
**Global Preparatory Meeting on the Mid-Term Review of
the Implementation of the Almaty Programme of Action**

on

**Trade Facilitation Opportunities for Landlocked and
Transit Developing Countries**

Geneva, 8–9 July 2008

**What works and why
Global review of transit systems**

by

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What works and why

Global review of transit systems

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Outline

- Feedback from World Bank projects and programs
- Understanding sources of costs: predictability before transportation costs.
 - => Improve overall reliability of the chain.
- The overarching issue of transit regimes and systems.
 - => A global review of what works and does not works. Not lack of agreements but lack of implementation.

WHAT WORKS AND WHY

The World Bank Activities targeting the LLDCs

- ⇒ *Boost in aid for trade will benefit particularly Trade & Transport Facilitation for landlocked countries.*
- ⇒ *New resources and priority for Bank management.*
- 1. Holistic approach to trade in the Bank:
 - ⇒ Trade policies
 - ⇒ Transport
 - ⇒ Public Management (e.g. customs)
 - ⇒ Growth and diversification.
- 2. Several layer of intervention
 - ⇒ Country and increasingly regional projects
 - ⇒ Knowledge and advocacy.

WHAT WORKS AND WHY

Global: knowledge and advocacy

- New tools and ambitious research, knowledge and dissemination programs:
 - Data: Logistics performance indicators (LPI).
 - Toolkits on trade logistics facilitation, customs reform
- Specific program on transit trade and LLDCs
- Support to ongoing international initiatives (e.g. Doha negotiations)
- Global Facilitation Partnership

WHAT WORKS AND WHY

Implementation: country based and regional projects

1. Lending projects addressing access and costs:
 - Corridor projects combining infrastructure and improvement of transit regime
 - Customs modernization and facilitation in transit countries and LLDCs.
2. Diagnostics and TA.
 - Trade and Transport Facilitation Audits.
3. Beyond access and facilitation trade competitiveness: growth diagnostics such as Diagnostic of trade Integration study.

WHAT WORKS AND WHY

World Bank transit and LLDC program

- ⇒ A series of working papers, toolkits and pilots in 2008.
- ⇒ Feedback from Bank and others operational experience.
- Research on the source of trade costs for LLDCs
- Improvement of transit systems: including pilot TA (Central Africa). Partnerships with IRU and Swiss Customs.
- Comparable set of corridor performance indicators.
- Transit country: cost benefits and political economy of transit facilitation. (ongoing case studies)
- Others: air freight for LLDCs, border management...

WHAT WORKS AND WHY

Results

- Major regional projects addressing improvement in transit: TTFSE, EAC facilitation, Central Africa (07), contribution to Western Africa, and GMS facilitation.
- Important knowledge outputs produces "cost of being landlocked" or in preparation.
- Innovative country or regional study: e.g. survey of trucking costs in Africa,
- Since 2003 we have implemented a Trade&Transport facilitation audit in all LLDCs but Buthan.

WHAT WORKS AND WHY

World Bank lending relevant for the Almaty POA

New since 2003

In preparation

	\$M	#	\$M	#
AFR	382	14	669	10
EAP	26	2	14	3
ECA	284	11	530	3
LCR	24	1	0	0
MNA	4	1	0	0
SAR	87	3	92	2

WHAT WORKS AND WHY

Benchmarking: Logistics Performance Indicators (LPI)

	LPI landlocked	Av. Rank/150	LPI coastal	Av. Rank/150
EU	3.54	24	3.51	26
East Europe Central Asia	2.36	104	2.49	91
East Asia & Pacific	2.17	127	2.66	78
Latin America Caribbean	2.44	89	2.58	79
Sub-Saharan Africa	2.23	115	2.40	99
South Asia	1.84	136	2.64	72

LPI 1 (Worst) to 5 (Best) scale - aggregate LP on several dimensions
 ⇒ LLDC are the most severely constrained countries with highly unpredictable supply chains.
 Source: The World Bank Connecting to Compete

WHAT WORKS AND WHY

Poor infrastructure is part of the picture, but only part

Research in the 1990s showed that:

Improving a country's infrastructure and that of transit countries from the 25th percentile to the 75th percentile overcomes more than half of the disadvantage of being landlocked.

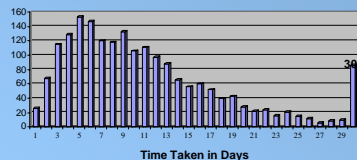
New research shows that other problems are just as costly, if not more so

- Unpredictable transit times
- Anti-competitive regulation
- Transit overheads (superfluous services and bribes)

WHAT WORKS AND WHY

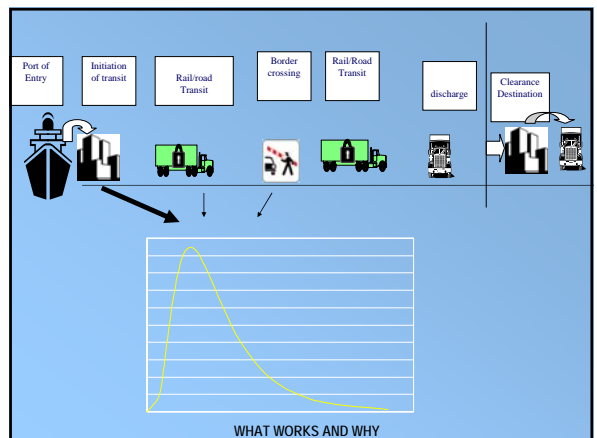
Transit times can be wildly unpredictable

- Consider the dwell times for transit containers at Mombasa port



- Short for most: 1-9 days
- But 30+ days possible for many

WHAT WORKS AND WHY



WHAT WORKS AND WHY

And unpredictable transit times add costs

- Larger inventories or emergency shipments to avoid stockouts
- Lost sales from stockouts
- What does each extra day of transit cost?
- New research shows that each extra day adds nearly 1% of the shipment's value, about 10 times the costs of capital tied up in goods moving

WHAT WORKS AND WHY

Regulatory arrangements affect freight costs

Intended to protect weaker suppliers, regulations allow all suppliers to maintain high prices

- On the Douala-Ndjamena Corridor, tariff setting by the Freight Bureau doubles road freight rates
- On the Vientiane-Bangkok Corridor, opening Lao transit trade to all Thai truckers reduced logistics costs by 30%

WHAT WORKS AND WHY

And transit "overheads" add 30-100% to transport costs

- For a 40 foot container transiting from Lome to Ouagadougou:
- Transit overhead should run 5-20% of the transport cost
- US Department of Transport allows adding 4%

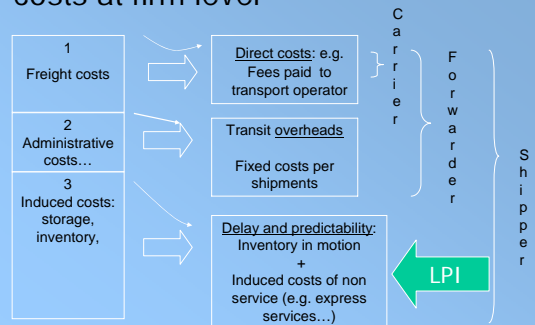
Needed services in Togo and Burkina should add 14%, within the range

But excess charges and unnecessary public services add another 14%
Those for unnecessary private services add a further 16%
And bribes for passage add another 28%

- For a grand total of 72%!

WHAT WORKS AND WHY

The three components of logistics costs at firm level



What's needed to hold down these costs and improve services?

- Performance depends on a combination of infrastructure procedural arrangements and services.
Better infrastructure is quite often needed, of course, but to get good returns from the investments requires:

Two over-arching issues are

- Proper set up of the transit systems including implementation mechanisms.
- Align the incentives and improve the political economy of transit in landlocked and transit countries. Including: market oriented regulations of services and governance.

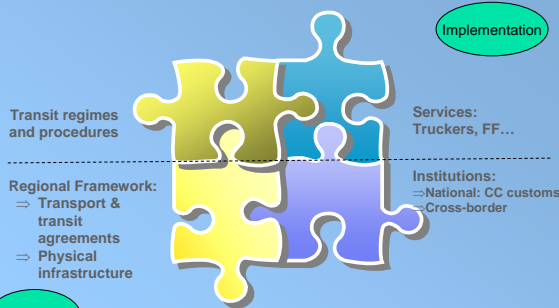
WHAT WORKS AND WHY

What good transit systems do

- Support the trade of landlocked countries and long-distance trade more generally
- Delayed clearance based on universal and robust principles (= transport under customs bonds)
- Provide seamless movements across borders
- Foster private-public arrangements for procedures, guarantees, and professional competence

WHAT WORKS AND WHY

What it takes to build them



WHAT WORKS AND WHY

Start with the basics of regional integration and infrastructure

- Transit/transport agreement on cross-border movement of vehicles, drivers and goods.
- Road infrastructure
- Other regional integration: e.g. Insurance
- Border infrastructure
- National institutions (transport, customs, CC)
- *Multinational institutions (Corridor body)*

WHAT WORKS AND WHY

Implement transit regime according to simple and universal principles

- = Private-public partnerships to back the right of transit with professional competence and fiscal security
 - Transit manifests
 - Bonds and seals by transit operators
 - Good information systems and customs reconciliation
 - Simple border processes
 - Regulated entry of transit operators

WHAT WORKS AND WHY

Unify systems across borders

- Transit regime and procedures implemented at the national level in the countries of transit and destination, but major gains also possible from
- Portable and interoperable manifests and bonds
 - Consistent regulation of entry for regional transit operators
 - Green transit lines at the border (not local clearance)

WHAT WORKS AND WHY

Benchmarks for a seamless transit regime

TIR, a robust regime which supported trade expansion in Europe and eastward for 60 years

- Carnets and attached guarantees from start to finish
- Strict regulation of entry by transit operators
- Oversight and capacity building to deal with local weaknesses

Common transit (UE-AELE) and NCTS
=>high degree of integration and governance.

WHAT WORKS AND WHY

Agreements essential but carrying them out is the big problem

- Transit regime implementation departing in essential way from core principles
- Poor quality service
- Weak national institutions
- Mentality of control and rent-seeking
- Cross-cutting requirements difficult to meet
- Perceived incompatibility with security or (wrongly) with fiscal needs

WHAT WORKS AND WHY

So, what should be simple is complex

- Inadequate customs documentation and processing (confusion with clearance)
- Duplicated procedures
- Excessive controls and No risk management based on qualification.
- Improper tracing of manifest, inadequate use of IT
- No interoperability between countries
- Inadequate guarantees and securization
- Fragmentation of services eventually induced by policies

WHAT WORKS AND WHY

What the global review shows

	NAFTA	Latin America	East Asia
Regional Framework	Limitations (US-Mex)	In practice Ad hoc per corridor	Very restrictive
Institutions	***	Depends	Depends
Transit regime & implementation	Purely national	Ad hoc national missing components	National ad hoc, very weak
Regulation Services	***	depends	fair
Market structure	***	depends	Weak exc Th

WHAT WORKS AND WHY

What the global review shows (continued)

	South Asia	Africa (E-S)	Africa (W-C)
Regional Framework	Very restrictive	Open	Very Open
Institutions	depends	weak	weak (very)
Transit regime & implementation	None	National systems, no chain	Essentially nominal
Regulation Services	poor	depends	Very poor
Market structure	weak	good	Very weak

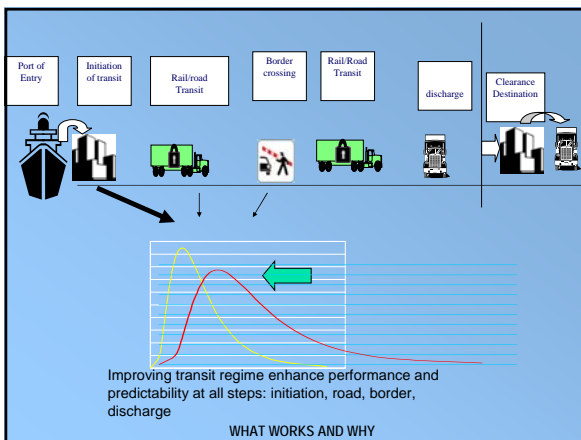
WHAT WORKS AND WHY

Re-engineer transit regimes

Implement the core features of working regimes

- Documentation
 - Information system and manifest tracing
 - Regulation of transit operator entry
 - Financial guarantees
- =>Expand the trade facilitation agenda to logistics and transit regimes
- =>Leverage regional infrastructure projects to rebuild transit regimes

WHAT WORKS AND WHY



WHAT WORKS AND WHY

Set priorities

- Transit manifests (compatible with TIR)
- IT guidelines for operators and for customs
- Entry regulations for authorized operators
- Risk management and controls
- Performance indicators.

A case for global standards?

WHAT WORKS AND WHY