

Lessons from Evaluations on Supporting Trade Facilitation and Trade Finance in Response to COVID-19

Independent Evaluation Group | April 9, 2021

Background and Objective of the Note

The objective of this note is to summarize evaluative evidence relevant to addressing the impact of the coronavirus (COVID-19) pandemic on trade facilitation and trade finance. The 2020–21 COVID-19 pandemic has exacerbated the decline in global trade volume that was already evident in 2019 from international trade tensions and slowing global economic growth. Shelter-in-place, social distancing, and quarantine halted most economic activities and, along with restrictions on cross-border travel, significantly reduced cross-border trade flows. As a result, global merchandise trade volumes declined by 14.3 percent in the second quarter of 2020 compared with the first quarter (WTO 2020a). Global services trade showed a much steeper year-on-year decline during the current recession (–23 percent, peak to trough) compared with the 2008–09 financial crisis (–9 percent) due to restrictions on international travel, which is a key source of export earnings for many low-income countries (WTO 2020c).

The COVID-19 pandemic has affected global trade through both supply and demand shocks. On the supply side, the capacity to produce goods and export has been curtailed in many countries. International border closures have reduced air freight capacity, and internal movement restrictions and closures have affected businesses, halted industrial production, and limited port activities. On the demand side, the reduction in aggregate demand among the world's largest importing countries has reduced the ability of many countries to export their goods. COVID-related business closings across multiple industries have negatively affected consumer demand, which was already falling due to social distancing and lockdown measures (IFC 2020).

Keeping trade flowing is essential to saving livelihoods (OECD 2020b). This was recognized in the World Bank Group's Trade Strategy for 2011–21, which in part responded to the disruption in international trade from the 2008 global financial crisis. The priorities of the current trade strategy are to reduce trade costs for firms through more efficient trade facilitation and logistics; improve trade; and increase cooperation among trading partners to integrate markets.

Evidence shows that during the global economic crisis in 2008–09, countries that had efficient trade facilitation measures in place were better able to mitigate the impact on their exports caused by global slump in demand (Allen 2010). For example, an extra day's delay in the exporting country accounted for about a 0.5 percent more fall in import demand from the United States. Export companies in countries that have implemented efficient trade facilitation measures (such as better logistic systems) are able to integrate more easily into regional and global value chains.

Evidence further shows that the trade collapse of 2008–09 was materially and independently affected by shortages in trade finance. During financial crises, private corporations have found it increasingly difficult to obtain trade financing, both from international financial markets and their own domestic financial institutions (Chauffour et al. 2009). Some studies estimate that up to 20 percent of the reduction in trade in 2008–09 could be related to trade finance (IFC 2020; Chauffour et al. 2009; Committee on the Global Financial System 2014; Starnes et al. 2017). With the COVID-19 pandemic, access to trade finance has also become more difficult and costly, especially for companies in low-income economies. A global trade finance gap pre-COVID-19, estimated by Asian Development Bank to be US\$1.5 trillion, affects mostly small and medium enterprises (SMEs) in developing economies (ADB 2019).

The evaluative evidence on trade finance in this note is based on Independent Evaluation Group (IEG) thematic evaluations, evaluations of Bank Group projects, and evidence from other multilateral organizations. IEG looked at evaluative evidence from Bank Group projects and from the experience of other multilateral organizations (the Organisation for Economic Co-operation and Development, the World Trade Organization, the International Labour Organization, and the Asian Development Bank) that were not directly related to the COVID-19 crisis but that were informed by other crises or provided lessons that may be useful to inform the design and implementation of projects during the COVID-19 crisis.

This note focuses on three areas that are particularly important in addressing the impact of COVID-19 pandemic: information and technology solutions, channeling trade finance to SMEs, and export credit agencies (ECAs). Because of limits to evaluative evidence, this note does not cover all trade policy and logistics questions or issues specifically pertaining to regional and global value chains (these will be the subject of a forthcoming IEG evaluation) on which IEG has not yet generated substantial evidence. This note is part of the IEG series of short notes on COVID and complements the IEG COVID-19 note on support and financing for the private sector.¹

1 https://ieg.worldbankgroup.org/sites/default/files/Data/Topic/COVID19Lessons_CrisisResponse_FormalPrivateSector.pdf.

The International Finance Corporation's Trade Finance–Related COVID-19 Response

Global Trade Finance Program (GTFP) of the International Finance Corporation (IFC) was launched in 2004, and its limit increased to US\$5 billion in 2012.² As part of IFC's Fast Track COVID-19 Facility (FTCF), the Board of Executive Directors approved the allocation of US\$2 billion of the existing US\$5 billion to support the IFC COVID-19 response. By June 11, 2020, IFC had fully used the US\$2 billion Trade Finance Envelope under the FTFCF. Since then, IFC continues to use the remaining funds from the existing GTFP program to serve its original purpose but also to serve countries that need trade finance support due to the pandemic. Of the US\$2 billion GTFP support to COVID-19 response

- » Two-thirds of the commitment amount was concentrated in the Sub-Saharan Africa and Latin America and the Caribbean regions.
- » Close to 60 percent of the commitment amount was concentrated in International Development Association and fragile and conflict-affected situations countries.
- » Sub-Saharan Africa, East Asia, and South Asia had 95 to 100 percent of their commitment amounts concentrated in International Development Association and Fragile and conflict-affected situation countries.

Table 1. Summary of COVID-19 Facility Related GTFP Commitments (fully used by June 11, 2020)
(By Region)

Region	A. Cumulative COVID-19 Related Commitments (US\$, millions)	Share of Total (%)	B. Cumulative COVID-19 Related IDA17+FCS Commitments (US\$, millions)	Share of Total (%)	B/A (%)
Sub-Saharan Africa	644	32	612	54	95
Middle East and North Africa	39	2	8	1	21
Europe and Central Asia	266	13	0.4	0	0
Latin America and the Caribbean	650	32	116	10	18
East Asia	139	7	139	12	100
South Asia	266	13	266	23	100
Total	2,003	100	1,140	100	57

Source: International Finance Corporation Update on the COVID-19 IFC Fast Track Facility (Data for the period February 1–February 5, 2021) Weekly Fact Sheet

Note: COVID-19 = coronavirus pandemic; FCS = fragile and conflict-affected situation; GTFP = Global Trade Finance Program; IDA = International Development Association.

² Delegated Authority, Board Paper IFC/R2012-0302

Lessons from Evaluations

Immediate Emergency Response in Trade Finance

Findings from evaluations indicate that intermediary banks that focus on SMEs can help enhance the reach of the trade finance programs. SMEs are equally affected by lack of access to trade finance under the COVID-19 pandemic, which has adverse consequences for job creation and economic recovery. IFC's GTFP offers international banks partial or full guarantees to cover payment risks of local banks so they can provide trade financing to companies that import and export goods, usually through letter of credit transactions. In response to the COVID-19 pandemic, IFC has recently committed to providing \$2 billion to developing countries through GTFP to cover the payment risks of financial institutions so they can provide trade financing to companies that import and export goods. IEG's 2014 evaluation of the Bank Group support to SMEs found that a substantial percentage of GTFP, particularly in Middle Income Countries, had been going to large corporations and not to SMEs (IEG 2014).³ In Brazil, for example, 46 percent of "SME" transactions were undertaken by firms that also engaged in non-SME transactions, including a few multibillion dollar multinationals. IEG's GTFP evaluation found that the GTFP instrument does not directly influence the risk appetite of the local issuing bank or its selection of clients (World Bank 2013). Adding issuing banks that focus primarily on the SME segment to the GTFP network can help developing countries' SMEs to continue to trade.

Findings from evaluations indicate that Bank Group support to export-import (EXIM) banks in the aftermath of the 2008 global financial crisis was effective in helping offset cutbacks in the supply of credit to exporters and in meeting demand for longer-tenor trade financing. Studies show that commercial banks start to limit their overall exposure when they perceive increased risk or higher liquidity costs, thereby affecting the availability of trade finance (OECD 2020c; WTO and IFC 2019). The Berne Union (a global association of private, multilateral, and public trade and investment insurers) reported that ECAs have stepped up when international banks have retreated from providing longer-term trade financing after the 2009 global financial crisis (Berne Union 2020). IEG's project-level evaluations found that the Bank Group's support to EXIM banks during the global financial crisis enabled them to offset cutbacks in the supply of credit by providing medium- and long-term funding to exporters—for example, the Multilateral Investment Guarantee Agency provided a guarantee to an international private bank for its commercial loan to an EXIM bank. This enabled the EXIM bank to expand its long-term loans to exporters. Evaluations find that stress testing, especially during crisis, could help indicate whether EXIM banks require capital injections

³ IEG's small and medium enterprise evaluation covered 2006–12, including the 2008–09 global financial crisis.

from their governments and the extent of fiscal impact from government support. Additionally, strengthening the Bank Group's development impact assessment could help the World Bank better understand the impacts from EXIM banks' long- and medium-term credit to exporters.

Longer-term Lessons on Trade Facilitation⁴

Successful implementation of information and technology solutions to facilitate trade (such as Automated System for Customs Data [ASYCUDA] and National Single Windows), including as a crisis response, requires three things: (i) building governments' capacity by providing an integrated combination of lending and technical assistance from project inception, (ii) strong coordination among agencies involved in the trade process, and (iii) accurate and timely data collection and monitoring. Customs digitalization for document submission and payments using automation software are crucial for reducing time and cost of trade. Digitalization solutions are particularly critical at the time of the COVID-19 pandemic, as they ensure that physical contacts between border agencies and traders are minimized.

The evidence shows that for lower-capacity countries, stand-alone one-time interventions are not enough to sustainably build capacity. Evidence from IEG's trade facilitation evaluation shows that the ASYCUDA is less technologically demanding than alternative systems; feedback from implementing agencies confirm general satisfaction with the technology. However, the system requires substantial upgrading of skills and technology to implement, substantial bandwidth to operate and it is more difficult to implement in remote and rural locations. As a result, realizing its benefits often takes longer than the duration of the projects and requires Bank Group multiple, longer-term engagements including a mix of advisory services and lending, especially in countries with low capacity (IEG 2019a). For example, a stand-alone Social and Economic Development development policy loan in St. Lucia in 2010 experienced a disconnect between the broad scope pursued and time frame needed for implementation and the brief time frame of disbursement. This disconnect resulted in a failure to launch the ASYCUDA World software (World Bank 2012), suggesting that a stand-alone intervention was insufficient to sustainably build capacity. By contrast, the prototype implementation of ASYCUDA in Lao People's Democratic Republic, began in December 2011 and by 2017 was successfully implemented at 24 border checkpoints that accounted for 98 percent of formal trade. The system was implemented through a World Bank Investment project but reflected prior analytic work and benefited from support from parallel projects and from coordinated donor support through a Trade Development Facility.

⁴ There are other lessons related to Trade Facilitation that take much longer to implement. However, these lessons are important to operational staff to assess the risks involved in engaging in trade facilitation across countries and in preparation for future crises.

Factors of success in introducing a Single Window include legislative, procedural, and technological changes and close coordination among all agencies involved in border management. The World Bank identified eight critical areas for introducing a well-functioning National Single Window (NSW): (i) the legal and regulatory framework for trade; (ii) the e-governance model for the NSW; (iii) the e-operational model for the NSW; (iv) the e-fee structure for the NSW; (v) service-level agreements for the NSW; (vi) business process reengineering and continuous change management; (vii) organizational and human resource information and communication technology management in border management agencies; and (viii) functional and technical architecture for the NSW (McLinden et al. 2011). In countries with a well-functioning NSW, all required customs clearances, government agency approvals, and border management functions are handled with a single electronically submitted set of documents through a coordinated system of electronic information interchange. If implemented well, NSW can increase efficiency of trade and yield a sharp reduction of interactions with human agents, which is highly desirable during a pandemic. Evidence from IEG's Trade Facilitation evaluation shows that the agency coordination required for a Single Window and resultant reduction in agency "sovereignty" and prerogatives posed sticking points that could be overcome only with strong political leadership and pressure. Where this did not exist, the Single Window languished.

Accurate and timely monitoring of data by the Bank Group is also important to identify and address performance challenges and to measure outcomes. Evidence from IFC's support on custom's risk management to a northeastern African country shows that to measure project effectiveness, it was crucial for IFC to accurately measure outcomes by collecting necessary project operational data from the client (box 1).

Box 1. Evidence of Impact of Insufficient Monitoring on Project Effectiveness

The objective of IFC's Trade Logistics and Customs project in a northeastern African country was to modernize the trade logistics system by introducing at least three key reforms: modern payment, electronic lodgment, appeals system, and the implementation of a selective inspections system. The project provided hands-on support to the creation of a newly created custom's risk Management Division. Although, according to IFC the risk Management System is operational and conducting selective inspections, there is lack of evidence on to what extent these achievements have translated into savings in time and cost of procedures for the private sectors, as there was no information on these being produced from the client systems and external indicators relied on.

Source: International Finance Corporation Project-Level Independent Evaluation Group Evaluation.

Note: IFC = International Finance Corporation

Conclusions

Trade will be critical to recovering from the economic damage of the COVID-19 pandemic. It is important that Bank Group operation teams focus on SME trade finance and support to exporters through ECAs as an immediate emergency response. It is also important that Bank Group operations teams focus on enhancing trade facilitation measures in the economic recovery phase. This will involve successful implementation of information and technology solutions and longer engagement on trade facilitation for lower-capacity countries. It would also involve accurate and timely monitoring by Bank Group staff to identify and address performance challenges and to measure outcomes.

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