Network on Trade, Working Paper Series.

Raven, John 2001. Trade and Transport Facilitation: A Toolkit for Audit, Analysis and Remedial Action. Washington: World Bank.

Rege, Vinod and Isabella Kataric 2006. Trade Facilitation – A Handbook for Trade Negotiators (Draft) June. Geneva: Group of Commonwealth Countries.

Roy, Jayanta and Shweta Bagai 2005. "Key Issues in Trade Facilitation. Summary of World Bank/EU Workshops in Dhaka and Shanghai in 2004", World Bank Policy Research Working Paper 3703.

Schiff, Maurice and Alan Winters, 2002. "Regional Cooperation, and the Role of International Organizations and Regional Integration", World Bank Policy Research Working Paper 2872.

Stigler, George 1971 "The Theory of Economic Regulation," *Bell Journal of Economics*, The RAND Corporation, vol. 2(1), pages 3-21.

Triple Line Consulting, 2005. Standards and Trade Development Facility. Report., <http://www.standardsfacility.org/>

UEMOA Commission 2000. Projet de Rapport de Synthèse Préparatoire à la Table Ronde des Bailleurs de Fonds sur les Infrastructures et le Transport Routier des États Membres de l'UEMOA. Quagadougou: UEMOA.

UN 2002. Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002.

UNCTAD 2003. "Strategies for Landlocked and Transit Developing Countries to Plan and Implement Sustainable Trade and Transport Facilitation Initiatives", Issue Note by the Secretary General of UNCTAD. Document UNCTAD/SDTE/TLB/2003 July 23.

UNCTAD 2004. "Efficient Transport and Trade Facilitation to Improve Participation by Developing Countries in International Trade", TD/B/COM.3/67.

UNCTAD 2005a. “The Establishment and Operation of an Electronic Single Window: Case Study of Guatemala”. UNCTAD/SDTE/TLB/MISC/2004/5, February 2005.

UNCTAD 2005b. “Trade Facilitation as an Engine for Development”, TD/B/COM.3/EM.24/2.

UNCTAD 2006a. Trade Facilitation Handbook Part I. National Facilitation Bodies: Lessons from Experience. Geneva: UNCTAD

UNCTAD 2006b. Trade Facilitation Handbook Part II. Technical Notes on Essential Trade Facilitation Measures. Geneva: UNCTAD.

UNECE and UNCTAD 2002. Compendium of Trade Facilitation Recommendations. New York and Geneva: United Nations.

UNECE (UN/CEFACT) 2005. Recommendation and Guidelines on Establishing a Single Window, Recommendation No. 33, United Nations, New York and Geneva.

UNECE 2006a. Case Studies on Implementing a Single Window. Working Draft, April 2006. Geneva: UNECE.

UNECE (UN/CEFACT) 2006b. Single Window Common Standards and Interoperability. Background Paper for a Symposium on Single Window Standards, 3-5 May 2006, Geneva.

Vietnam Government 2006. Beyond WTO Programme Document, 12th draft (mimeo).

Wakeford, David 2005. “A Bird’s Eye View of Trade Facilitation”. WTO Public Symposium, Workshop on Trade Facilitation – A Tool for Development.

WCO 2003. Capacity Building in Customs. Annex to Doc. SP0124E1. Brussels: World Customs Organization.

WCO 2005. Report to the Government of the Federal Democratic Republic of Ethiopia (Ministry of Revenue): World Customs Organization Diagnostic on support for the Ethiopian Customs Authority. Joe Kelly and Ernani Checcucci, June 2005.

Wenjing, Chen and Li Wei 2006. “An Evaluation of the Need and Cost of Selected Trade Facilitation Measures in China – Implications for the WTO Negotiations on Trade Facilitation”, Asia-Pacific Research and Training Network on Trade, Working Paper Series.

Wilson John, Catherine Mann and Tsunehiro Otsuki 2004. “Assessing the Potential Benefit of Trade Facilitation: A Global Perspective”, World Bank Policy Research Working Paper 3224.

World Bank 2003. Rome Declaration on Harmonization, Rome, Italy, February 25, 2003.

World Bank 2005a. Customs Modernization Handbook, Luc de Wulf and José Sokol (eds.), Washington: World Bank

World Bank 2005b. Customs Modernization Handbook: Case Studies, Luc de Wulf and José. Sokol (eds.), Washington: World Bank

DCD/DAC(2006)49

World Bank 2005c. Global Economic Prospect. Trade, Regionalism and Development. Washington: World Bank.

World Bank 2006a. Doing Business. Washington: World Bank.

World Bank 2006b. Global Monitoring Report, Millenium Development Goals: Strengthening Mutual Accountability, Aid, Trade, and Governance. Washington D.C.: World Bank.

WTO 2006. "Recommendations of the Task Force on Aid for Trade", WT/AFT/1, July 27, 2006