



Sub-Saharan Africa Transport Policy Program
The World Bank and Economic Commission for Africa



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Trade and Transport Facilitation

*Review of Current Issues
and Operational Experience*

A Joint World Bank/UNCTAD Publication

Carlos F. de Castro

June 1996

Africa Region
The World Bank



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FOREWORD

This joint World Bank/UNCTAD review proposes ways and means to improve the competitiveness of a country's international trade by:

- increasing the quality and reducing the associated costs of international transport; and
- reducing any possible transaction cost, adapting commercial practices to international standards, and removing any unnecessary trade barriers within the economic, social, and political context of that country.

Experience in Bank and UNCTAD projects shows that enhancing the competitiveness of domestic producers and traders in local and export markets requires an environment in which producers, traders, and consumers can interact effectively. Evolving demand in the local and international markets for different goods and services must be addressed through appropriate adjustments in production programs, marketing arrangements, and pricing provisions. In addition, national service industries must have the capacity to meet the changing demand for logistical support of the revised production and marketing strategies.

The Bank's sector work has identified the need to create an enabling environment in which these processes and adjustments could materialize. Necessary regulatory reforms, adequately developed and managed infrastructure, and the availability of modern equipment would be essential to such a framework. Another prerequisite is trained and experienced personnel to manage production, marketing, and the provision of supporting services.

The coherent implementation of these ways and means constitutes *a trade and transport facilitation program* covering the systematic rationalization of procedures, information flows, and documentation related to a country's trade and transport. Efficient operation of transport modes and interface facilities through reducing physical barriers and institutional interference, and simplifying legal regimes is necessary for improving international transport operations — however, it is not enough. There is also a need for overall structural changes covering new trade and transport practices, particularly in the field of Customs procedures and in the use of modern trade and transport-related technology. Governments and commercial parties must understand the benefits derived from the implementation of facilitation measures and adopt a positive attitude towards them.

This review is aimed at World Bank and UNCTAD professional staff (task leaders and project officers) as well as the institutional staff of Bank borrowers and beneficiaries of technical cooperation activities carried out by UNCTAD. For this audience, the review attempts:

- to harmonize and unify concepts and criteria related to international trade and transport;
- to propose a comprehensive and cross-sectoral approach towards improved efficiency in international trade and transport-related transactions;
- to present the World Bank and UNCTAD's experiences in implementing such an approach;
- to describe the contents of a practical facilitation program;
- to stress cross-sectoral issues related to trade and transport in World Bank lending programs.

The interaction between transport infrastructure and international trade and transport operations is such that investments in infrastructure facilities and equipment will not reduce commercial transaction costs unless operations related to foreign trade are free from institutional or physical interference. In other words, transport infrastructure investments may add to a country's debt burden without contributing to cost-effectiveness of international trade transactions.

Chapter I of the review provides definitions and introduces some basic concepts and criteria. Chapter II outlines a cross-sectoral approach to competitiveness and cost in international trade and transport-related transactions. Chapter III reviews the UNCTAD experience in trade and transport facilitation, while Chapter IV describes the World Bank experience on these matters. Chapter V describes the contents of a facilitation program and reviews its critical stages (identification, preparation, and execution) and the instruments available to strengthen the program's implementation. Finally, Chapter VI proposes an agenda for Bank and UNCTAD staff intervention in facilitation by:

- (i) reviewing experiences in project implementation,
- (ii) discussing lending implications when introducing policy reform, and
- (iii)describing the institutions' technical cooperation objectives.

This review also contains two annexes, including a checklist for identification of facilitation components; five appendices, including a description of available facilitation-related computer software programs, a description of the "Advance Cargo Information System" (ACIS), and a summary of recommendations in corridor studies evaluation. It includes various diagrams, including the basic links for a transport and trade information hub.

This publication is a result of increasing levels of cooperation between the World Bank and UNCTAD. The review highlights the collaboration between the two organizations and their joint work in trade and transport facilitation. Using

material from both organizations, the review attempts to reflect, as closely as possible, current thinking on trade and transport facilitation within the two organizations. The publication complements the handbook on multimodal transport prepared by the UNCTAD Secretariat.

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This paper has been prepared within the framework of the Trade and Transport component of the "Sub-Saharan Africa Transport Program" (SSATP) of the World Bank. The major objective of the SSATP is to enhance the international competitiveness of Sub-Saharan economies through improved efficiency of their land and maritime transport services, and through increased regional economic integration. The paper reflects the regional experience of the SSATP, the multi-regional experience of the World Bank, and the global experience of the United Nations Conference on Trade and Development (UNCTAD).

The paper has been prepared by Mr. Carlos F. de Castro, transport consultant to both the World Bank and UNCTAD, under the leadership of Mr. Jean Doyen, Chief, AFTES (World Bank) and with inputs from UNCTAD. The draft paper has been broadly circulated within the Bank and UNCTAD and incorporates ideas and suggestions from professional staff of the two organizations. Ms. Marie-Hélène Trepéy-Kelly has prepared the document for distribution.

ACRONYMS

ACIS	Advance Cargo Information System
ACS	US Customs Automatic Commercial System
AIFA	American International Freight Association
ASYCUDA	Automated System for Customs Data
ATC	Agence Trans Congolaise de Communications
B/L	Bill of Lading
CALS	Computer Assisted Acquisition and Logistic Support
CCC	Customs Cooperation Council (see WCO)
CFCO	Chemin de Fer Congo Océan
CHIEF	Customs Handling of Import Export Freight
CIF (CAF)	Cost, Insurance, Freight
CIP	Carriage Insurance Paid
CNCC	Conseil National des Chargeurs du Cameroun
COMESA	Commonmarket of Eastern and Southern Africa
CPT	Carriage Paid to
DAF	Delivered At Frontier
DTD	Door-to-Door
EC	European Commission
ECE	Economic Commission for Europe
ECOWAS	Economic Union Occidental and Western African States
EDI	Electronic Data Interchange
ERP	Emergency Recovery and Reconstruction Project
EXW	Ex-Works
FALPRO	Facilitation Program of the United Nations
FCA	Free-Carrier
FIATA	Association of International Freight-Forwarders Associations
FOB	Free on Board
GDP	Gross Domestic Product
GNP	Gross National Product
GOR	General Operational Review
HM	Her Majesty's
IATA	International Air Transport Association
ICC	International Chamber of Commerce

ICD	Inland Clearance Depot
IDF	International Development Financing
INCOTERMS	Industry and Commerce Terms
IFC	International Finance Corporation
IRU	International Road Transport Union
ITU	International Telecommunications Union
ITC (GATT)	International Trade Center
JIT	Just-In-Time
L/C	Letter of Credit
LACES	London Airport Cargo Export Scheme
LDC	Least Developed Country
MTO	Multimodal Transport Operator
NCITD	National Committee on International Trade Documentation
NFS	Non-Factor Services
NVOCC	Non-vessel Operating Common Carrier
OGEFREM	Office du Fret Maritime
OED	Operations Evaluation Department
OFIDA	Office des Douanes et Accises
OIC	Office Ivoirien des Chargeurs
ONATRA	Office National des Transports
ONPC	Office National des Ports du Cameroun
OPEC	Organization of Petroleum Exporting Countries
PTA	Preferential Trade Agreement
ROCS-1	First Roads and Coastal Shipping Project
QR	Quick Response
SAL	Structural Adjustment Lending
SADC	South Africa Development Community
SDV	Société DELMAS VIELJEUX
SECAL	Sectoral Adjustment Lending
SITA	Airlines Telecommunications and Information Services
SITRAM	Société Ivoirienne de Transports Maritimes
SITPRO	The Simpler Trade Procedures Board
SOCATRAF	Société Centrafricaine de Transports Fluviaux
SOFI	Système d'Ordinateurs pour le Fret International
SSA	Sub-Saharan Africa
SSATP	Sub-Saharan Africa Transport Program
SWIFT	Society for Worldwide Interbank Financial Telecommunications
SYDONIA	Système Douanier Automatisé
SYDAM	Système Douanier pour l'Administration
TBL	Thru-Bill of Lading
TSR	Transport Sector Review
TTFC	Transport and Trade Facilitation Committee
UCP	Uniform Credit Procedures
UDEAC	Union Douanière des États de l'Afrique Centrale

UN-EDIFACT	United Nations Electronic Data Interchange for Administration Commerce and Transport
UNCITRAL	United Nations Conference on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
VOCC	Vessel Operating Common Carrier
WCO	World Customs Organization

DEFINITIONS OF VARIOUS TYPES OF TRANSPORT

There is still some confusion about the best way to describe the various concepts and documents of transporting goods on one document by more than one mode of transport. Without claiming to be definitive, it might be useful to suggest The following set of definitions might be useful:¹

- | | |
|-----------------------------|---|
| Unimodal Transport | is the transport of goods by one mode of transport by one or more carriers. If there is only one carrier, he issues his own transport document, e.g., a bill of lading, an air waybill, a consignment note, etc. If there are more than one carriers, for example, carriage from one port via another port to a third port with transshipment at an intermediate port, one of the carriers may issue a "through bill of lading" covering the entire transport. Depending on the back clauses of this through bill of lading, the issuing carrier may be responsible for the entire port-to-port transport or for only that part which takes place on board his own vessel. ² |
| Intermodal transport | is the transport of goods by several modes of transport from one point or port of origin via one or more interface points to a final port or point where one of the carriers organizes the whole transport. Depending on how the responsibility for the entire transport is shared, different types of transport documents are issued. |
| Segmented Transport | is if the carrier that organizes the transport only takes responsibility for the portion he is performing himself, he may issue an intermodal bill of lading. |
| Multimodal Transport | is if the carrier that organizes the transport takes the responsibility for the entire transport, he issues a multimodal transport document. |

1 Adapted and expanded from "Multi-modal Carriage, a Club View" by Stephen Martin, *Lloyd's List*, London, 23 June 1988, p. 8.

2 This definition is consistent with, e.g., N. Sansom, "Containerization and through bills of lading", Bill of Lading Course, (Course held at the London Marriott Hotel, hereafter called the "Marriott Course"), Legal Studies & Services Ltd. n.p. (London), n.d. (1988), p. 2.

Combined Transport is the transport of goods in one and the same loading unit or vehicle by a combination of road, rail and inland waterway modes.

With the introduction of the UNCTAD/ICC Rules for Multimodal Transport Documents as of January 1 1992, usage is now changing so that what was before mainly known as "combined transport documents" are now becoming "multimodal transport documents".

1. DEFINITIONS, CONCEPTS AND CRITERIA

TRADE BARRIERS

1.1 Trade expectations might be tempered by the production cost of the goods and by possible natural and man-made barriers. Any given production process depends on factors such as labor, land, capital, management and technology, which can usually be combined in different ways according to the availability of each factor and the local conditions at the place of production. As a result, the same product can hardly have the same price in two different locations, be it regions within the same country or countries.

1.2 Natural barriers refer to all the non-policy reasons why the same product can sell for different prices in different locations. They fall primarily into two categories: (i) transportation costs, and (ii) a variety of factors resulting from a lack of information (sometimes called "rational ignorance³") on the part of buyers and sellers. Transportation costs include all direct and indirect costs related to transport, storage and handling operations; the other factors reflect, among other things, the impact of communications costs and the fact that different countries have different Customs and trade regulations.

1.3 Man-made barriers encompass all policies which create or add to price differences. They include policies such as import restrictions, special incentives or restrictions on exports, foreign exchange policies, preferential national treatment, etc.; they also include policies which act to increase the costs imposed by natural barriers, such as regulations in the transportation and communications areas that keep prices of these services artificially high.

1.4 Production costs and natural/man-made barriers affect differently domestic and international trade. Indeed, international trade holds two important features which do not apply to domestic trade: (i) it involves the use of foreign standards of value and media of exchange for either or both trading parties; (ii) it is subject to different laws, Customs, cultures, and languages. Frictions, costs, and uncertainties associated with transactions across national boundaries, together with differences in regulations and Customs, act in some degree to inhibit trade flows.

³ Rational ignorance occurs when a buyer or seller remains uninformed of the full range of market opportunities because the expected cost of becoming informed exceeds the expected benefit.

PRODUCTION LOGISTICS

1.5 In looking for a compromise between production costs and trade barriers, transport and distribution-related activities, which were originally considered to be means of production, are now an integrated part of a process that starts with the collection of raw materials and ends with the distribution of the final product to the final consumer. To keep their competitiveness, manufacturing industries searched for economies of scale in production processes and took advantage of the global potential of the division of labor. This resulted in the spatial concentration of larger but fewer production units supplying the same or even an increased geographical market. Production is now fragmented into highly specialized but complementary units, sometimes far away from each other. Multiple-site manufacturing and assembly, working on reduced inventories and spanning countries and continents, is a common practice. As a consequence, shipments are becoming smaller but more frequent, and require efficient, speedy, and flexible distribution systems.

1.6 To cope with the new production pattern based on globalization and on the integration of transport in the production-consumption cycle, manufacturing industries started introducing new manufacturing and inventory techniques embraced under the term of *logistics*.⁴ This systems approach to the individual activities (supply, production, and distribution) in the manufacturing process eliminates the separation of such activities and joins them in new and more powerful combinations to achieve increased levels of efficiency, enhance quality, and reduce costs of finished goods.

1.7 Logistics management improves productivity by: (i) reducing the size of inventories which, where the production system is not very flexible, absorb (cushion) discrepancies between supply and demand; and (ii) matching output to demand. This implies strict control of goods supply, output, and distribution which have to be planned for and geared to real demand rather than forecast demand. This approach has become feasible as a result of progress in: (i) micro-electronics, for gathering basic data; (ii) robotics and automation, for flexible production; (iii) communication networks and information processing techniques, for rationalizing the system; and (iv) transportation, for bridging the spatial gap between production and consumption.

1.8 Logistics management has induced "just-in-time" (JIT) techniques, seamless trading, and centralized warehousing. It has alleviated some of the pressure on working capital tied-up in inventories, office and storage space and, thereby, has increased the volume of goods and services in the supply chain. The capital freed by lowering inventories and increasing production capacity utilization can then be used for other investments. Logistics management results in higher productivity in

⁴ "Logistics" is defined by the American Council of Logistics management as: "the process of planning, implementing and controlling the efficient, cost-effective flow and storage of raw materials, in-process inventory, finished goods, and related information from point of origin to point of consumption for the purpose of conforming to customers requirements."

both production and transportation, reducing the total cost of production and distribution.

1.9 Developing countries thus confront the fact that any trading nation in today's market is forced to adjust to the trade management practices of its competitors and partner countries and, by implication, to the practices in the international transport industry. In other words, the commercial success of any export-oriented industry in a developing country depends more and more on its ability to tie effectively into the emerging international trade logistics service networks. Given these international developments, developing countries have to make substantial adjustments to their trade management practices to hold down logistics costs in their trades. Much can be gained from improving the provision of transport services for locally traded commodities. Equally important, the regulatory environment must be conducive to stimulating improved systems performance. In some developing countries, protectionist attitudes still prevail. For example, the pervasive maritime nationalism is a costly proposition, reducing the international competitiveness of exports and inflating the cost of imports.

TRANSPORT LOGISTICS

1.10 Transport logistics—that is, the integration of transport with other services (including stock management, packing and labeling of products, insurance and banking operations related to the movement of goods, border formalities in the case of international transport, etc.) result in improved service to customers. Such improvements lead to better quality delivered products and may be used to increase market shares (or to justify raises in price), and thereby, to generate additional revenues.

1.11 Transport logistics rest on high-quality transport services which maintain control over worldwide flows of components and products, while simultaneously allowing enough flexibility to react to rapid shifts in market demand. Factors such as flexibility, speed and reliability are essential:

- (a) **Flexibility** because transport logistics must be capable of adapting to variations in consumer demand and to unforeseen circumstances;
- (b) **Speed** because the speed at which transport operations are carried out can reduce the time during which products—and therefore capital—are tied up; and
- (c) **Reliability** because it reduces the risks of a breakdown in the supply or distribution of goods, and thereby reduces the need for safety/buffer stocks.

1.12 Transport logistics also rest on transport services which can result in lower overall costs of delivered products. The combination of three technically-related costs—transport, handling/storage and administration—under the "logistics costs" heading defines the basket out of which alternative solutions have to be picked. The

range for finding the optimum solution is therefore considerably extended and allows the decision-maker to select the optimum logistics solution which is more important for the firm. In practical terms, this means that alternatives can now be worked out which, in some cases, could also mean higher transport costs for the firm—these higher transport costs being more than offset by reduced handling/storage and administration costs. Therefore, the inefficiency or lower productivity of one particular mode or interface may be quite acceptable if it results in proportionally greater gains for the entire system.⁵

1.13 There are many options available to carriers to improve their transport operations, among which can be mentioned the economies of scale and network size, and the economies of traffic density.

1.14 Economies of scale and network size are obtained by producing larger quantities of services with more economical methods. These economies offer the opportunity to expand services on existing networks at a lower cost, they also consolidate services to new destinations as well as integrating vertically complementary services. Such economies could, for example, lead to the use of "hub and spoke" systems in air and ocean transportation, to the development of "Inland Clearance Depots" (ICD), to the organization of landbridge operations⁶, or to the combination of sea-air services.⁷

1.15 Economies of traffic density are obtained by increasing the use of a system in order to spread system costs among more users. Such economies are usually combined with economies of scale and network size. Economies of traffic density would make greater use of vehicle size (container vessels, wagons, trucks, etc.). Typical examples are the use of large containerships or the development of double-stack train operations.⁸ Such economies result in greater use of available infrastructure capacity, higher rentability of capital utilization, and lead to various

⁵ For example, in the transfer of containers between vessels and waiting railway wagons, a temporary storage area between vessels and wagons, involving double handling of containers, may be required to avoid excessive investment in facilities and container handling equipment or drayage costs to other rail terminals. Further discussion on transport and distribution costs can be found in Annex 1 of UNCTAD report TD/B/C.4/330.

⁶ The Canadian west coast ports intermodal landbridge may reduce transit time as much as 50 percent over the all-water alternative for cargo moving from Japan to North America's east coast markets (from the article "Intermodal challenges facing Canada," published in World Wide Shipping, September 1993).

⁷ These services offer faster transit times and lower costs than all-air options. For example, the rates from Northern Europe to Australia via Singapore are 30 to 40 percent below airfreight rates on a 25-day transit. The sea-only route implies about 40 days in transit. (taken from: Seatrade, logistics and transport, by Hans Jurgen Peters, Policy and Research Series number 6, The World Bank, Washington, USA, 1990).

⁸ It is estimated that the stacking of containers in rail services can reduce line haul cost by 60 percent, a commercial attribute of the service to contracting transport operators (Robert Delaney, The Journal of Commerce, New York, 21 June 1988).

forms of horizontal integration of services (co-loading agreements, consortia, pools, etc.). Economies of traffic density are at the core of a new generation of projects in preparation at the World Bank. The Pakistan Trade and Transport Project II is typical (see Box 1).

1.16 With the availability of efficient transport operators, manufacturing industries have set-up their production logistics systems according to their own needs, taking into account their products, supply sites and goods marketed, and their customer requirements. Accordingly, they demand tailor-made transport logistics services from creative and innovative transport partners who will share risks and rewards, and offer total co-operation in order to obtain the objectives of safe product transport, economy, forward planning, incorporation of new technologies and facilities, and expanded use of communication systems.⁹

1.17 Co-operation in providing comprehensive services which cross conventional lines of transportation, warehousing and inventory management can result in cost reductions of commercial transactions between manufacturing industries and transport logistics providers, in terms of:

- (a) a better understanding of each party's needs and limitations, thereby reducing the **level of uncertainties in the transaction** or the probability of non-performance of the contract: quality of the goods, packaging issues, reliability of transport and ancillary services, stability of transport rates, etc.;
- (b) preferential treatment according to the **frequency of transactions**; Recurring transactions allow the establishment of particular services technologies which would not be economical for one-time or irregular operations;
- (c) long term commitments which offer the opportunity to take into account the **idiosyncrasy of transactions** requiring specific investment, for example special handling facilities and equipment, local electronic data interchange (EDI) standard, etc.

⁹ "As an example, the construction of the Sony's Central Distribution Center (CDC) —an investment of more than US\$200 million— is worth mentioning: home electric and electronic appliances produced by five plants are sent to the Singapore CDC where they are stored, packaged, and consolidated into containers for shipment by sea. The CDC serves as Sony's Asian export distribution center. It reaps substantial savings in investment: if each factory has a warehouse, the total monthly expenses would amount to about US\$12,7 million. By having a CDC in Singapore, the cost incurred is only about US\$8,6 millions, a substantial saving of US\$4,1 million per month. Other benefits include a 50 percent reduction in lead time and savings in manpower and transportation costs. (from Port of Singapore Authority News, Vol.5, No. 95, May 1988)

Box 1: Pakistan

Borrower: Government of Pakistan (GOP)

Possible Beneficiaries: Private Sector, Pakistan Railways (PR) and Trade Agencies

Tentative Financing Plan: Private Sector US\$150 million (including IBRD US\$110 million Contingent Guarantee for foreign debt), GOP US\$20 million, and IBRD US\$30 million project assistance

Sector Strategy. A key element in the strategy to improve Pakistan's trade and industry logistics system is to stimulate competition between modes by developing modern *railway cargo services* along the Karachi-upcountry corridor. A closely related priority is to improve Pakistan's *trade facilitation*.

Railway Strategy. PR has yet to adjust to the emergence of road competition. As a government department, it has little incentive to respond to market needs. For PR to be capable of developing competitive services requires implementing a *comprehensive restructuring program* including: (i) corporatizing PR; (ii) introducing business oriented management; (iii) undertaking a major cost reduction program through a rationalization of train services, route network, stations, labor-force etc.; and (iv) involving private sector financing to modernize the railway since GOP does not have the funds for this. The program would reduce the railway network from 8,000 km to about 3,500 km, the labor force from its 118,00 to less than 50,000, and close about 750 of the 900 stations.

Unbundling the vertically integrated railway "monolith" is the key to tackling specific problems without having to simultaneously solve all railway problems. Thus separate company could be established to develop commercial cargo operations using the existing railway infrastructure. Although this could be either public or private, the need for commercial orientation in a competitive transport market, and GOP's ongoing private sector initiatives, would favor the private sector. PR would provide access to the network and support services as required. A public-private partnership would thus meet Pakistan's requirements for fast, efficient and reliable distribution services. A financial analysis has demonstrated the financial feasibility of a private Railway Equipment Company (RECO). The analysis indicates that a US\$130 million investment would permit RECO to move, in year five of its business build up, 1.1 million tons of fuel oil, 2.0 million tons of dry bulk cargo, and 305,000 TEUs between Karachi and the Lahore area.

Trade Facilitation Strategy. The failure to reform Pakistan's trade facilitation practices and procedures has been costly. The immobilization time of import containers between ships-rail and upcountry cargo delivery can amount to 20-30 days. Streamlining the procedures could reduce this to 5 days resulting in US\$200 million savings in transit cost. The trade facilitation reform program would include: adopting new criteria on accreditation and liability requirements for cargo transshipped under bond; simplifying customs documents and practices; modernizing foreign-currency regulations (letters of credit provisions); facilitating procedural requirements for freight-forwarding transactions; standardizing trade, transport and customs documents in accordance with United Nations lay-out Key standards; encouraging growth of the local freight-forwarding industry; and expansion of "Electronic Data Interchange" (EDI) communications.

1.18 This co-operation between manufacturers and service providers has short-term effects on the cost of transport, insurance premiums, banking charges, etc. Long-term effects can also be expected since both commercial parties in a market characterized by frequent operations and the need for at least some investment in transaction-specific facilities, will tend to form long-term contractual alliances.

Table 1: US Logistics Costs (Billions of US Dollars, except Gross Domestic Product)

Year	GDP (Trillion US\$)	Inventory Carrying Costs	Transport Costs	Admin. Costs	Total Logistics Costs	Logistics % of GDP
1982	3.15	255	240	20	515	16.35
1983	3.41	228	244	19	491	14.40
1984	3.78	257	250	20	527	13.94
1985	4.04	240	265	20	525	13.00
1986	4.27	233	271	20	524	12.27
1987	4.54	243	288	21	552	16.56
1988	4.90	266	313	23	602	12.29
1989	5.24	311	331	26	668	12.75
1990	5.51	298	354	26	678	12.30
1991	5.67	270	360	25	655	11.55
1992	5.95	243	379	25	647	10.87
1993	6.37	250	394	26	670	10.52

Source: Survey of Current Business; US Statistical Abstract; US Department of Commerce, Cass Logistics. Inc., from an article by Thomas Foster, published in Distribution, July 1994.

1.19 Most industrial economies have paid particular attention to the development of efficient transport logistics services. In the United States, for example, there has been a regular effort to reduce logistics costs, as can be seen from the evolution of logistics costs presented in Table 1. Over the period 1982-1992, the increase in total logistics costs has been slower than the increase in "Gross Domestic Product" (GDP), resulting in a substantial reduction (some 30 percent) of the participation of logistics costs in GDP. As a comparison, in 1992, the participation of logistics costs in GDP was estimated in 10.1 percent for Japan, 12.2 percent for Europe, and 13 percent for the new industrialized countries around the Pacific Ocean (Pacific Rim).

1.20 Transport logistic services are important not only because they boost profitability for their customers, but also because they are critical to their global competitiveness, as stressed by Thomas Foster,¹⁰ in the United States' context:

¹⁰ "The magic of low-cost logistics," editorial by Thomas A. Foster, published in Distribution, July 1993.

"almost 50 percent of our real economic growth in the last half of the 1980s, and nearly all our growth in our current recovery, is attributable to increased exports." However, to take advantage of transport logistic services, manufacturers, traders and, in general, transport users, must adapt their procedures to the trade and commercial practices of country.

1.21 In addition, simplified procedures are essential to the marketability of domestic transport services in the international market-place; marketability of domestic transport services means the quality dimension which can be attached to the transport services of a country to make them acceptable to foreign buyers of transport services (banks, purchasing agents, brokers, freight-forwarders). Marketable transport services mean efficient and expeditious transport operations for import/export of goods supported by effective systems and procedures of local institutions. With the growth of containerization, documentary credits, and freight forwarding the marketability of domestic transport services has become increasingly important in international transactions. Marketable international transport services — an activity, which is light on capital investment — may produce desirable foreign-exchange savings and/or earnings which would show on trade balances as exports of non-factor services.¹¹

TRADE PROCEDURES

1.22 There is no universally applicable law governing international sales/purchase contracts. The obligation of the importer or exporter may be governed by the domestic law of the buyer's or seller's country, or by legal standards derived from international conventions such as the United Nations Convention on Contracts for the International Sale of Goods¹² and the International Rules for the Interpretation of Trade (INCOTERMS) of the International Chamber of Commerce (ICC)¹³ or by prevailing commercial practices and Customs. The parties are free to choose the law applicable, so far as it relates to the private law aspect (law of contract, company law, laws of agency, etc.) of their agreement. However, they have no choice but to follow the regulatory provisions of the laws of the country of the buyer or seller regarding, for example, the exchange control regulations, licensing requirements or market/commodity restrictions for export/import.

¹¹ The international marketability of a domestic transport industry is seldom taken into account in assessing the foreign-exchange effects of a Bank project. The foreign-exchange effects forthcoming from the ability of a domestic transport industry to perform internationally — whether positive or negative — should be presented as benefits additional to those reflected in the calculation of the economic rate of return.

¹² United Nations Convention on Contracts for the International Sale of Goods (the Vienna Convention), concluded in Vienna, on 11 April 1980, and entered into force on January 1, 1988. As of late 1995, 34 contracting States had ratified the convention.

¹³ Incoterms 1990, ICC publication No 460, Paris, France, 1990.

1.23 When negotiating a sales/purchase contract, the buyer and the seller have to agree, among other things, on how to share the responsibilities for arranging for the transfer of the goods, on who of the buyer or the seller will cover the specific costs associated with this movement, and on the location of the point where risk of damage or loss is transferred from the seller to the buyer. Reference to a specific term in a sales/purchase contract is a shorthand way of affirming the respective responsibilities of the two parties. It serves two purposes: (1) it obviates the need for listing all the obligations of the two parties to the contract and the incidence of associated costs; and (2) it removes the possibility that the parties to the contract may interpret the terms differently.

1.24 In most developing countries, international trade is performed on the basis of traditional commercial practices: exports are made on a "Free on Board" (FOB) basis and imports on a "Cost, Insurance, Freight" (CIF) basis. Many producers lack awareness and orientation in becoming exporters. Those who export tend to prefer selling their products on departure instead of taking an aggressive marketing position by selling on delivery terms, particularly when delivery takes place in a developing country.

1.25 The reasons behind this situation are numerous. The main one is to avoid taking risks (loss, damage, delays, etc.) during the physical transfer of the goods; other reasons include local administrative restrictions, such as foreign exchange regulations to control the use of hard currencies. In a slightly outdated analysis of the terms of sales from samples of export invoices taken in 1984 and 1985¹⁴ the HM Customs and Excise of the United Kingdom (UK) observed that: (1) in trade markets between developed countries, UK exporters were selling on departure (using EXW or FOB terms in some 60 percent of the cases); (2) this behavior was even more pronounced in trade with the former Centrally Planned Economy countries where the percentage rose to 92 percent of the cases); and (3) in trade with Middle East countries and other developing countries, they were selling on arrival at the port of unloading (using CIF terms in 48 percent of the cases). Recently, a representative of the American International Freight Association (AIFA) mentioned that: *"by some estimates, almost 70-80 percent of exports move either "ex-works" or FOB port of export, because most shippers do not want to become involved in the complex process of arranging for international transportation movements."*¹⁵

1.26 Such commercial practices, discourage the use of DTD transport services under the responsibility of a single transport operator. They are typical of traditional international transport practices which divide a transaction into two different segments, each with its own insurance; and where the ocean bill of lading is the only negotiable document (issued by the maritime carrier) which allows physical

¹⁴ HM Customs & Excise: Export Value Verification Surveys, London, United Kingdom, 1985.

¹⁵ M. Richard D. Gluck, Counsel, American International Freight Association, in a speech at the "Shipping symposium on International Multimodal Transport," organized by the ICC in Barcelona, Spain 1992.

access to the goods. Such practices, which still dominate trade with high risk trade areas, bypass the more up-to-date private waybill practices which allow full control of the transport transaction, and of its revenue, by one sole operator (the multimodal transport operator issuing the DTD transport document). Traditional commercial practices have discouraged freight-forwarders from developing countries from taking full advantage of the container and of its versatility. They have also contributed keeping from these countries the financial revenues associated with DTD transport control, which so far remain under the control of industrialized countries.

1.27 Indeed, by using FOB or CIF commercial terms, neither the seller nor the buyer controls the entire commercial transaction. In other words, none of the two commercial partners is entitled to contract the entire transport operation. The responsibility for the physical transfer of the goods is necessarily shared between the seller and the buyer. The seller is responsible up to a critical point: the time and place where goods are loaded onto a vessel at the port of origin (in case of a FOB sale) or the time and place where they are unloaded at the port of destination (CIF sale); from that critical point up to final destination, the buyer takes over this responsibility.

1.28 Some well-organized international transport operators might give the impression that they offer real DTD transport services, even when the trade transactions are based on FOB or CIF terms. The fact is that such international transport operators are assembling the entire DTD transport chain in two consecutive sets of transport operations. In the first set (for example, in the case of a CIF sale), goods are transported on behalf of the seller by one transport operator (e.g., a freight-forwarder) or more (e.g., successive modal transport operators) from the seller's premises up to the port of unloading. The second set then includes the transport operations performed by different operators, established in the country of destination and only responsible to the buyer (because of the CIF sale), for on-going carriage up to the buyer's premises. The "umbrella" transport organization is made of local transport companies working separately at each end of the trade, but collaborating under some form of joint-venture agreement.¹⁶ Traders might think they handle their goods to a single operator (the international transport operator) when, in fact, the goods were taken care of by two (or more) different carriers whose respective responsibility is defined in two (or more) different legal systems.

1.29 Although such a situation does not prevent transport efficiency from the carriers involved, it prevents economies of scale of traffic density and network and leads to higher cost and confusion, particularly if damage occurs in a developing country where carriers might be operating under weaker liability regimes than those applicable in the country of the partner at the other end of the trade.

¹⁶ A joint-venture is an undertaking by two or more independent economic actors to collectively carry out a commercial undertaking for profit.

1.30 It is therefore important that the seller and the buyer reach an agreement on using an INCOTERM which can leave one of them in a position to organize and be responsible for the transfer of the trade goods from the seller's premises to the buyer's. Terms such as: ex-works (EXW), free-carrier (FCA), carriage-paid (CPT), carriage-insurance-paid (CIP), delivered-at-frontier (DAF), delivered-duty-unpaid (DDU) or delivered-duty-paid (DDP) should therefore be used. A summary of the appropriate INCOTERMS is presented in Table 2.

Table 2: Mode of Transport and the Appropriate INCOTERM

Any Mode of Transport	EXW	Ex Works (... named place)
Including Multimodal	FCA	Free Carrier (... named place)
	CPT	Carriage Paid to (... named place of destination)
	CIP	Carriage and Insurance Paid to (...named place of destination)
	DAF	Delivered At Frontier (...named place)
	DDU	Delivered Duty Unpaid (... named place of destination)
	DDP	Delivered Duty Paid (...named place of destination)
Air Transport	FCA	Free Carrier (...named place)
Rail Transport	FCA	Free Carrier (...named place)
Sea and Inland Waterway Transport	FAS	Free Alongside Ship (...named port of shipment)
	FOB	Free On Board (... named port of shipment)
	CFR	Cost and Freight (...named port of destination)
	CIF	Cost, Insurance and Freight (...named port of destination)
	DES	Delivered Ex Ship (... named port of destination)
	DEQ	Delivered Ex Quay (...named port of destination)

Source: ICC Publications, July 1990

Summary of Procedure: Letter of Credit Transactions

Box 2: Buyer Advising/Confirming Bank

The buyer and the seller conclude a sales contract providing for payment by documentary credit.

The buyer instructs his bank —the "issuing" bank— to issue a credit in favor of the seller (beneficiary).

The issuing bank asks another bank, usually in the country of the seller, to advise or confirm the credit.

The advising or confirming bank informs the seller that the credit has been issued.

As soon as the seller receives the credit and is satisfied that he can meet its terms and conditions, he is in a position to load the goods and dispatch them.

The seller then sends the documents evidencing the shipment to the bank where the credit is available (the nominated bank). This may be the issuing bank, or the confirming bank, or a bank named in the credit as the paying, accepting or negotiating bank. If the credit allows for negotiation by any bank, there will not be a "nominated bank" and documents may be sent to any bank willing to negotiate under the credit. (Article 10 (b)(i), UCP).

The bank checks the documents against the credit. If the documents meet the requirements of the credit, the bank will pay, accept, or negotiate, according to the terms of the credit. In the case of a credit available by negotiation, the issuing bank or the confirming bank will negotiate without recourse. Any other bank, (including the advising bank if it has not confirmed the credit,) which negotiates will do so with recourse.

Box 3: Seller Issuing Bank

The Bank, if other than the issuing bank, sends the documents to the issuing bank.

The issuing bank checks the documents, and if they meet the credit standard requirements, either:

- effects payment in accordance with the terms of the credit, either to the seller if he has sent the documents directly to the issuing bank, or to the bank that has made funds available to him in anticipation, or
- reimburses in the pre-agreed manner the confirming bank or any bank that has paid, accepted or negotiated under the credit (Art. 19, UCP).

When the documents have been checked by the issuing bank and found to meet the credit requirements, they are released to the buyer upon payment of the amount due, or upon other terms agreed between him and the issuing bank.

The buyer sends the transport document to the carrier who will then proceed to deliver the goods.

1.31 The use of one of these term rather than another depends on the capacity of one or the other trading partner to find in his country experienced international transport operators that can assist him in fulfilling the commercial implication of his choice. Under normal conditions of trade between countries with well-organized container ports and peaceful labor conditions, the seller may be prepared to assume the risk of transport and to choose an INCOTERM in which his responsibility extends to the arrival of the goods at destination (e.g., DAF). A seller who prefers to see the buyer assuming the risk of the transport operation may want to choose an INCOTERM in which his responsibility terminates when he passes over the goods to the first transport operator (e.g., FCA), although he might still be obliged to pay for all transport expenses (as he is in the case of CIP and CPT). Trade preferences in developing countries are often influenced by currency regulations which in turn may affect documentary credit procedures of a particular country. A summary procedure for "Letter of Credit" (L/C) transactions is shown in Boxes 2 and 3.

ELECTRONIC COMMUNICATIONS

1.32 In recent years, the business community has been introduced to a number of strategies to improve productivity, including just-in-time (JIT) manufacturing, Quick Response (QR) retailing, and Computer-Assisted Acquisition and Logistic Support (CALS). While these strategies address different business concerns in different industry sectors, the reason for adopting one or more of these strategies is the same: all public and private sector organizations are striving to become more efficient. Achieving efficiencies in the work place has always been a priority. But in today's highly competitive world market, it is a matter of survival! Businesses that don't change the way they do business may not be doing business in the future.

1.33 This involves the elimination of all procedures that do not add value to the business process. If a business procedure doesn't add value to the product, then it

should be eliminated. For instance, a number of companies believe that invoices (manual or electronic) do not add value to the process, that the information contained in an invoice is virtually the same information found in dispatch advice documents. By adding few additional data details to the dispatch notice, the need for an invoice can be eliminated. The real benefit here is the opportunity to streamline the business process. The dispatch document initiates the payment cycle and settlement is based on the concept of "paying for goods received." An additional benefit of this approach is that invoices do not need to be matched with purchase orders —a very time-consuming process that adds only costs, not value, to the business process.

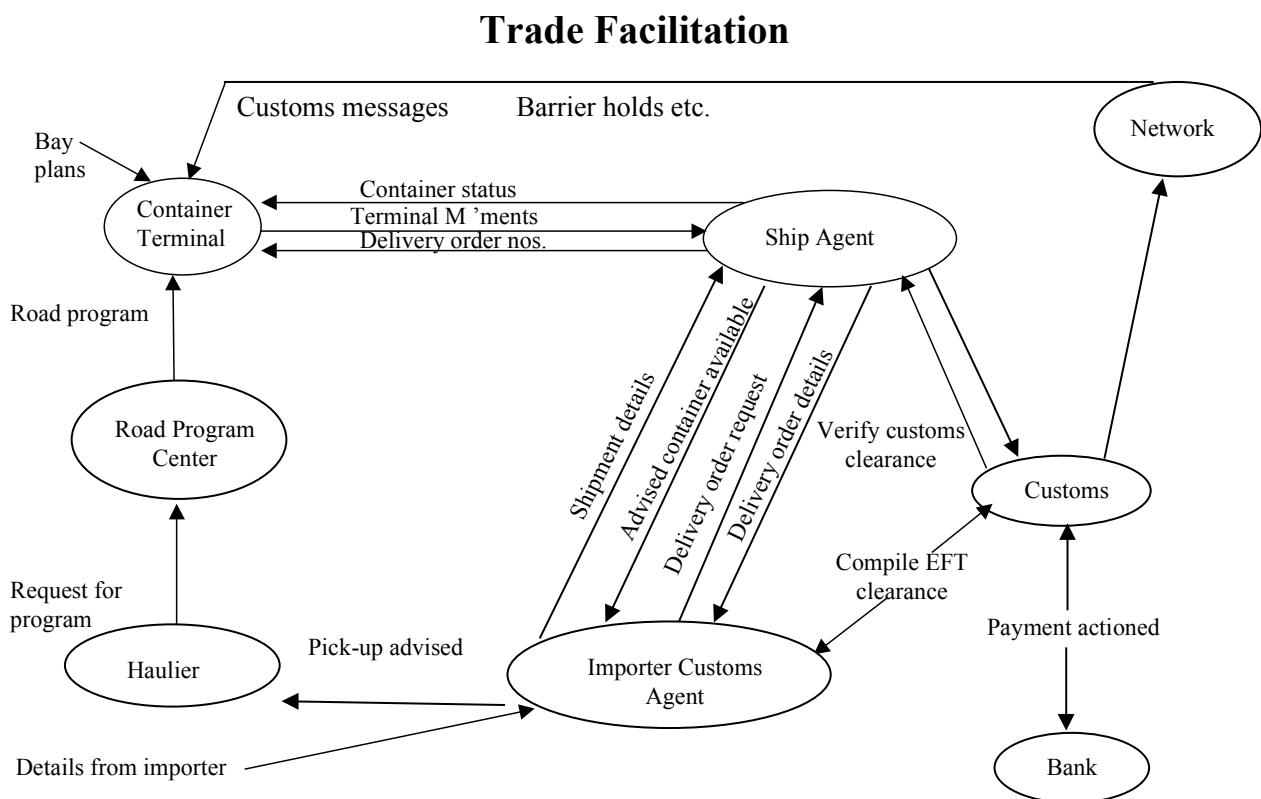
1.34 This is what EDI is all about. In today's economy, overhead costs must be reduced if a profit is to be realized. Organizations have found that the best way to reduce administrative costs is to eliminate the mountain of paper and the redundant business procedures that support the mountain of paper. When an organization employs JIT or QR, for example, the number of orders increases dramatically, making it impossible to process orders manually using paper. Electronic trading methods must be introduced. EDI is the technology that underpins these business strategies. A majority of multinational and large regional organizations are implementing EDI and will, soon be requiring all trading partners to be EDI capable. As EDI is integrated into routine business procedures, it simply becomes one of the terms and conditions of transacting business.

1.35 EDI is not a technical exercise, but rather a business strategy. The reasons generally cited for implementing EDI domestically include:

- value added to products/services through information (i.e. improved customer service);
- administrative cost reduction;
- improved inventory control;
- strategic benefits realized through the integration of EDI data and corporate information processing.

1.36 There are even more compelling reasons to use EDI internationally due to complex trade document requirements and complicated business relationships. In addition to the principal business relationship, international trade generally involves transportation carriers, freight forwarders, brokers, banks, insurers, customs administrations and other government agencies. The data entered by the initiating party is generally required by all other parties involved. EDI allows all parties to exchange this initial data without manual copying or data-entry, thus reducing time and errors. Estimates vary, but for a single shipment of goods as many as 28 different organizations may be involved with over 40 transactions being created to document the process: bills of lading, letters of credit from banks to exporters, manifests, etc. It has been estimated that the paperwork accounts for 8 percent of the total cost of an international consignment.

1.37 Errors are also a factor. Approximately half of all issued letters of credit contain clerical errors. Errors in trade documentation can delay a shipment, add storage costs, or adversely influence the downstream manufacturing, distribution and sales chains. Errors in shipping manifests, for example, are at the origin of substantial cargo immobilizations at ports when they are imbedded in Customs declarations. The transparency of EDI communications at strategic information hubs, or platforms (at main ports or inland terminals) can help drastically to clear such bottlenecks while providing remedies to the proliferation of Customs fraud in manual transactions (Diagram 1).



1.38 The shortcomings of the transport and trade logistic systems in developing countries have led to the creation of *substitute* circuits. Companies buy the services that the public administrations are unable to supply. There is a parallel exchange market, along with an underground economy —an apparent company and a real one. The issue in many developing countries is that the essential core of documentary procedures has been loaded with additional controls and counter-controls, each requiring additional documents and procedures. This duality is a permanent and fundamental given in many developing countries and weighs heavily worldwide in the cost of transport services of countries with the most reduced incomes per capita. This in itself provides an important reason for the substitution manual transactions by electronic communications in international trade.

GOVERNMENT POLICIES

1.39 Reductions in natural barriers to trade depend first of all on the availability of, and access to, transport services based on technological advances in transportation and communications. However, the availability of, and access to, such services can be facilitated or frustrated by government policies.

1.40 In most countries, government policies affect the provision and maintenance of basic national infrastructure and equipment in the transport and communications sector. They also affect the treatment of imports and exports, and the provision and conditions governing services, Customs, and fiscal regulations.

1.41 Good policies on the provision and maintenance of transport infrastructure and equipment lower vehicle operating costs. As a result, transport operations can be handled more safely and efficiently, and substantial reductions in risks (loss and damage) on cargo and in insurance premiums can be expected. Similarly, policies on the provision and maintenance of telecommunications should not be belittled as they can also be beneficial to traders. This was demonstrated in a study sponsored by the International Telecommunication Union (ITU).¹⁷ This study, carried out in Kenya, points out, for example, that a medium-sized company engaged in importing and stocking a wide range of industrial products could gain as much as Kenyan Sh 2.4 millions (or around 5 percent of its annual revenues) from improved telecommunications. An international freight forwarding company with headquarters in Nairobi and operations in Mombasa and Kisumu, could gain some Kenyan Sh 5.5 millions (around 6 percent of its annual revenues) from the same improvements.

1.42 Customs policies on imports and exports, implemented by procedure-oriented customs administrations might create barriers to trade. For example, under a "risk management policy," sealed containers must be able to circulate outside port areas and even to cross frontiers when the port-state is used for transit purposes;

¹⁷

The impact of telecommunications on the performance of a sample of business enterprises in Kenya, a research report to the International Telecommunication Union by Communications Studies and Planning International, Geneva, January 1982.

this, however, is often ignored and transit containers are subject to time-consuming inspections. Customs are not the only possible administrative blockage which may be encountered, but they are the most important. Other impediments in developing countries include financial procedures, which are likely to involve the government either because the banks are state owned or because of exchange control — regulations which must be observed. Such regulations, or procedures required to satisfy the regulations, can hinder trade unless prior exemption is obtained. *To remove such constraints, governments might wish to consider shifting the focus of their administrations from narrow-minded compliance and verification of trade documentation and procedural requirements, to a broader trade management orientation.*

1.43 Government policies are particularly important in the definition of the respective role of the public and private sectors. A public sector activity is motivated by public interest, a private enterprise by the expectation of profits. Their mutually dependent roles can be geared towards the provision of transport services which are innovative, productive and cost-effective, in the context of the globalization of trade and the adoption of export-oriented macroeconomic policies.

1.44 Government regulations of public utilities reflect public policy objectives, protecting consumer welfare in term of prices, security and quality of service, for example. These regulations might cover the privatization or the commercialization of the transport-related public utilities, such as ports, inland clearance depots, and other basic transport infrastructure. Privatization reduces or eliminates state participation in enterprises capital, whereas commercialization only involves introducing commercial principles into the operations of the bodies concerned. Both privatization and commercialization open businesses and organizations to strong market forces. While ownership often matters, competition matters even more for the efficiency gains which privatization and commercialization are meant to bring about. Two examples illustrate this point. Privatization of the container terminal at the port of Kelang (Malaysia) in March 1986 led to a lowering of costs and an increase in productivity.¹⁸ The Government of Chile created competition in cargo-handling and storage operations by authorizing the private sector to establish stevedoring companies. By so doing cargo-handling productivity at the port of Valparaiso increased from 2,060 boxes of fruit per hour in 1978-1979 to 6,500 in 1985/1986. Vessel port-stay times decreased from 129 to 40 hours, and per box costs from US\$0.54 to US\$0.26.¹⁹

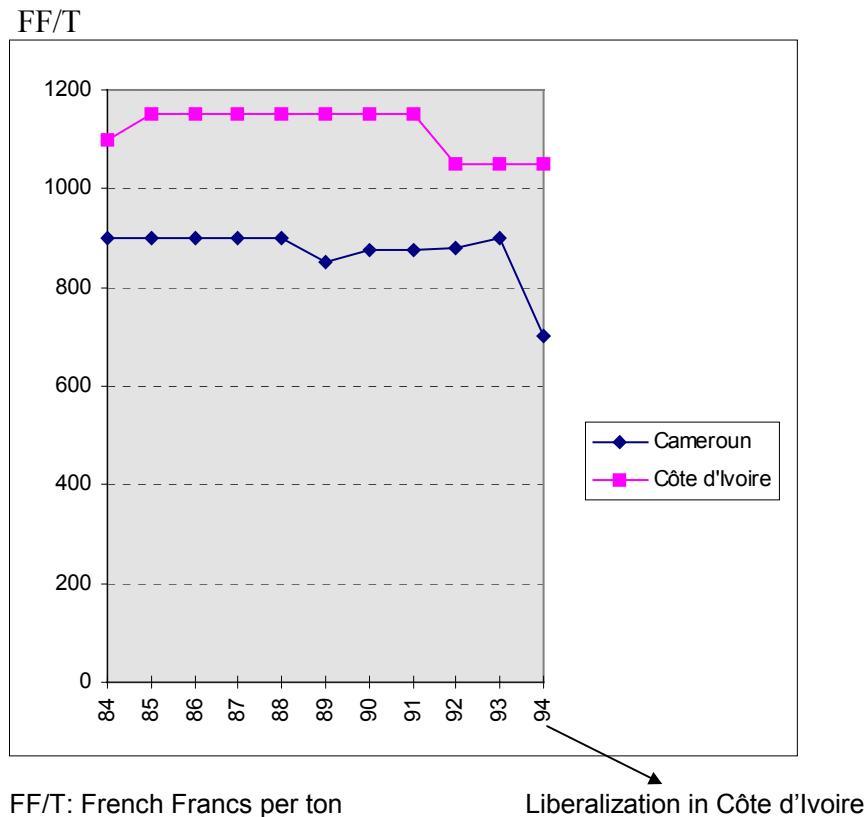
1.45 Liberalization and deregulation policies are designed to open a market to competitive forces by reducing government intervention in a given economic activity. Excessive government intervention in transport services —either through regulation of private operators (e.g., set-up of tariffs) or manipulation of public

¹⁸ "Malaysia's Port Kelang, Kuanton Register Strong Cargo Growth," article by P.T. Bangsberg, published in Journal of Commerce, 1 February 1991.

¹⁹ Reported in "The restructuring of public-sector enterprises: the case of Latin American and Caribbean ports", Cuadernos de la CEPAL number 68, ECLAC, Santiago de Chile, 1992.

enterprises (e.g., provision of subsidies)— limits the responsiveness of supply to the highly dynamic and varied demand for transport. Liberalization and deregulation policies can stimulate competition, enhance the role of private enterprises, and result in more efficient and profitable behavior of the market forces in the transport sector. For example, the removal of a United Kingdom regulation on national crewing of bulk carriers could lead to a reduction in daily operational crew cost from £ 1,959 to £ 773, by allowing the recruitment of a complete crew from a developing country. The removal of restrictive cargo provisions favoring the local shipping company SITRAM (under agreement with French interests Société Delmas-Vieljeux —SDV) in Côte-d'Ivoire in 1994, resulted in a de facto reduction of the shipping rate for bananas and pineapples from Abidjan to Marseilles of 21 percent (from US\$110 to US\$87 per 900 kgs. pallet). The re-routing of Ivorian fruit from the port Marseilles to more cost-effective Dieppe resulted in an additional 3.5 percent cost saving (see Figure 1: Effect of Liberalization (choice of Sea Carrier, Contractual Arrangements) on the Sea Freight of Côte d'Ivoire Banana-Exports

Figure 1: Effect of Liberalization (choice of Sea Carrier, Contractual Arrangements) on the Sea Freight of Côte d'Ivoire Banana-Exports
Price Evolution of Sea Freight (Bananas)



Source: J.P. Huchet, 1992 (updated by INRETS for 1993/94), Cotonou Round Table papers.

1.46 The opening of the market for international transport services could lead small companies from developing countries to seek support and cooperation in the form of jointventures, management contracts and the sale of shares with established

international transport operators from developed countries. This would reduce operational and technical inefficiencies and improve management performance, taking advantage of any applicable form of technological development, including EDI.

1.47 Where they do not yet exist, government regulations are necessary to define the institutional and legal environment of international transport services. In most countries, no institution supervises the overall issues of international transport. The approach is generally fragmented on a modal basis, with limited contribution from the commercial private partners (traders and service providers, including transport operators). These commercial partners have to struggle through the inefficiency of the existing transport system and administrative procedures. The case of freight forwarding companies needs to be mentioned. These companies are only commercial entities and are not considered legally as transport companies. These companies are managing international transport operations but, in many countries, are not entitled to issue transport documents. In such situations, governments should regulate their activities (by a licensing system, for example). This would provide an orderly system in which transport users are protected from informal or marginal operators, and freight forwarders acting as carriers are fully recognized by banks, insurance companies, and other service providers.

ROLE OF THE CONTAINER IN FREIGHT-FORWARDING

1.48 Since the early 1960s, the container has influenced not only the way cargo is transported and handled, but also the design of ports and terminals for modal interface, the design of transport units and ships, and the documentary and procedural control for cargo in transit. More important the container has also become a tool for revenue control of cargo in transit from origin to destination (DTD). The financial liquidity offered to MTOs by advance payments on containerized DTD cargo has provided these operators with key financial leverage as well as the possibility of subcontracting, at competitive rates, shipping, railway, and truck capacity while controlling subcontractors payment schedules (usually after services have been rendered). In addition, the shortage of know-how and network capacities on the part of developing countries has helped to divert the financial flows associated with DTD freight-forwarding from developing countries operators to their better organized counterparts in industrialized countries. As a result, investments in intermodal facilities and systems carried out by developing countries have helped facilitate and reduce the cost of transport transactions, but not necessarily for the benefit of operators in the developing countries carrying out the investment.

1.49 The unsuspected role of the container in transforming transport logistics has had important consequences: (a) for the traffic shares between developed and developing countries, (b) for the potential access of developing country operators to multimodal transport services, and (c) for the return on capital invested by developing countries in facilities and services. With the growing volumes of container trades, and with greater demand for speed and tight scheduling, it has

become necessary for the water, road, and rail transport systems to be physically and operationally closely linked. Reacting to these changing requirements, key international carriers have realigned their service provisions substantially. These carriers (particularly of US and Far East origin) have undergone a transformation from providers of pure ocean transport to providers of integrated DTD services. In the context of such services, the sea transport link represents only a portion of total cost. Imaginative management, aggressive marketing, and superior service have enabled these carriers to control larger market shares, resulting in a trend towards oligopoly in many market segments, including the Western and to a lesser extent, the Eastern African seabords.²⁰ Trends towards increasing capacity of vessels and growing structural linkages with the inland network have accentuated the demands placed on ports, while port authorities in turn are beginning to appreciate their strategic role in the capital intensive multimodal transport industry.

²⁰ Shipowner agreements in West Africa infringe on EEC Rule 4056/86 and have been targeted recently against, *inter alia*, the French Shipping Group SDV.

2. RATIONALE FOR SECTORAL REFORM

2.1 The expansion of international transport during the past three decades has been influenced, *inter alia*, by the growth of intermodalism, by development of trade, and by the ratification by a number of countries of the United Nations Code of Conduct for Liner Conferences. More recently, however, international multimodal transport has streamlined its logistics, while national shipping lines in developing countries have accumulated enormous losses. By the end of the 1990s with the emerging regional trade agreements, international transport, shipping and trade will go through further adjustment, increasing the pressure and the need for change in developing countries. Institutions thought and conceived to develop trade and transport, such as UNCTAD and the World Bank will have to redefine their roles.²¹ The development of multimodal transport and the requirements of modern logistics mean that developing countries should shift their policy emphasis from an attempt to master or share their sea trade to positive development and control of their overall transport competitiveness and to monitor their terms of trade (by selling CIP and by buying foreign goods FCA). Shippers' Councils, some of which have become the providers of cargo to national shipping lines and a bottleneck to documentary foreign trade procedures, should change their role and funding means and turn their attention to promoting land side intermodal efficiency and transit facilitation, and to bridging the trade gap.

IMPACT OF FACILITATION ON COMPETITIVENESS

2.2 Every stage along the road from traditional, non-uniform paper documents and manual procedures to the still relatively few, comprehensive EDI applications has brought important commercial and economic advantages. The rapid expansion of international trade after 1945, the acceleration and growth of road transport, and the development of aircargo all combined to put intolerable strains on the largely nineteenth century information system which was supposed to service and guide physical movements. Facilitation, in its early stages, did much to free trade and transport from what could have been, and at times were, serious delays and diseconomies.

2.3 Many major ports all over the world suffered from chronic delays at the reception and clearance of cargo because the functional interfaces between carriers, traders, agents, Customs, and ports themselves were clogged by poor documentation complemented by outdated procedures. The initial oil price rises

²¹ Redefinition of UNCTAD's role started at the meeting of UNCTAD VIII in Cartagena (Colombia) in February 1992, and is now underway.

of the early 1970s pushed newly-rich oil producing countries straight into acute port congestion, often due as much to primitive documents and procedures as to shortage of physical facilities. Since then facilitation has steered most developed and many developing economies over the revolutionary changes in trade and transport operations enforced by containerization. It has enabled jet aircargo transport to expand into a major international transport activity.

2.4 The latest advances in the use of EDI have supported and responded to an entirely new set of trade disciplines, inherent in the "just-in-time" technique of computer-based integration of supply, production, and distribution operations. Resulting savings in stocking costs are phenomenal. Such innovations, spreading into general practices, have ominous implications for developing countries, not yet taking advantage of facilitation practices. These economies are often trying to shift export emphasis from basic commodities or agricultural products to more diversified, value-added manufactures. Garments, electric, and electronic components are among the most promising market sectors. Yet assembly industries and consumer goods are highly susceptible to narrowing time-windows for delivery, based on seasonal changes, shifting tastes, and "just-in-time" techniques. Prices in such markets are highly competitive, and suppliers, who have to cope with over-complicated documents and unnecessarily difficult procedures, may find that the added costs, probably at least 8 percent of the value of the goods, amount to an insupportable extra marked handicap (Table 3). These routine administrative cost handicaps take no account of the further charges incurred in retrieving and correcting errors, paying associated Customs penalties and meeting interest on delayed payments due to documentary hold-ups.

Table 3: Macroeconomic Estimate of Transit Cost for Selected Countries, 1992 (in US\$ billion)

1994	Import			Export			Total		
	FOB	CAF	Δ	FOB	CAF	Δ	FOB	CAF	Δ
World	3,339.60	3,450.60	3.3	3,339.60	3,450.60	3.3	6,679.20	6,901.20	3.3
Ind. countries	2,449.40	2,570.70	5.0	2,452.40	2,500.10	1.9	4,901.80	5,070.80	3.4
Dev. countries	835.51	879.96	5.3	887.28	935.95	5.5	1,722.79	1,815.92	5.4
Thailand	30.52	33.74	10.5	22.81	24.01	5.3	53.33	57.75	8.3
Indonesia	18.18	21.93	20.6	25.68	27.03	5.3	43.86	48.96	11.6
The Philippines	12.21	13.04	6.8	8.09	8.96	10.7	20.90	22.70	8.4

Source: IMF, Trade Statistics, 1994

2.5 There will be secondary economic and commercial consequences, because certain ports, unable to clear goods expeditiously, will become unattractive to shipowners, particularly container ship operators. This may reduce sailing opportunities for traders. Many developing countries still find it difficult to cope with the numerous procedural and documentary changes essential to manage the transport of origin-destination containerized goods, as distinct from old-style port-to-port general cargo. This has inhibited the growth of specialist, on-the-spot DTD transport providers, acting not as forwarding agents, but as carriers. Without such services traders are unable to access and use the full range of delivery options available to their competitors in other developed countries.

2.6 This latest widening of the international trade competitiveness gap may be the most dangerous of all because it can seal off developing country traders from a growing number of innovative and successful purchasers. These are usually large companies, which have moved into "just-in-time" techniques, managed by EDI and can no longer afford to do business with suppliers who are unable to interface effectively with their computerized control systems. This technical obstacle cannot be overcome by any feasible counter-attraction of quality or price. Once a comprehensive EDI system is installed, processing a single exceptional paper invoice document, for example, may cost thousands of dollars. No paper-bound supplier can sell across such cost obstacles.

2.7 All these facilitation differentials add up to actual and potential trade handicaps for developing countries far more pervasive and resistant than tariffs and quotas, which, given the right negotiating circumstances, can be removed with the stroke of a political pen. It is remarkable that the international organizations concerned with Third World interests —with the exception of UNCTAD and to a certain extent the World Bank— have only recently come to realize the urgent importance of remedial action.

2.8 Box 4 contains a summary of transit costs in the Philippines²² for diversified export commodities (electronics, furniture, textiles) and for an inter-island domestic commodity (corn). The transit cost of exporting electronics, furniture, and textiles (8.9 percent, 10.9 percent, and 11.8 percent of value respectively as shown in Box 4) is putting the Philippines in a less-than competitive position among the emerging South-Asia markets, except Indonesia. The Philippines international trade still uses traditional logistics, with a low level of integration along the chain of transport. Due to the specific risks and

²² The Philippines, Competitiveness Assessment, World Bank, 1992. The Philippines have only slight control of their non-domestic transit. Most of the traffic is organized from outside, imports being supplied CIF Manila, and exports sent FOB Manila. The most popular means of transaction is letter of credit (L/C, ICC rules), implying that the seller gets his money prior to shipping. This has led to a low participation of Philippine operators in transit activities. As a result, most of the freight revenues and expenses, rebates (and advance treasury) are accrued out of the country. One can estimate a total potential value of financial transactions of around US\$500 million a year.

contractual provisions on the Philippine leg of international shipments, transit is generally split into two separate sub-operations; for instance, international insurance stops at the Philippines entry; similarly, the use of DTD transport documents is not generalized. It was evident from the study sample that the use of integrated transport provisions by multinational freight-forwarders was immediately reflected in transport cost savings.

Box 4: International Transport Costs in the Philippines

1. In a first approximation, the total transit costs in the Philippines can be approached at the macro-economic level by the difference between the CIF and FOB values of the recorded trade. This estimate does not take into account some real costs such as immobilizations, informal payments, taxes, etc. However, the result gives an order of magnitude, showing that the global transit invoice of the Philippines exceeds US\$1,7 billion, or 8.4 percent of trade (Table 4). (Word: 3.3 percent).

Macro-Economic Estimate of the Philippines Cost of International Transport (1990)

	FOB Value (US\$ million)	CIF Value	(CIF-FOB)	% FOB
Total Import	12,206.00	13,042.00	836.00	6.8
Total Export	8,091.00	8,960.00	869.00	10.7
Total	20,962.00	22,703.58	1,741.38	8.4

2. In a second approximation, costs have also been estimated using a “bottom-up” approach, by consolidating and generalizing the detailed costs collected on monitored goods. In relative terms, these costs range from 8 to 12 percent of the value of electronics, furniture or textiles, and these figures represent the average of import and export costs for the sample. For corn, only considered as a domestic shipment, transport amounts to 37 percent of the value.

Volume and Cost of International Transport in the Philippines, 1992 — Summary Analysis

	Electronics	Furniture	Textiles	Corn	
	US\$/T	% val.	US\$/T	% val.	US\$/T
Value ex-factory of farm (reference)	180,314	100	13,594	100	15,338
Total transport cost (inbound)	10,071	5.6	185	1.4	433
Total transport cost	5,900	3.3	1,304	9.6	1,375
Total transport cost (inbound & outbound)	15,971	8.9	1,488	10.9	1,809
					11.8
					63
					36.8

INTERACTION BETWEEN TRANSPORT LOGISTICS AND TRADE

Transport Competitiveness

2.9 Developing countries should stay competitive by ensuring that the land side sector and the port interfaces meet the requirements of shippers and carriers. Transshipment load centers, feeder lines, multimodal transport facilities, and logistic services should be encouraged in order to improve goods handling capacities and to provide economies of scale with handling and transit costs, infrastructure capital costs, and running expenses. Goods moving to and from the interior often spend more than half their total DTD transport times and cost on the inland movement to/from the coastline. Trade and marketing are such that a considerable proportion of foreign trade total transport costs are incurred in the domestic leg (for example, cost added to coffee in Côte d'Ivoire from producer to FOB port is about 170 percent; to cocoa, about 60 percent).

2.10 This means that developing countries efforts and investment must switch from the ocean side to the promotion of the transport intermediaries professions, to surface transport, and to facilitation of trade logistics.

2.11 The transport intermediaries usually perform complementary functions under one sole business entity. These functions are: ship agency, customs agency, stevedoring, port handling, and freight-forwarding. The importance of transport intermediaries in developing countries competitiveness is exceptional if compared with that of developed countries. Surface transport systems —road, rail, and inland waterways— are often weak and unreliable. Customs formalities, commercial procedures, and transit logistics are complex and inefficient. Communications are poor. Transport intermediaries at ports of entry and destination are the only secure beacons offering service and liability for cargo in transit; their follow-up and control of surface inland transport are essential.

2.12 From the perspective of ownership, transport intermediaries in developing countries fall into three main groups. The first group is *national parastatals*. The notions of profitability and efficiency are often foreign to these bodies, which largely survive as parasites of the transport chain, often with the help of local Shippers Councils or through subsidies. The second group is *private sector multinational* transport groups with locally registered companies or joint ventures. The management of these companies is, to a large extent, foreign, and their investment decisions are not always governed by local considerations. These companies control a large share of the developing countries freight-forwarding and clearing business and are ready to invest locally when the commercial, fiscal, and financial prospects are favorable. In spite of this, these companies are at the core of developing countries transport (land and sea). There is no substitute for them, and the future viability of third world trade depends on their staying in business. The third group is *transport enterprises* privately owned by nationals. They are active in ship agency, clearing, forwarding, stevedoring, port handling, and road transport. Although some of these companies can perform efficiently and profitably, their responsibility is poor, their financial situation shaky, their international coverage inconsistent with their trade, and their life expectancy follows the fortunes of their owners. These companies' environment fails to meet financial institutions' expectations, and their capabilities for handling large accounts are simply inconsistent with the requirements of modern trade. However, these companies will determine the future of most developing countries national transport and its contribution to multimodal transport.

2.13 Surface transport systems in developing countries (road, rail and inland waterways) are generally weak and non-competitive at world prices, with a poor service-to-cost ratio. *Road transport* is the domain of the private entrepreneur; it is flexible, and usually offers the best value in the market. Its product, however, the ton/kilometer produced, can be expensive (US\$0.12 to 0.93 per ton/km in Cameroon, as an example (against US\$0.07 to 0.09 in France and about US\$0.02 to 0.03 in Pakistan), and between US\$0.20 and 1.00 per ton/km in Mozambique and Angola. Its cost is related to high fiscal charges on inputs and

low vehicle utilization (both in terms of kilometers per year —about 35,000—and load factors —50 percent loaded kilometers per round trip). *Rail transport* is generally cheaper, but consumes substantial government subsidies and is unreliable and slow. Rail transport parastatals are thoroughly uncompetitive (CFCO in Congo or Pakistan Railways, as examples). They fail to offer security to cargo transported and, through their failure, suffer from the inroads of the more flexible road transport entrepreneurs. *River transport* survives generally in captive market conditions (for example, ATC in Congo and SOCATRAF in Central Africa), is often uncompetitive and therefore heavily subsidized, and its future will depend on the availability of roads to reach landlocked areas. Yet, in general, inland water transport cost is cheaper than other modal costs, but tariff/cost studies show how deceptive tariff prices are when compared to costs.

2.14 In this bleak scenario of inland surface transport it is becoming increasingly important for shippers to control cargo from origin to destination under one responsibility. Large container lines and multinational freight-forwarders are making inroads in this area, backed by strong customer demand. They are seeking control of the land side transport links and seaport interfaces through their agency affiliations. Containerization is therefore extending the shipping lines' potential control of cargo flows from beyond the seaports to the points of cargo origin and final destination, bringing in the DTD concept, under coverage of a DTD document, to international trade. The basic notions behind the DTD concept are the following: one multimodal contract carrier, either a "Non-Vessel-operating-Common-Carrier" (NVOCC) or a "vessel-operating-common-carrier" (VOCC); one document, the DTD or similar private document; one sole responsibility for loss or damage; one sole insurance coverage (whenever feasible). The competitiveness of multimodal transport operators is the result of financial liquidity, rather than unit price per segment (origin service, ocean voyage, destination). Their pricing rules follow a "risk management policy" based on customer profile (financial weight, payment habits, volume, origins/destinations, etc.) within the margins of regional competition. They try to secure the lowest possible rates from subcontractors based on volume, and can afford substantial rebates to users.

Trade Competitiveness

2.15 Documentary credits are the common commercial instrument on international transactions, and their confirmation by a bank or financial institution is subject to the timely reception and interaction of shipping, transport, and customs documents. These documents are, therefore, an essential part of the trade transaction, and the financial viability of the commercial operation depends on their accuracy and timing. Experience in African ports for example, shows that shipping documents late arrival, in particular the ocean bill of lading (B/L), is one of the main reasons for cargo immobilizations at ports; the cost of immobilizations may account for over 50 percent of the cost of a foreign trade transaction, and the cost of a foreign trade transaction may reach 70

percent of the cost of the product on average value commodities (Colombia, Nepal, Mozambique, Angola, Côte d'Ivoire, Chad).

2.16 While the operations of foreign trade usually require suitable equipped infrastructure and good management of equipment, the institutional environment, which is the pre-requisite for receiving and expediting cargo, is usually less-than efficient. The complexity of documents, customs procedures, and institutional interference in the port of Abidjan, for example, creates a gulf of inefficiency between the container terminal and the port gate (a half-day transit time by normal standards which can be as long as 20 days depending on handling agent). Such an institutional environment makes developing country ports uncompetitive.

2.17 Less-than satisfactory performance on trade competitiveness leads to unsatisfactory participation of developing economies in the potential benefits of the through movement of their imports and exports, the so-called "non-factor-services" (NFS). At present the financial benefits usually associated with transport, shipping, and insurance on world trade accrue mostly to developed countries. The main factors contributing to this situation are: the competitiveness of the transport and shipping management systems of these countries, their international coverage, their ability to respond to and be liable for cargo in transit, and the backing of financial institutions and insurance agencies. If developing countries must have access at a profit to the exclusive club of international transport and insurance (and to its financial liquidity), they should *first*, render competitive and viable their inland transport services and transport intermediaries professions; *second*, facilitate at the local level the institutional environment of trade and transport. These two factors are considered essential to the growth of local enterprises in freight-forwarding and, as a result, to the access of developing countries to international transport network coverage and revenues.

Need for Change in Multimodal Transport Directives

2.18 The consequence of this is to press the need for a general change in policy directives in the transport and trade sectors. Whereas the reliance on national shipping lines has proved an expensive venture, development of feeder services, shipping consortia, and of land side services may allow developing countries to move a step forward by offering DTD services, operating as NVOCCs, therefore, extending agency ramifications to their trading partner countries.²³ Increasing emphasis on management of DTD services and container services (light on capital investment) as opposed to ocean transport (capital intensive), is emerging as a feasible alternative, bringing with it the double benefits of (1) penetrating the complex financial market of DTD transport, (2)

²³ This is evident in the experience already acquired in Asia, where Korea, Taiwan, and Malaysia have advanced to act as principals for transport undertakings.

allowing capital investment in land side infrastructure, surface services, and institutional facilitation.

2.19 This change in policy directives should also lead to a more equitable distribution of roles (which may otherwise be forced upon developing countries): the traditional shipping lines (in consortium with domestic lines) would concentrate their activities on the ocean transport where they are highly efficient; the domestic transport industry would concentrate on multimodalism, feeder services, and inland transport where there is an urgent need for competitiveness.

2.20 As a result, the cost of transporting goods will not have to be penalized by the additional cost of inefficiency in procedures and handling (as it happens at present) and by higher insurance premiums. On the other hand, the financial burden of putting adequate physical infrastructures in place could be shared with the private sector and receive the support of financial institutions, international agencies, and bilateral aid.

2.21 It can be argued that international users, shipping lines, and multinational operators will be among the primary beneficiaries of infrastructures owned and financed by developing countries. This is true; but while capabilities to serve international trade develop, this must be regarded as a trade-off for the essential service of transporting goods at competitive prices.

2.22 Concerning the future prospects for parastatal enterprises mentioned earlier, various African governments (Nigeria, Ghana, Mozambique, etc.) have already begun privatization programs for their transport industries. These include ports, national shipping lines, railways and road transport as well as forwarding and freight-handling agencies. These policies could bring about the following benefits: revenue from the divestiture; greater efficiency from new operators; and phasing-out of subsidies to loss-making entities.

2.23 The locally registered multinational forwarding and clearing agents will be among the first parties interested in the divestiture and will be ready to purchase the parastatal's assets as well as seek management contracts in the enterprises which remain. While keeping an eye on competition, governments should not be too concerned with new trends in multinational trade expansion, provided costs are brought down and investment code procedures are respected. One look at the developed countries financial scene in Europe or the United States should be enough to convince governments that international finances and trade are not governed by pride, but by an intricate network of commercial interests where participation of the developing world is not only welcomed but needed.²⁴

²⁴ The two last main US flag carriers (Sea-Land and American President Lines) — remaining from what was once one of the biggest merchant marine fleet in the world — are ready to

2.24 Regarding the third group of companies, the local companies, some of the larger private concerns may be able to take advantage of the privatization programs by acquiring ownership or substantial interests in the new organizations resulting from the sale of assets. For these companies, financial aid should be made available. Smaller companies, however — will follow the same trends as their counterparts in developed countries: get efficient or phase out. To increase their know-how and efficiency, however, these companies should benefit from professional training programs and financing from international financial institutions.

2.25 In conclusion, the risk of a widening gap in trade and transport competitiveness between developed and developing countries is real. Developing countries' failure to modernize and set policies in the right direction may reap future results of deteriorating efficiency, poor competitiveness, and falling market values of export commodities.

FACILITATION ISSUES AND TASKS

2.26 Four main issues need special consideration since they affect foreign trade in many countries and at all levels; these issues are:

- customs malpractice
- integrity of DTD transport provisions and equipment
- reform of the ocean bill of lading.
- reform of the documentary credit system

Each one of the above issues can be considered as a self-contained task which should be tackled at international level. These issues are examined below.

2.27 *Customs*: Documentary credits, bills of lading, and DTD transport operations pose technical problems. customs malpractice is a completely different issue, with broad political, social and economic consequences. It may well be the greatest single factor in preventing, delaying, or limiting international trade expansion by many developing countries. It is certainly the least publicized or discussed. The key facilitation problem is not the danger to effective controls posed by practices in which irregular payments can move goods through the strictest regulatory systems, or the extra unofficial charges levied on innocent as well as fraudulent traders, but rather the logical obligation to maintain unnecessary complexities and foster endemic delays for the general run of consignments, so as to justify bribes for exceptional simplifications. Officials often point to the extremely low official incomes in customs services in most developing economies and cite the enormous knock-on effects of the

take a flag of convenience (Panama, Honduras, Liberia) to avoid operational losses in a US-non competitive environment (fiscal and labor).

additions to customs salaries required to offset the loss of irregular levies on traders. The substantial sums, bled off from international traders, must be recovered from buyers and so inflate prices and/or reduce profits. The national ability to compete in overseas markets suffers.

2.28 Customs corruption can also tend to oppose or delay computerization. In one Asian country expensive equipment for a shift to automation lay unused for several years, while senior customs officials, seeking to maintain notoriously irregular practices, argued with their Ministry that keyboards were demeaning to manhood and that the disappearance of requirements for multiple signatures — convenient points for soliciting improper payments — would entail enormous losses to the revenue.

2.29 The approach to this problem should be political, practical and technical. *Politically*, the World Bank and UNCTAD should publicize and support the need to reconcile strengthening controls with increased trade facilitation. customs corruption must be identified as a major obstacle to progress on all these fronts. The good offices of the World Customs Organization (WCO) should be sought, to sensitize customs administrations, worldwide, to the need for prompt effective action. *Practical measures*, would include using bilateral customs cooperation to replace commercial pre-shipment inspection agencies, a consideration of the role of inter-Customs agreements for mutual assistance, and possible means of replacing illegal Customs income by alternative methods of payment having no associated ill-effects on procedural efficiency. *Technically*, the introduction of telematic systems for the preparation, control and processing of international transit data, must be supported and financially encouraged. Introduction of electronic data processing programs for Customs has often been undertaken without enough technical training of local staff, or without adequate funding for a long-term undertaking. The importance of this specific issue *warrants a coherent approach from multilateral lending agencies to strict conditionalities which would preclude funding of projects if no specific and decisive action is taken.*

2.30 *Integrity of DTD transport:* There are still many developing countries where the potential benefits of multimodal transport have not yet been appreciated. The United Nations Convention on International Multimodal Transport of Goods may have suffered from having been closely associated with the Hamburg Rules. The MT Convention in fact is a well-balanced set of rules which go a long way towards introducing a uniform level of liability where several modes of transport are used in succession. However, the real problem for many developing countries seems to be an inability for them to come to grips with the potentials offered by multimodal transport.

2.31 Outdated exchange control regulations still demand documents evidencing costs on an FOB or CIF basis. These terms of trade are inappropriate for DTD movement, where DTD transport documents should only need to show origin-destination freight charges. Many customs administrations still operate superficially comprehensive inspection of containers at ports. Opening

containers here, instead of at the point of packing or unpacking, destroys the whole concept — and most of the advantages — of DTD transport. The integrity of the container is completely breached. Contents are even more open to damage and theft during inspection and subsequent handling than conventional general cargo because of their lighter packing and protection, one of the major advantages of containerized transport. Modern container stuffing methods are now so specialized that, once a container is breached and items are extracted for inspection, Customs or port/transport staff are often unable to replace all its contents.

2.32 As import regulations often treat the container as a dutiable article, such crude inspection procedures may well oblige the trader to handle and clear three separate entities — the container, its remaining contents, and any left-over items. This is much more onerous than importing conventional general cargo consignments. Truly comprehensive inspection of containerized imports at any major international port is bound to stop that country's maritime trade in its tracks.

2.33 *State-owned transport monopolies*: Experience over the last decade has shown that state-owned transport monopolies may not be the most efficient way to assist the trade of a country. Consequently, developing countries should be encouraged to promote private transport companies, be they shipping companies, trucking companies or railways. In addition, maritime and road transport monopolies often seal off developing economies from the natural growth of domestically based DTD transport enterprises. At the same time, forwarders and agents, able to make satisfactory incomes from dealing with completely outmoded customs systems, have no incentive to move to new responsibilities as non-vessel operating common carriers (NVOCC) — a transition which has been a dynamic feature of the international trading scene in most developed countries.

2.34 This issue is intimately related to the inability of some customs administrations to discharge their tasks, but is also related to the comfortable status of multinational/multimodal carriers who do not want freight-forwarding companies in developing countries cutting into their profitable business. *What is needed is a massive information program directed to emerging freight-forwarding and public officials in developing countries outlining the issue in plain language, followed by adequate funds for training.*

2.35 *The Ocean Bill of Lading*: By legal definition, this is a negotiable instrument. A shipping line or container operator issuing such a bill and handing the consignment to which it relates to anyone other than the holder of an original "copy" of the bill is directly responsible to such a holder. One result is that the document — and so associated procedures — are not amenable to electronic transmission. This problem also surfaces in any attempt to automate documentary credits in which a bill of lading is a required document.

2.36 Apart from automation, however, the bill of lading procedure is a constant source of delay and complication in a conventional manual

environment. The need to transport, process, and present a particular piece of paper in order to obtain possession of imported goods presents special difficulties as the speed of movement of those goods accelerates, and groupage container consignments grow in number and volume. Customs, port managers, banks, and other intermediaries, as well as consignees, are all operating with diminishing time-frames under the pressures of modern, integrated supply, production, and delivery systems. They need to be able to prepare for physical handling operations, clearance, and associated payment procedures in advance of the arrival of the goods on the basis of information contained on what may often be provisional documents.

2.37 Computers and telecommunications can meet most of these practical needs for advance information, but release of goods will still be delayed as long as there is an official or commercial stipulation of a negotiable bill. Many developed countries have turned very largely to non-negotiable sea waybills or to DTD transport documents, which, like air waybills, are simply evidence of a contract of carriage and a means of identifying the goods to which they relate. The carrier discharges his responsibility when he hands the goods to the person or organization named on the document.

2.38 There are great operational advantages in the use of sea or waybills wherever possible. UNCTAD should consider, in consultation with the ICC and commercial organizations, how to extend and promote the use of sea waybills and multimodal transport documents. *The volume and justification of current continuing use of negotiable bills should be examined and appropriate action to discourage unnecessary use agreed upon and implemented. UNCTAD is supporting the ECE Working Party's efforts to devise and implement an internationally acceptable system of a unique transaction identifier.*

2.39 *Documentary Credits:* The documentary credit payment system should undergo radical review for two reasons — to reduce the use of this very cumbersome and complex procedure to an absolute minimum and to ensure that, in unavoidable residual uses, it operates with maximum efficiency. The basis of the system is a series of checks in which the progress of the goods towards the buyer is pinned to the progress of payment to the seller (see Boxes 2 and 3 in Chapter I). The process is supervised by banks, responsible to each party. These banks are concerned only with a sale/purchase of documents and are unable, or unwilling, to check more than the *prima facie* quality of these pieces of paper. The process is time consuming, requires physical movement of documents between as many as four banking establishments, in two different countries and is little understood and badly managed by many users. It is a cause of chronic delay to goods, means of transport, and money.

2.40 There are no indications of the extent of use, genuine commercial need, efficiency or exchange control needs of the system, but a sample carried out by

"Simpler Trade Procedures (SITPRO)²⁵ suggests that almost half of all initial requests for paying banks for settlement are rejected on grounds of documentary inconsistencies. The system is an open invitation to fraud, but there is no data of the revenue accruing to banks or the proportion of that revenue attributable to dealing with documentary errors and delays.

2.41 The documentary credit regime is administered through a set of internationally standard conditions and definitions, interpreted and regularly updated by the Banking Commission of the ICC. UNCTAD is participating in meetings of the "Joint Committee on Electronic Trade Payment Systems. Its basic objectives: are "to explore ways of developing a viable electronic alternative to existing systems of payment in international trade in order to better meet the requirements of modern trading and transportation methods." This review *should include an in-depth analysis of the basic functions of documentary credits to see how many of these could be achieved by electronic techniques and how better use of data bases and other modern devices by banks could help reduce fraud and error in those documentary credit functions which cannot be performed electronically.*

2.42 *General facilitation task:* in addition to the four main tasks mentioned above, there is a real danger for developing countries, of a sudden, unprepared shift from manual to automated methods of handling, without radical reform of underlying commercial and official procedures and practices *before embarking on extensive computerization. If developing countries omit these reforms they will embalm outdated practices and primitive information flows in very expensive computer systems. If these are official systems, which can make legal demands on business, then these electronic inefficiencies will be passed on and multiplied.*

DISECONOMIES IN LOGISTICS MANAGEMENT

2.43 A number of studies carried out by the World Bank highlight the interaction between infrastructure, logistics and cost and point to the diseconomies in logistic management arising from institutional and operational deficiencies.²⁶ An overview of the main cost conclusions of the Philippines Competitiveness assessment has already been provided in Box 4 (paragraph 2.8). A summary of the findings of the Mali and Zaire Studies is contained in Box 5 and Diagram 2 (Mali), as well as in Box 6 and Diagram 3 (Zaire).

²⁵ United Kingdom Government inquiry into the Simplification of International Trade Procedures (1970).

²⁶ Sub-Saharan Transport Corridor Studies 1989-1990 (Burkina Faso, Mali, Niger). Zaire, Facilitation of Transport and Trade, May 1991. Côte d'Ivoire, Facilitation of Agricultural Exports, July 1993. UDEAC, a Program of Transport Policy Reforms, March 1993. Philippines, Competitiveness Assessment, 1992. Nepal, Multimodal Transit and Trade Facilitation, 1994.

2.44 The Mali study shows typical land-locked country's transport costs with a total transit cost of roughly 5 percent of GDP, and land transport (30 percent of total transit cost) almost equal of magnitude to ocean shipping (37 percent of total transit cost), or about 2 percent of GDP. The immobilization time in transit while cargo goes through arrival port and Customs procedures on imports consume between 29 and 45 percent of total time from origin to destination, depending on the entry port; the total cost of immobilizations of goods in transit is estimated at about 0.8 percent of GDP.

Box 5: Mali

It is estimated that in 1987 the total direct generalized transport costs (including ocean shipping costs) for 337,000 tons of goods to/from Mali were approximately US\$ 100 million. The total economic cost for Mali for this transit traffic was roughly 5 percent of the estimated GDP for 1987. Payments to other countries for the transit traffic totaled US\$ 48 million, approximately 50 percent of total direct costs. To obtain a significant reduction of the direct cost of transit traffic and of payments to other countries, Mali should attempt to reduce the total transport costs for its imports and exports. A reduction of 25 percent of the present conference rates by using a combination of non-conference and tramp shipping, would reduce the transport bill by 10 percent and the payments to foreign countries by 18 percent. These results highlight the importance of controlling freight rates and suggest that Mali should attempt to take as much advantage as possible of the non-conference shipping market. Moreover, an analysis of the composition of total generalized costs of imports to Bamako originated in the Atlantic seaboard of Europe suggests that ocean freight rates represent 33-37 percent of the cost per ton while land transit costs and port charges account for 30-33 percent and 6-9 percent respectively. Delays in ports and terminals due to low productivity and slow Customs clearance and red tape add to 29-45 percent of total time from origin to destination and are longer than the sea leg of the movement which represents 29-36 percent of the total time, depending on the seaport chosen. The analysis of the composition of the total transit time is necessary to identify major bottlenecks and estimate the inventory costs incurred within the movement. The latter reflects the inventory financing costs to the consignee, since the capital invested in the imported goods en route could be earning interest elsewhere. In the case of Mali the inventory costs estimated at a 10 percent interest rate ranged from 7-8 percent of total costs.

2.45 The Zaire study shows costs related to the full DTD of transport operations (ship, rail, barge, rail and road for cargo traveling to Eastern Zaire, for example) which are typical of the country. Domestic transport cost represents 19 percent of total transit cost and are higher than ocean shipping (15 percent of total transit cost). The financial cost due to immobilizations in transit is extremely high (24 percent of transit cost), and the cost of bank transactions, government controls and informal payments (8 percent, 3 percent, and 1 percent of total transit cost respectively) is high; the last three percentages point to a thriving informal economy. The cost of this informal economy is difficult to measure, but it can be estimated to originate fiscal losses of the order of US\$400 million in foregone taxes and Customs fees.

Diagram 2. Mali Imports (1987)

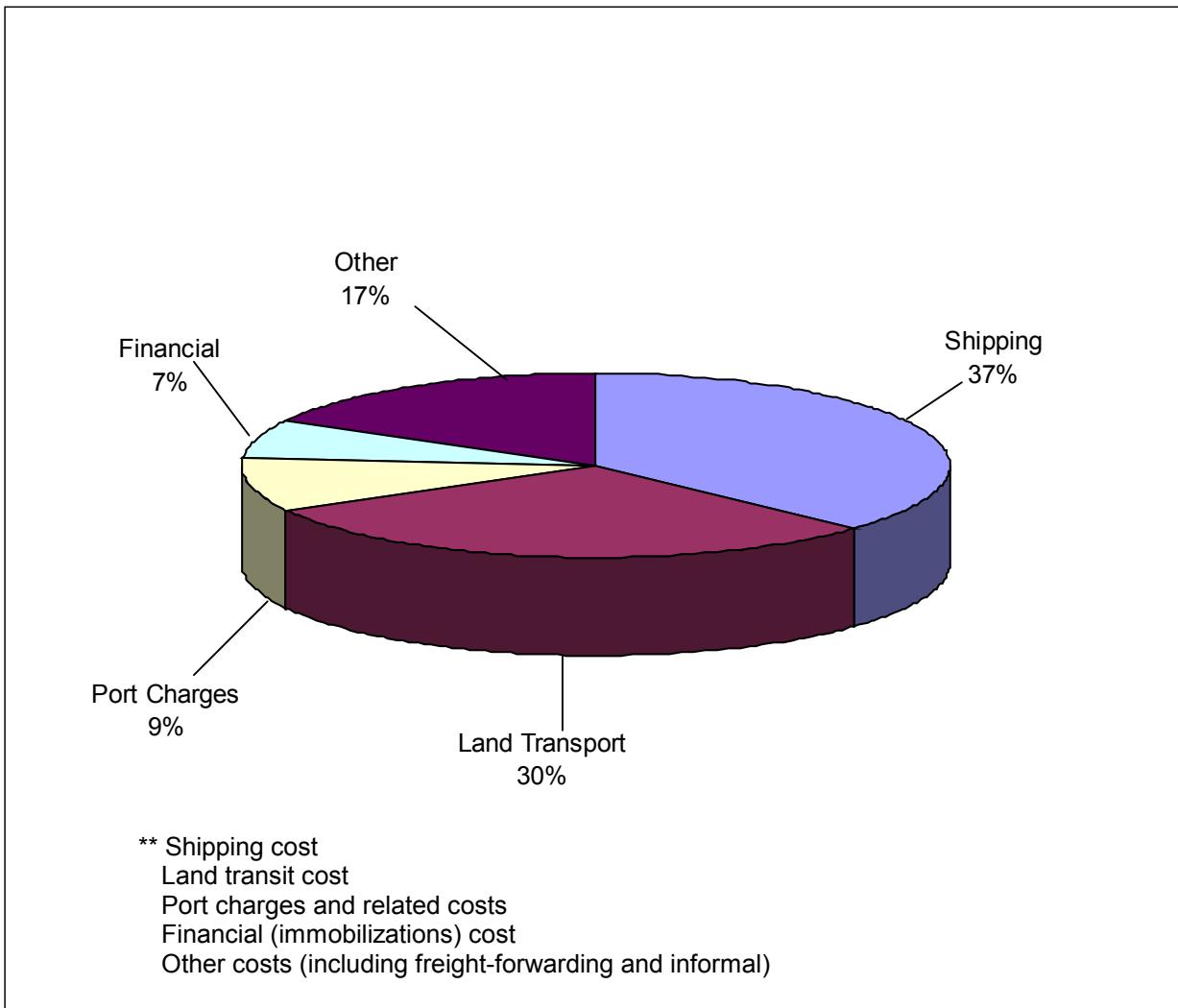
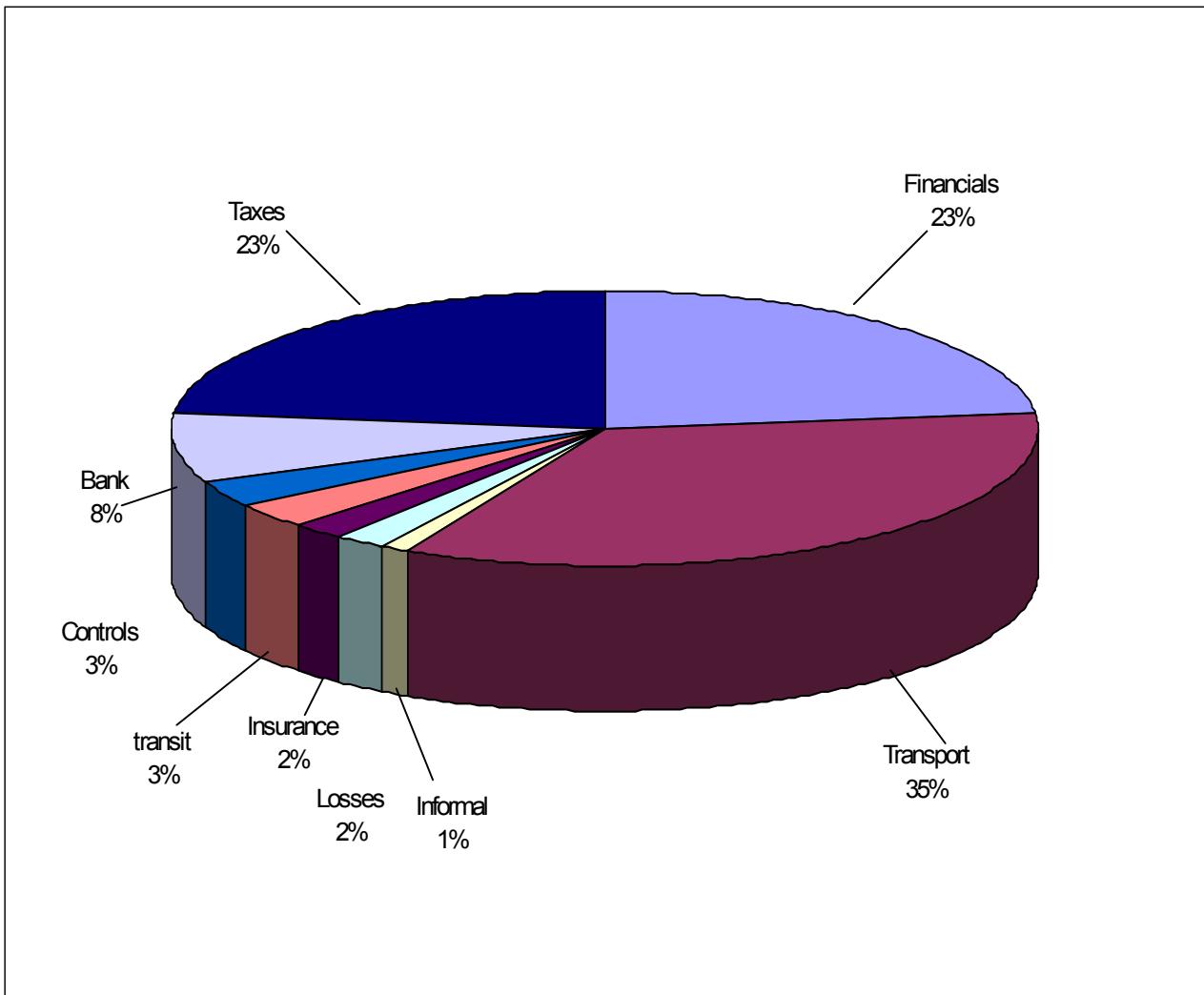


Diagram 3. Zaire Foreign Trade (1989)



Box 6: Zaire

In the case of Zaire, the cost to the user (direct expenses and capital costs) for imports delivered to Kinshasa (Kinshasa wholesale price) is a weighted average of the order of 1.8 times the price at source (3.1 times in the case of motor fuel). On exports, the average is 1.3 times the original cost, but the spread is considerable: the CIF Europe cost is 1.2 times the production price for copper; 1.7 times for lumber; and 2.8 times for coffee. These figures are approximate.

Nevertheless, a comparison with Mali, a land-locked country, shows that the cost of transit in Zaire is 2.1 times higher.²⁷ The difference between the total value of Zaire's foreign trade at the point of origin and at the destination is around 1.7 billion dollars, which is collected by the carriers, Customs (duty tax payments), and the various intermediaries. This amount is evenly divided between physical transit, duties and diverse charges, mainly financial. Transport accounts for US\$ 586 million (34 percent), of which US\$ 258 or 15 percent goes to maritime transport; overland transport costs (US\$ 328 million) are thus very high (19 percent), reflecting the inadequacy and limited productivity of the infrastructure and equipment, plus the cost of overland forwarding. Financing fees and immobilizations cost US\$ 407 million (23.5 percent), because of the slow transport and formalities. The tax collector takes US\$ 398 million (23 percent); banking charges (licenses, obtaining foreign exchange) are heavy (US\$ 141 million, (8 percent). Losses and damage, which are very extensive in the case of items in great demand (beverages, fuel, etc.) account for US\$ 42 million (2.4 percent); insurance for 41 million (2.4 percent); and the various agencies responsible for controlling cargo, weights and measures, quality and the like for US\$ 59 million dollars (3.4 percent). Freight-forwarding costs come to US\$ 49 million (2.8 percent), and the informal payments to ease relations with public services are around US\$ 11 million (0.65 percent), although this figure is believed to be underestimated. The informal costs are very unevenly distributed, and are much heavier in the case of imported goods. They reflect fraudulence, whose impact on public finances is greater than on transport costs. The foregoing figures are average for Zaire, but the order of magnitude is confirmed by the corridor studies mentioned in paragraph 2.31.

The parallel exchange market costs the Zairian State about 400 million dollars a year in foregone taxes and Customs dues. As in most African countries, trade is financed on the parallel market by means of interest rates higher than the official rate, but the speed of the informal market makes this second market a good alternative to the slower workings of the official market. The macroeconomic impact of the informal market is not known. Exchange control makes it necessary to deal with a small number of approved banks and with the central bank. Since there is no real competition, the fees charged by both are high.

2.46 The Nepal analysis (Box 7) shows an increase of 28.83 percent over and above invoice price FOB factory for containerized cargo from Osaka through Calcutta port, to Kathmandu. The main cost items are 9.43 percent for ocean cargo and related charges, 6.85 percent for port and related charges in Calcutta, 10.19 percent inland transport *in containers* to Katmandu, and 3.48 percent financial cost of immobilizations en route (24 days out of a total of 45 days). The paradox of this analysis is that if the same cargo is de-containerized in Calcutta port and transported in bulk to Kathmandu, the land transport savings are substantial (2.83 percent for bulk against 10.19 percent for containers). In this case, the container, which is supposed to facilitate and save overall transport costs, becomes a beast of burden in an unfriendly environment where Customs procedures, handling equipment, and road transport practices are not designed

²⁷ Imports from Mali: 1.14 times FOB Europe. Exports 1.29 times the cost of production (le cas du Mali, février 1989).

for this use. In the Nepal case, the potential savings through facilitation of procedures and handling methods are estimated at around 7 percent for non-containerized and at about 13 percent for containerized cargo.

Box 7: Nepal

Import Product	Cost %	Cost Accrual %	Accrued Potential Savings %
<i>Containerized zinc coils from Osaka to Calcutta/non containerized to Kathmandu</i>			
1. Value FOB origin port	0	-	-
2. Value CIF Calcutta	9.43	9.43	-
3. Value FOB port-gate Calcutta (non-containerized)	6.85	16.28	6.16
4. Value C+F Kathmandu (non-containerized)	2.83	19.11	6.94
5. Financial cost (immobilizations en route)	3.48	22.59	-
<i>Same product containerized to Kathmandu</i>			
4. Value CIF Kathmandu (containerized)	10.19	25.35	13.27
5. Financial cost (immobilizations en route)	3.48	28.83	-

Note: Accrued potential savings include reduced handling costs for containers at Calcutta port, reduced transport costs for 2 TEU's on truck and trailer, reduced insurance premiums and reduced handling cost in Kathmandu (services non-available at present at cost-effective prices).

RATIONALE FOR SECTORAL REFORM

2.47 With such important diseconomies in transport and trade logistics, it becomes clear that adjustment of the deep structural problems affecting national transport must start with the policy environment. At present, the Bank is trying to enhance the benefits of structural adjustment. In the field of transport, the components of the structural adjustment process address the reorganization of public enterprises, improved planning and choice of investments, policy conditionalities, etc. But the above components are not strategic enough to provide an in-depth reform of the transport policy and of inducing the facilitation process. The rationale for policy reform in trade and transport logistics should address mainly the reduction of costs. *It should be a genuine structural adjustment strategy aimed primarily at facilitating institutional procedural and logistic bottlenecks contributing to cost. This is the strategy of facilitation.*

2.48 The rationale proposed for a strategy of facilitation is as follows:

- development of an economic approach to the state's role in the field of transport, designed to eliminate the pure economic rent;

- reduction of the duration and costs of the logistic process;
- modernization of the process and development of containerization;
- restoration of the state of law;
- assignment of responsibility to operators and users;
- limitation of the functions of government offices to oversee service policy, not their own equity interests;
- elimination of public and private predators, including the struggle against excessive red tape and unlawful assessments;
- phasing out informal economy practices through their absorption into the formal economy
- an equitable business climate.

2.49 The means for implementation this strategy should be:

- policy means: implementation of the concepts of trade and transport facilitation;
- juridical means: legislation and regulation;
- institutional means: changes in the structure of public and professional agencies;
- administrative means: changes in public administration working methods;
- human means: training and performance motivation;
- material means: increased availability of information on systems and training;
- financial means: through ad hoc lending operations specifically designed to induce structural change.

2.50 Formulation of a Bank policy on facilitation should aim at creating conditions for bringing logistics to cost-effectiveness and rationality. Institutions responsible for finance, foreign trade and transport should participate —along with representatives of the operators and users— in the formulation of this general facilitation policy. The components of the proposed facilitation policy would be as follows:

- reduce the number of institutions which interfere with transport and Customs procedures;

- draft and pass laws containing transport and trade directives that would define:
 - * the terms and conditions of transport and the environment under which it operates;
 - * the resources to permit the financing of the investments, operations, and maintenance of the transport system;
 - * the respective roles of the various agencies responsible for regulation, on the one hand, and transport services, on the other;
 - * the principles of liability applicable to transporters, aside from those of common law;
 - * the rules governing private enterprise and intermediaries in the profession;
 - * the policy in respect to international transport law; and
 - * the role of the different modes.

3. UNCTAD EXPERIENCE IN TRADE AND TRANSPORT FACILITATION

3.1 UNCTAD has played an entrepreneurial role in the development of the international transport policies of developing countries through its work in the fields of shipping, ports, multimodal transport, maritime legislation, and trade facilitation. This work, which has a variety of origins, and has been carried out by different parts of the organization, is described in the following paragraphs.

LAND-LOCKED COUNTRIES

3.2 Since the mid-1970s UNCTAD, through its division dealing with land-locked countries, has offered technical assistance to help these countries and their transit neighbours intensify their cooperative arrangements for the development of transit infrastructures, institutions and services to facilitate the faster movement of goods in transit. The bed rock of this cooperation is secured access of land-locked countries to and from the sea without in any way infringing upon the legitimate interests of transit countries. The scope of UNCTAD's work covers 29 developing land-locked countries of which 16 are in Africa.²⁸

3.3 The legal framework for cooperation between land-locked countries and their transit neighbours differ a great deal, in terms of the nature, scope and content of interests. In general, bilateral, regional and international accords have been used, singly or in conjunction. In Africa, regional integration groupings (ECOWAS, UDEAC, COMESA, SADC) play a major role in promoting regional standards, procedures, documentation and practices designed to facilitate faster movements of goods in transit. In other regions, bilateral agreements or arrangements determine the parameters of transit transport.

3.4 Priority areas of work where achievements have been made include:

- assistance in negotiating and/or implementing bilateral and regional agreements and arrangements;

²⁸ For example: (a) "The Northern Corridor Transit Agreement" (NCTA) in East Africa. Under the NCTA a bond has to be established in each transit country to protect customs administrations from loss of revenues in case of freight diversion or loss. (b) The international transit agreement for Bolivia through Peru and Chile.

- the streamlining and harmonization of documentation and Customs procedures;
- assistance in implementing policies and procedures to reduce transit costs;
- assistance in institution building and human resource development in the transit sector.

3.5 On the contrary the major factors which have stood in the way of transit facilitation efforts have been: 1) political instability, 2) economic decline, and 3) inadequate technical assistance resources. Political tension between neighbours along a transit corridor or internal strife affecting one of them has stymied progress and in some cases unraveled cooperative arrangements. In times of economic decline and difficulties, parochialism and inward looking behavior surface and tend to thwart regional initiatives. This manifestation is popularly referred to as lack of political will. Finally, lack of sufficient technical assistance resources leading to inadequate project follow-up and supervision of implementation of agreed measures by Governments and/or transit operators has also been a major stumbling block. The current trend in Africa towards political and economic reforms could pave the way for greater success in technical assistance delivery provided adequate resources can be mobilized.

TRADE EFFICIENCY

FALPRO and ASYCUDA

3.6 Since the late 1960s UNCTAD has provided active support to the development of trade and transport manual documentation through the work of "Emergency Recovery and Reconstruction Project" by its Special Program for Trade Facilitation (FALPRO). FALPRO is dedicated to the simplification of procedures and facilitation of documents following the UN layout key standards for internationally accepted trade and transport documents. FALPRO programs, which encompass computerized and non-computerized activities are an essential part of facilitation. The FALPRO program of non-computerized activities related to the simplification and harmonization of trade formalities and procedures, has been substantially expanded under UNCTAD's Special Program for Trade Efficiency to cover also computerized systems such as ASYCUDA (Automated systems for Customs Data).

3.7 From the early 1980s technology became widely available to introduce automation in customs administrations. The ASYCUDA system was developed to assist in the clearance of goods. ASYCUDA aims at: (a) reducing the administration costs of external trade control activities; (b) helping government to bring about more effective application of external trade regulations leading in most cases to an increase in revenue; (c) accelerating the clearance of goods while maintaining effective control of the flow of goods; and (d) producing timely and reliable data as basis for external trade statistics and

management reports. ASYCUDA is available to UNCTAD member governments free of cost in the framework of an UNCTAD executed technical assistance project. These projects may be financed by bilateral, multilateral or other donor agencies (UNDP) or through government cost-sharing, to cover the cost of technical assistance with an estimated duration of about 30 months, which includes technical assistance for Customs and electronic data processing (EDP) experts, a large training program, and equipment. After initial teething problems the software is now running smoothly and is an excellent tool for reform and automation. UNCTAD has designed and developed a new version which incorporates the latest developments of information technology, further enhancing functionality and adaptability. This new version includes facilities for electronic data interchange using "Electronic Data Interchange for Administration Commerce and Transport" (UN-EDIFACT) rules and syntax. This is the most recent product of the UN/ECE Working Party on Facilitation of International Trade and Transport Procedures and is meant to rationalize paperwork by means of abbreviated paperless documentation which could be transferred through EDI from one business partner to another. UN-EDIFACT, which is constantly being reviewed and enhanced, has been adopted by the ICC for international L/C transactions.²⁹ ASYCUDA has brought substantial improvement to many countries' administration, Customs, and transport. In some cases, however, due to lack of political commitment to the reform and automation process, progress has been slow and the implementation has failed. A brief evaluation of three of the programs currently available in French-speaking West Africa (ASYCUDA in Mali, GAINDE in Senegal and SYDAM in Côte d'Ivoire) is enclosed in Appendix 1.

3.8 The shift of interests and resources from documentary and procedural reform to telematic techniques has been spectacular within UNCTAD. There were important constraints to the initial progress of the manual work of FALPRO. Work could only be undertaken in response to requests from governments. These requests did not always come from the economies best able to benefit from available resources. Funding was meager. The central FALPRO staff never expanded beyond half a dozen experts. Some fifty countries waited for attention, and without the understanding of financial institutions, it was impossible to carry out sustained activities in one given country until results were satisfactory. Despite these difficulties, the small group of FALPRO experts provided substantial returns on very modest outlays by ASYCUDA. From 1987 FALPRO took over responsibility of the ASYCUDA project which substantially increased the human and financial resources of the program. However, at the same time the work load dramatically increased through the massive demand for ASYCUDA.

²⁹ The possibility of transmitting freight-forwarding, commercial, and shipping documents (in particular the shipping manifest on international freight shipments) by EDI communications is extremely relevant here: Recent facilitation studies in Côte d'Ivoire show that the processing of shipping manifests at West African ports contributes to major revenue losses. Despite these difficulties, results have provided a substantial return on very modest outlays. Simplified export documentary systems, aligned on the UN/ECE lay-out key, have been introduced in some thirty countries. Most of these countries have set up facilitation committees, which have not only widened reforms beyond documentation, but also provided a convenient focus for continuing contact with UNCTAD.

Today, every new ASYCUDA project includes provisions for traditional trade facilitation activities.

3.9 A real danger now exists for developing countries, of a sudden, unprepared shift from manual to automated methods of electronic handling, without prior radical reforms of underlying official procedures and practices. If developing countries omit these reforms they will embed outdated practices and primitive data flows in very expensive computer systems and programs.

Trade Points

3.10 In February of 1992 at UNCTAD VIII in Cartagena de Indias in Colombia the Trade Efficiency Initiative was presented by the Special Program on Trade Facilitation (FALPRO) to the UNCTAD Member States. The Trade Points, which are at the core of the Trade Efficiency initiative, are designed to help the integration of developing countries and small and medium-sized enterprises worldwide into the mainstream of international trade. Trade Points are: (1) trade facilitation centres where all relevant trade-related service providers are present, physically or virtually; (2) sources of trade information; (3) gateways to international networks. Between February 1992 and October 1994 a set of 400 guidelines and recommendations for trade efficiency were prepared by the Special Program for Trade Efficiency, and negotiated within UNCTAD's intergovernmental machinery. These recommendations and guidelines deal with six trade-related sectors: Customs, banking and insurance, telecommunications, business information, business practices and transport. Together with the Columbus Ministerial Declaration on Trade Efficiency, they were adopted by the ministers gathered in Columbus. In transport, the thrust of the recommendations is to encourage the adoption of commercial practices in the transport chain and investment from both domestic and foreign investors.

3.11 The trade point concept could lead to the design of information hubs (Diagram 1 paragraph 1.37) as an integral part of infrastructure project design for ports or critical transfer points for cargo at a regional level. These information hubs would not only integrate the trade point technology developed by UNCTAD, but would in addition incorporate telematic and other services to the private and public sector. These services, which would be identified in response to needs, would constitute an "information platform" suitable for consideration as a project component in a financial infrastructure package. As such, information platforms could incorporate state of the art technology with other project components and act as a catalyst to development and facilitation initiatives. Appendix 5 contains a description of the concept of an information platform.

ADVANCE CARGO INFORMATION SYSTEM

3.12 As mentioned in the foreword, one of the main objectives of this paper is to advise on how to achieve cost savings by reducing the immobilization time of goods in transit. Any given transport infrastructure, facilities and equipment, if better managed,

can be made to handle more cargo at lower cost. This is the *raison d'être* of UNCTAD's ACIS system.

3.13 In 1984, when large parts of Africa were suffering from an acute drought, UNCTAD launched an initiative to diagnose the existing situation in a number of African transport chains and to identify the obstacles — both physical and non-physical — to improving the flow of cargo. This triggered efforts to introduce logistics management on a more routine basis which, in turn, led to the concept of a system to provide information on the whereabouts of cargo in advance of its arrival at each interface; hence, the title *Advance Cargo Information System*.

3.14 ACIS has four components, each tracking cargo on a mode or interface: port, road, rail and inland-waterway. They in turn have main modules performing different, but inter-related functions, particularly with regard to statistics and performance indicators. A Backbone Information System (BIS) will eventually link the transmission of transport data across national boundaries (1996).

3.15 At the request of users, efforts have been concentrated on developing and implementing the rail and port tracking modules — and, more recently, the inland-waterway tracking module. The road tracking module will follow. A description of the components of ACIS, and the facilities provided by it, appear in Appendix 3.

3.16 The development and implementation of ACIS is currently funded by beneficiary countries out of World Bank loans, IDA credits, the European Commission, or French and German Co-operation funds. RailTracker, the module which tracks cargo on railways, is currently operational on thirteen African railway networks; and PortTracker, the module which tracks cargo in and out of ports, is operational in two African ports. The European Commission is financing a major project to install ACIS throughout Eastern Africa. Discussions are currently being held with donors to satisfy similar requests in Western Africa.

3.17 The benefits of ACIS can initially be quantified on a modal basis as the system is progressively installed on all modes and then interconnected with adjacent countries. But the potential benefits, however great, can be jeopardized by major risks, and UNCTAD's experience shows that great care must be taken to contain these risks. The first is that staff at all levels using ACIS on any mode must be able to use the information provided. Unless senior management takes advantage of the data provided by ACIS to remedy deficiencies and plan improvements, there is no sense in installing the system. Hence appropriate training is vital. Similarly strong commitment from senior management is essential. This way the operator will consider ACIS as a useful tool, and when the time comes for UNCTAD to withdraw, having installed the software and hardware and having completed the training, the users of ACIS will all have to join forces in some sort of institutional framework to keep the system running. If UNCTAD installs an open-system which protects confidentiality of information and the system itself proves its usefulness by providing data which is used to improve the organization of transport, then ACIS will have strengthened logistics management in Africa.

3.18 In keeping with its funding mechanism (strictly donor funding), the development of ACIS has followed a self-contained and separate course which has maintained this product in an independent position when related to other complementary UNCTAD facilitation activities. Within the environment of ACIS itself, the development of railtrackers has followed its own course, but it has not been complemented by the BIS which is in itself an essential part of the ACIS network. The development of portTrackers—an extremely useful module for the capacities it may offer in connection with other ACIS functions, and generally with telematic systems—is now complete.

3.19 ACIS, and within ACIS the BIS, warrant the interest of financial institutions for the contributions it may offer to facilitation. With BIS capabilities and with the possibility of integrating the ACIS system in project design (as part of cost-efficient information platforms with specific regional objectives, as an example) the ACIS system acquires relevance and could make substantial contributions to regional cost savings for transit cargo. It would be important to include the BIS development among the areas earmarked for priority funding, in particular as part of projects with substantial facilitation components, or with regional content.

MULTIMODAL TRANSPORT

3.20 Projects executed by UNCTAD in the field of multimodal transport also cover the promotion of international trade through supporting transport operations. These "Intermodal Facilitation Programs" are designed as catalysts and take advantage of the various expertise within the Services Development and Trade Efficiency Division of UNCTAD. Projects address legal aspects, facilitation issues, and transport operation improvements. They suggest necessary modifications to a particular law, an organizational structure, or a specific transport operation which might improve the overall efficiency of the transport system and, thereby, foster greater trade efficiency.

3.21 The underlying principle is that transport operations can be best performed in the context of multimodal transport. Multimodal transport, a concept which emerged from the "container revolution", has grown very rapidly over the last decade. Although simple in concept, this DTD movement of goods under the responsibility of a single transport operator is currently being conducted almost exclusively by operators from developed countries. Among the reasons for this is the lack of preparedness of governmental and commercial parties, aggravated by a parallel lack of regulations concerning multimodal transport and a poor level of information and/or understanding of the concept and of its influence on national transport capabilities and economies. While there is a growing realization both at public and private levels of the potential of multimodal transport, the situation is not likely to change in the foreseeable future unless a concerted effort is made by the governments and interested commercial organizations (transport users and providers, bankers and insurers) to change current practices.

3.22 Consequently, UNCTAD offers technical assistance to a number of countries, worldwide, through projects which are generally implemented in three phases:

- **First**, the identification stage which comprises a review of the existing situation regarding trade and transport regulations, documents and procedures, the identification of the possible measures to be introduced, the bodies to be involved, and the critical path for consequent institutional reform. This stage will reconcile the various measures on trade and transport already recommended in other projects and will obtain appropriate feedback on possible means for their immediate implementation through the creation of a Trade and Transport Facilitation Committee. All interested parties in international trade and transport, from private and public sectors, will be represented in this Committee. This phase will also prepare for the introduction of computerization of customs data.
- **Second**, assistance in preparation and drafting of new regulations, documents, and procedures regarding trade and transport; proposals to carry out suggested administrative changes through existing or exceptional channels (e.g., the committee mentioned above); preliminary analysis and actions for the installation of the ASYCUDA and ACIS systems;
- **Third**, implementation and execution of proposals on trade and transport formulated in the previous phase, including the installation of computer hardware and related equipment and the initial operation of the ASYCUDA and ACIS systems.

3.23 In Africa, this scheme has already been used in Ethiopia, and is now being used in Mozambique. In Pakistan, current plans supported by government and private sector, call for the preparation of a facilitation program phased in two or three parts, according to needs, as integral to the on-going Transport and Industry Logistics Project of the World Bank.³⁰ In Nepal, a similar program has been identified as part of the World Bank Multimodal Project of 1994. In Colombia, a full program of trade and transport facilitation is being endorsed by government and UNCTAD has recently been approached by ALADI to install Trade and Transport Facilitation Committees in all ALADI countries.

3.24 A more detailed description of a facilitation program is offered in Chapter V.

³⁰ The first phase of this facilitation initiative started in 1989 as part of the World Bank Port Modernization project, continued between 1992 and 1994 as part of a UNDP funded UNCTAD and Shippers Council initiative and should take new form under proposals as part of the Trade and Transport Logistics Project.

4. WORLD BANK EXPERIENCE IN TRADE AND TRANSPORT FACILITATION

BANK EXPERIENCE

4.1 Bank experience on trade and transport facilitation has been mixed. In spite of efforts made by the Bank to substantiate and solve logistic issues, government will and conviction to solve problems of institutional nature has been generally lacking. On the other hand, progress in understanding facilitation issues in the Bank and the borrower's understanding of the meaning and needs of facilitation has been low and slow. A general operational review (GOR) prepared by the Bank's Transportation Department in June 1987 reported:

Operational Review

4.2 *The overall impression of this GOR is mixed. In approaching transport industry development, the Bank has had to deal with a complex network of interrelated issues, impinging on some of the most sensitive policies, and to contend with natural Bank inertia to move from well known infrastructure lending to volatile transport services lending. Treading on such new grounds, the Bank has found no ready parameters to serve as guidance; in delivering its advice, the Bank has had to search for innovative solutions which could accommodate the Bank's lending instruments with the borrower's needs and constraints. The path has not been easy. Yet, the overall Bank effort has been substantial and rewarding. From the present forward and backward perspective, the grounds for developing a coherent (facilitation) strategy now seem quite firm. Before proceeding further it is necessary to take stock of past trends, innovations, and achievements; the following list highlights the innovative trends in which Bank actions have materialized and where achievements can be found:*

- **Deregulation**, including an approach to substitution of public legal interference by commercial practices
- **Privatization**, focusing on such aspects of management and operational activities which can be transferred to the private sector within specific policy environments
- **Use of resources**, both technical (rehabilitation of local resources) and operational (utilization of assets)

- **Documents and procedures standardization and automation**, meaning the manual and telematic simplification in administration which can be achieved within limited fiscal and policy environments
- **Intermodal coordination**, which embodies the departure from inflexible modal systems towards cost-effective pricing and multimodal choices
- **Institutional facilitation**, reflecting country priorities towards easier trade management, including management of "non-factor" (transport and insurance) services on imports and exports
- **Development of freight-forwarding**, reflecting the unprecedented recent growth of "third-party" intermediaries as a result of containerization and communications.

4.3 The GOR, however, found that in terms of lending activity, facilitation had absorbed negligible resources (US\$ 21.5 million up to 1987, or 2 percent of lending for transport operations, excluding infrastructure, Table 4).

4.4 A second review carried-out in 1992³¹ recommends, "[...] given that transit facilitation is a complex, time consuming multi-country undertaking, donors must anticipate that their technical and financial assistance will have to be extended through consecutive interventions over a period not of years, but of decades." The recommendations of this operational review are enclosed in Appendix 4.

Table 4: Summary of Bank Group Lending Activities for Road Transport and Transport Facilitation

1. Summary of Bank Assistance

	AFRICA		ASIA		EMENA		LAC		TOTAL	
	Amount (\$ m)	%	Amount (\$ m.)	%						
Transport Divisions	90.2	84	462.1	83	54	33	15.8	42	622.3	72
IDF*	17.1	16	7.4	1	0.6	67	0.7	2	25.8	3
IFC			85.4	16	109.9		21.2	56	216.5	25
Total	107.3	100	554.9	100	164.7	100	37.7	100	864.6	100

* International Development Financing/International Finance Corporation

³¹ "Transit Traffic Facilitation in Sub-Saharan Africa," Review of Bank Assistance 1960-1990, September 15, 1992 (OED) - in draft form.

2. Lending Activity by the Main Topics of this Review

Components		Volume	
	Number	Percent	(\$ m.)
			Percent
Road Transport Industry	131	88	843.1
Road Transport Facilitation	18	12	21.5
Total	149	100	884.8

3. Lending Activity by Lending Instruments (Transport Division)

	Africa		Asia		EMENA		LAC		Total	
	Account (\$ m.)	%	Account (\$ m.)	%	Amount (\$ m.)	%	Amount (\$ m.)	%	Amount (\$ m.)	%
Specific Investment	49.2	55	93.1	19	11.9	41	2.4	15	158.8	25
Import Credit	35.2	39	388.9	80	a/	59	1.5	9	424.1	68
Sector Loan										
Reconsta. Credit	5.7	6	5.1	1	17.3		12	76	29.6	5
					a/				12	2
Total	90.1	100	487.1	100	29.2	100	15.9	100	622.3	100

a/ Excluding post-war European reconstruction import credits

4. Lending Activity by Categories

	Number of Components	Amount (\$ m.)	Average Amount Per Operation (\$ m.)
Equipment supplies	24	584.25	23.5
Physical facilities 1/	2	13.8	6.9
Manufacturing industries 2/	29	216.5	7.5
Assistance to the industry 3/	50	31.2	0.6
Studies	33	15.8	0.5
Technical Assistance	17	20.5	1.2
Training	10	2.5	0.25
Institutional Facilitation 4/	38	6/	
Policy dialogue 5/	19		
Total	2227/	884.6	11.758/

1/ Includes facilities for intermodal coordination

2/ IFC Investments

3/ Includes IDF lines of credit

4/ Includes assistance to freight-forwarding

5/ Policy dialogue carried through lending

6/ Partly included in technical assistance and assistance to industry in general

7/ Not necessarily matching the number of operations.

8/ Average per operation

4.5 In terms of impact, the GOR and the OED reviews found that when the approach has been deep in content and broad in scope, the Bank has been able to provide a sound base for its lending and ultimately reach its goals. On the other hand, when sector and project preparation work has been deficient, not sufficiently coordinated with borrowers, or lacking depth or clarity, the Bank has failed to create a base for its supporting policy dialogue and, often, failed to reach its goals. In brief, increased and more coherent preparation work should result in a more structured and informed Bank approach to the policies underlying the sub-sector and on-project concepts better suited to serve the needs

of Bank borrowers. Availability of technical support has been an important missing element—especially prior to and following the project cycle.

SECTOR WORK

4.6 The first sector work on facilitation was carried out in LAC in 1976.³² After this first initiative, facilitation work has been given substantial emphasis; and a number of studies have been carried out including facilitation components, particularly in the African Region. The Bank's Technical Department for Africa has completed a series of studies on corridor economics, logistics, and facilitation which have clarified the most cost-effective approach to land-locked country logistics.³³ These studies have been followed by transit corridor evaluation guidelines³⁴ which are a practical guide to economic evaluation of international transit costs and transit improvements. A summary note on the corridor studies is contained in Appendix 5. Complementary to these studies, the studies of logistic costs in Zaire (para. 2.45) has brought another dimension to facilitation—the competitiveness dimension—which has led to further sector work in the Philippines (paragraph 2.8), Nepal (paragraph 2.46), Côte d'Ivoire and in the Customs Union of Central Africa (UDEAC).³⁵ The most important conclusions of these studies can be summarized as follows:

- (a) to approach facilitation through a comprehensive program of trade and transport rationalization—including transport logistics, policies and regulations, transport intermediaries, Customs and institutional environment, documents and procedures, banking, insurance, and communications
- (b) to seek government conviction and will in the execution of the program
- (c) to schedule the program over more than one lending operation, possibly one SAL followed by a sector loan, and "in crescendo" from small and easy to ambitious and comprehensive
- (d) to tackle first such policies and regulations which can be changed at the institutional and parastatal level while preparing for a policy reform with

³² Analysis of Road Transport Industry in Central-America, June 1977. Intermodal Transport: a Regional Survey, June 1982.

³³ Sub-Saharan Africa Transport Corridors

- the Case of Mali, February 1989
- the Case of Burkina Faso, June 1990
- the Case of Niger, May 1990

The Great Sakes Corridor Study, March 1990.

³⁴ Transit Corridor Evaluation: a Management Perspective, Technical Department, Africa Region, 1990.

³⁵ Regional Cooperation for Adjustment: a Program of Transport Policy Reform for member countries of the UDEAC, January 1992. Côte-d'Ivoire, Facilitation of Agricultural Exports, July 1993.

definition of macroeconomic conditions which may be considered in future lending.

LESSONS FROM BANK OPERATIONS

4.7 From the operations managed by the Bank, it is possible to identify several interests: *first*, the Bank has been the main proponent of intermodal coordination; *second*, it has promoted private sector participation in public services dominated environments; *third*, it has encouraged deregulation in heavily regulated environments; *fourth*, the Bank has been the most important financial agency linking the process of transport industry development to the process of facilitation of systems and procedures; *fifth*, the Bank has been a proponent of building-up freight-forwarding capacity as a means to encourage financial savings and earnings on trade-related non-factor services; and *sixth*, the Bank has shown continuous interest in efficiency improvements in operations.

4.8 Additionally, the Bank has acted as catalyst to governments in negotiation of international agreements and in promoting neighboring states interest in ratifying international instruments facilitating transport and trade (Conventions).³⁶ An important sign of this role has been the ratification by Chile and Uruguay in the early 1980s of the 1975 TIR Road Transport Convention; another sign, the catalyst role which the Bank is playing in negotiations between India and Nepal — "Multimodal Containerization Project."

4.9 In retrospective, however, the impact of past facilitation programs undertaken by countries as a result of Bank assistance has not been encouraging. The operations attempted in Latin America, although very useful in the sense that they were able to open new areas of interest, did not have proper follow-up from the Bank and yielded few positive results (Box 8).

4.10 The review of projects below shows trends in the unsuccessful attempts of the Bank to carry out a dialogue and to assist in facilitation; these trends have repeatedly concurred to defeat Bank efforts. The most important are:

- Insufficient definition of facilitation objectives and understanding by the staff of the meaning and role of transport facilitation. Definition and understanding could have been helped by: (a) quantification of the magnitude of potential savings to be achieved; (b) quantification of the comparative advantage of using transport services to reduce negative trade balances; (c) better technical knowledge of transport facilitation and international instruments.

³⁶ Transport International Routier (TIR) 1954 Geneva Convention, incorporated for containers in 1975. The Bank recommended ratification of the Convention in its report "Intermodal Transport: a Regional Survey" in 1982. Ratification of the Convention by Chile, Peru, Bolivia, Brazil, Paraguay, Uruguay and Argentina could contribute to reduce the cost of transport in the "Southern Cone" of South America by producing time savings and reducing the costs of freight-transfers at borders. So far only Uruguay and Chile have ratified the 1975 TIR Convention.

Box 8: Impact of Past Bank Operations

In Bolivia, after a breach in dialogue between the Bank and the government during preparation of the Fourth Railway Project in 1982, dialogue on transport facilitation issues was never reinstated on its proper footing. In Argentina, after a change in management in Argentina Railways in 1983 (Second Railway Project), dialogue on transport facilitation did not have a follow-up. In Uruguay, the study financed under the Third Highway Project in 1983, was not properly followed-up during project implementation and was postponed. In Chile, the study financed under the Second Highway Reconstruction Project in 1983, was completed in 1985; the consultants highlighted the feasibility of an inland container depot in Santiago which implied transferring Customs clearing—functions from the port city of Valparaiso to the metropolitan area; this suggestion—which was politically sensitive, helped to obscure the original focus on facilitation and raised an institutional issue difficult to resolve. In Mexico, the Bank objectives on facilitation met with partial success as a result of a Bank proposed "Program of Technical Cooperation"; unfortunately, execution of the program was interrupted by the September 1986 earthquake and was not reinstated. Outside of the Latin American region, in Bangladesh, the approach of the Bank was to propose a program of institutional reform under the Inland Water Transport Project; the objective of the program was to change obsolete regulations related to Customs, foreign-exchange currency accounts and liability insurance with the purpose of facilitating freight-forwarding operations and transit of freight inland; implementation of the program met with initial government resistance and was delayed indefinitely.

- Insufficient Bank effort to support transport facilitation proposals through implementation and supervision.
- Insufficient penetration of Bank ideas in the institutional planning process of Bank borrowers. Isolated proposals as part of project identification or sector work missions had little effect or were not made part of the government planning process. In the few cases when ideas made sufficient impact as to be institutionalized a change in government thinking or in the persons responsible for an institution threatened the continuity of the idea or interrupted the dialogue between the government and the Bank.

4.11 In addition, a major issue affecting the impact of facilitation initiatives has been the complexity of policies and institutions which intervene in the transport process and make facilitation a subject of decision for multiple institutions. The Ministry of Finance (Customs and Excise), the Central Bank, the Ministry of Transport and other institutions are part of the regulatory process and must participate in the facilitation process. Coordinating the actions of these institutions requires strong and high-level government commitment which in many instances has been lacking.

4.12 In spite of this, an important first step in the right direction has been taken which is already contributing to a future potential area for Bank lending; and there is interest in further definition. Where solutions have been successfully implemented by borrowers with help from the Bank, staff has been able to test the adequacy of ideas and response of institutions and the commercial environment to solutions. Defining the Bank's role, enlisting staff support and strengthening government commitment should gradually lead to a break-through, with the ultimate objective being to improve trade and transport.

IMPACT OF SECTOR ADJUSTMENT CREDIT OPERATIONS

4.13 The assistance provided by the Bank includes various industrial and import credits, in particular to India FY64 through FY76 and Ghana FY83 and FY85. The objective of these credits was to help the countries economic recovery program to rehabilitate the transport sector, among other sectors, by enabling the government to import essential inputs required. The credits to Ghana, in particular, contained an important share of institutional reform and led the way to a number of operations (Transport Project) with a high content of intermodal and trade facilitation. The credits were expected to finance a small slice of imports (about 4 percent of the total import program for 1983/84 and about 8 percent of the proportion of imports requiring external financing, on the FY83 Credit) and to act as a signal to the international donor community to provide assistance to Ghana in support of its economic recovery program. The principal risks were associated with government inability or unwillingness to implement effectively the economic recovery program, or its taking policy actions counterproductive to the attainment of its main objectives. Overall, it was estimated at appraisal that the benefits to be derived from the Bank's association with the government's recovery program would far outweigh the potential risks.

4.14 Looking back to both operations from the short-term retrospective of the 1986 pre-appraisal of the proposed Transport Rehabilitation Project (FY87) it can be seen that both Ghanaian operations, although successful on the macroeconomic front, did not measure up to the optimistic expectations held at the time of the loan approval. The credits succeeded in their immediate objective of helping to obtain better utilization of transport resources in Ghana; the credits did not succeed in sustaining productivity increases, in the use of capacity or in increasing the long-term efficiency of the industry. In spite of this, the Indian and Ghanaian credits paved the way to institutional reform through facilitation of transport undertakings, leading the way to increase trade competitiveness in both countries.³⁷

4.15 Later structural adjustment loans (SAL) operations in Côte d'Ivoire (1992-94) have made clear the flexibility of SAL operations to carry transport and trade facilitation conditionalities.

4.16 Although the reform content (macro and microeconomic) of SAL operations is limited,³⁸ the review of the different content of Ghana, India and Côte d'Ivoire facilitation objectives suggests some lessons:

³⁷ In India, progress has been evidenced by the publication in (1993) of the Multimodal Transport Act and by the facilitation process which (between 1979 and the early 1990s) paved the way for container transit to Inland Clearance Depots.

³⁸ Reform of transport regulations, privatization of parastatals, facilitation of foreign trade among the macro-economic objectives; increase the efficiency of logistics of elected groups or services, improve management ability, rationalize freight-forwarding among the micro-economic tangible goals.

- *First*, the need for flexibility in program design when the forecast of the circumstances facing the country indicates difficult potential change (India), or when there are changes to policy-based government undertakings.
- *Second*, the operations confirm that programs should be realistic about what can be achieved. The Bank underestimated the difficulties faced by the country in undertaking major changes, e.g., privatization of public passenger transport services in Ghana, and privatization and liberalization of shipping in Côte d'Ivoire; both operations tended to be over-optimistic in forecasting remedial actions.
- *Third*, the experience with these credits underscores the need to ensure that the borrower has the capacity and willingness to follow through on the implementation of a series of operations including sector and specific investment loans, if necessary. A quick-disbursing operation is usually not a suitable vehicle for supporting long-term institutional development.

PROBLEM AREAS IN PAST OPERATIONS

4.17 The evaluation of the Bank experience highlights repetitive problem areas where the Bank has met with resistance in the continuity of assistance or in sustaining reform. The problem areas can be grouped into relevant issues and missing elements on Bank activities. Issues and missing elements have determined the effectiveness of Bank assistance. The main issues encountered by the Bank have been:

- definition of Bank's role
- sensitivity of the policy environment
- conviction of government commitment
- choice of financial approach
- perception of borrower's needs (user's perspective)
- reflection of sectoral developments in project design.

4.18 The key issues in the preceding paragraph underscore the missing elements in past Bank operations and activities. Obviously, there has been something missing in the Bank's efforts in this area; something which is affecting most of its undertakings; and something which is a major barrier to achievement of its goals. The missing elements identified are:

- organization of Bank transport activities
- sector work coverage

- availability of technical expertise
- quality of supervisions and continuity of effort (monitoring of borrower's performance)
- compliance with agreements, covenants and conditionalities
- cooperation between the Bank and other institutions (UNCTAD, European Union) and within the Bank.

4.19 The above issues are examined here. The missing elements will be examined in Chapter VI.

4.20 *Definition of Bank's role:* The Bank increasingly recognizes transport industry operational efficiency and the potential impact that facilitation of transport procedures and simplification of documentation have on trade balances. In spite of such awareness there has not been, so far, a definition of the Bank's role in achieving this task, and the rationale for Bank involvement with trade and transport has been persistently talked-down as too complex for Bank operations.

4.21 The Bank's role in assisting with trade and transport facilitation should be consistent with the Bank's specific goals from its Articles of Agreement. This consistency should lead to the following criteria for a transport and trade project:

- (a) that a project focuses on specific objectives which can be achieved within a realistic time-frame as part of broader spectrum of country goals in transport industry development;
- (b) that a project is targeted to a blend of macro and micro-economic objectives through actions directed at different industry levels (e.g., public and private);
- (c) that a project is part of a broader social and management strategy which accounts for human and technical sectoral development.

4.22 *Sensitivity of the policy environment:* Different perceptions of macroeconomic issues at Bank and country levels, government policy commitments, and the diversity of social and cultural backgrounds among Bank borrowers are important contributors to the high sensitivity of policies surrounding the transport industry. In addition, lack of definition of what is meant by transport industry and of the scope of its coverage increasingly confuse the issue of the applicability of policies; not knowing exactly what to regulate under public sectoral interests, many governments broaden the applicability of pricing, fiscal, labor or commercial policies to social services which usually behave best in unregulated conditions. It is useful, therefore, to define the transport industry as follows:

the aggregate domestic resources (staff, equipment, facilities, procedures) which contribute to discharge the activity of moving persons and goods or to produce a marketable service capacity domestically or internationally."

4.23 This definition underscores that the industry of moving persons and goods is a service in which the private and public sector have substantial vested interests. Such vested interests are of such complex nature that they impinge on the broad spectrum of the country economic, financial, social, human and commercial structures.

4.24 Within this sensitive scenario of sectoral policies the issues which have affected past Bank assistance to the transport industry in facilitation are as follows:

- (a) Pricing policies: Past experience has shown that adverse pricing policies have continued beyond a series of Bank operations.
- (b) Road user charges and fuel pricing.³⁹ Bank-financed road user charges and fuel pricing covenants have often been ignored.
- (c) Private sector support: A renewed major thrust of the Bank in this areas is taking place in operations under preparation related to transport facilitation.
- (d) Labor policies; which may reflect deeply entrenched government historical attitudes or government unwillingness or inability to influence the internal policies of institutions.
- (e) Modal competition and modal subsidy policies; usually reflecting traditional attitudes of government protection of railway transport.
- (f) Intermodal coordination policies: Affecting mainly container transport and all its modal linkages (including domestic containers, the fastest growing commodity in USA and European railways after coal, 18 percent in 1993). Container technology has been late in arriving to developing countries; the difficulties in dealing with labor, pricing, commercial and intermodal investment policies are ingrained in fiscal, trade, and labor interests. The Bank has yet to produce adequate policy guidelines governing intermodal coordination. Such guidelines are intimately related to facilitation.
- (g) Axle-load policies on trucking; which have been the subject of studies, covenants, and conditionalities in most countries where the Bank has built roads or rehabilitated railways. Success, has been elusive and the few improvements recorded are those related to voluntary industry response to

³⁹ At the time of the appraisal of the first highway Sector Project in 1979, automobile private users and private gasoline trucks in Mexico, paid gasoline taxes sufficient to cover the total annual maintenance cost of highways; diesel-driven trucks and gasoline-driven public service trucks, paid virtually nothing.

incentives (Honduras in 1979/80) or to improvement of contracting conditions by road-carriers through terminal dispatching (Cameroon in 1984 and Ethiopia in 1989).⁴⁰

- (h) Policies governing foreign-currency transactions; which are a source of major limitations to development of freight-forwarding services, and curtail the ability of local transport industries to deal with international letters of credit and international insurance.
- (i) Fiscal policies; and more specifically, policies related to transit of unitized (or containerized) goods inland through borders under Customs authorization.
- (j) Policies related to the various subjects covered by international agreements and Conventions on transport facilitation; more specifically policies related to the transfer of liabilities from water to land carriers and vice versa (water and land carriers are governed by different international Conventions) and to the capacity of land carriers to assume liabilities.

4.25 The issues outlined in the previous paragraph are not found in isolation but interrelated in complex systems which form the basic framework of the complex policy environment of civil and commercial laws. Bank reviews show that changes in governments and policies are often only skin-deep, and that the substantial work required to update civil and commercial laws is not done.

4.26 *Conviction of government Commitment:* The most important consequence of the complexity of the policy environment is the uneven quality and quantity of government commitment that the Bank has been able to secure. The most important factors contributing to past uneven government commitment have been:

- (a) changes in the political and economic government structures
- (b) poor understanding of the potential effects of policy changes
- (c) legal impediments embodied in national commercial, banking, trade or transport regulations
- (d) government protection of vested-interests of groups or institutions

⁴⁰ The preparation of the proposed Transport Project (FY89) in Ethiopia, provides useful experience on how improvement of dispatching operations through terminals (relay system) can achieve substantial gains in controlling and reducing axle loads. The comprehensive Road Transport Study financed by the "Second Road Sector Project" (FY83) and implemented by the former NATRACOR (the parastatal trucking company, later EFTC) proposed dispatching services in the Addis Ababa to Assab corridor. Implementation reduced the transit time for vehicles by over 90 percent (from 45 days to 4.5 days) and increased net amount of goods carried while reducing the load of each vehicle to its authorized limits. These improvements were stymied by the war.

- (e) short-sighted ranking of priorities, often the result of misguided macroeconomic policies
- (f) Bank insistence on policy reforms too ambitious for the absorptive capacity of governments
- (g) insufficient conviction at government level that the policy reforms attached to Bank interventions are necessary to achieve sectoral objectives or that the benefits from sectoral objectives warrant the substantial changes required in policies and regulations.

4.27 *Choice of financial approach:* The Bank has a multiplicity of lending instruments and activities which may be used in different manners or may be adapted to the specific needs of its borrowers. These instruments form a continuum of specific investment operations to comprehensive structural adjustment loans, with various types of sector operations in between.

4.28 In spite of such variety, lending for transport industry seems to be an area extremely sensitive. Past Bank experience shows that the most common instrument used by the Bank so far — the specific investment loan — is not a good vehicle to carry a meaningful program of policy and institutional reform in this particular area. The main limitations of specific investment loans for transport industry development and facilitation, are:

- (a) they are not a good vehicle to carry out a policy dialogue on issues which solution goes far beyond the limited policy scenario of the project;
- (b) specific investment loans lack the flexibility to reach the various levels of the economy. In their most desirable form, sector operations encompassing infrastructure, institutional reform, support to private industry, and privatization of public transport interests could offer the most satisfactory vehicle for a comprehensive approach to facilitation.

4.29 *Refection of sectoral developments in project design:* From the perspective of the structural changes which the transport industry has undergone since the early 1960s, the transport industry in developing countries has been particularly slow to adapt to the modernization process. On the other hand, transport facilitation activities have become increasingly important to the Bank through their key role in contract practices, regulatory systems, document procedures, intermodal coordination, and revenue control of transport operations. As a consequence, Bank awareness of the contribution of transport services to trade has emerged after the debt crisis which helped to place the focus of Bank lending on trade in the early 1980s.

4.30 In the meantime, the slow process of modernization in the transport industries of developing countries has originated forms of operation and contractual practices which are far below the efficiency standards required for cost-effective services. The Bank could

have had substantial impact in improving these standards; but the Bank has been persistently slow to address the operational, management and contractual efficiency issues of the industry in a manner that would make this industry more capable and more able to market its services in cost-effective ways.

4.31 Among the urgent questions to be answered, the most important are:

- (a) what is the economic fall-out of poor transport facilitation in developing countries?
- (b) what are the costs of inefficient domestic transport services for an intermodal system?

These questions will never be answered, unless the rationale for facilitation and intermodalism is understood by Bank staff.

4.32 *Perception of borrower needs (users' perspective)*: last but not least among the key issues affecting past Bank operations, there has been a critically unclear perception of what the borrowers needed in the way of improved transport services, and substantial confusion at Bank level of the criteria by which the Bank should approach assistance for these needs. While the Bank's initial philosophy of lending for tangible investments — mainly infrastructure and equipment — was right at a time when the primary concern was reconstruction, this philosophy virtually steered the Bank away from the complex issues affecting user demand and the efficiency and capacity of the transport industry. *Inadvertently, by emphasizing equipment rather than use, the Bank may have contributed to excess of fleet capacity and, as a result, to waste of local resources, therefore increasing transport industry inefficiency.*

RATIONALE FOR FUTURE BANK INVOLVEMENT

4.33 *The question then arises: is there a rationale for Bank involvement?*: The answer should be positive. All indications are that, in spite of initial questionable government commitment and Bank difficulties, lending for transport facilitation is reaching the full understanding and support of the Bank and of its borrowers. Various factors have contributed to this maturity: (i) the realization that transport services in general, and transport facilitation in particular, are essential contributors to the development process; (ii) Bank awareness of the impact of sectoral developments in road transport and facilitation in the economies of developing countries; (iii) increased Bank familiarity in dealing with complex policy issues as a result of deeper sectoral knowledge; (iv) the Bank's improved perception of borrower needs, a result of deeper sector involvement; and (v) the Bank's gradual change in the assessment of lending priorities as a consequence of the broader approach to sector lending and dialogue with borrowers.

4.34 In this context, the rationale for Bank assistance should be found: (i) in the well established role of transport facilitation as a key element in the development process; (ii) in the increasing impact of Bank lending in the development of the transport industry as a

result of Bank and borrower's conviction of the viability of long-lasting policy and institutional reform; (iii) in the scope for efficiency improvements as a result of better use of resources; and (iv) in the capacity of the Bank to offer both technical and financial assistance under the same purposeful responsibility.

4.35 What would be the criteria for success? Past experience seems to indicate that the three following criteria would be essential for a successful approach:

- *first*, the Bank's approach to facilitation should be structured over a series of projects by making the best possible use of lending instruments; it should be the result of a cooperative understanding between the Bank, UNCTAD and other development institutions;
- *second*, the Bank should recognize the scarcity of available technical expertise in this area;
- *third*, the approach to developing the industry should target the three most critical areas of industry underdevelopment; these areas are:
 - (a) use of technical resources
 - (b) institutional development including facilitation
 - (c) operational efficiency.

OTHER WORK ON FACILITATION

4.36 Concerning the work of other institutions, the late 1960s marked the beginning of a dynamic phase of trade facilitation, stimulated to a large extent by a United Kingdom government inquiry into the "Simplification of International Trade Procedures." This resulted from a combination of three powerful commercial forces: post-war trade expansion, the arrival of unit-load —especially containerized transport—and the advent of high-capacity jet air freighters. Shipping consortia, airlines, and multinational companies were forced to look for common fora where they could work out new documents and procedures and agree on necessary changes to existing, primarily paper-based, information systems.

4.37 The SITPRO inquiry, opening in 1968, was one of the earliest responses to these needs. Its report in 1970 set the facilitation scene in Europe for most of the next 20 years. Its main conclusions were that:

- The problem was specifically one of information flows.
- These flows made up an outdated, largely informal, but well-understood, worldwide information exchange system.

- There were immediate, urgent needs for improving these flows through the simplification and standardization of paper documents and manual procedures.
- The long-term future for facilitation would lie in the exchange of information between linked computer systems.
- Systematic reform would call for a multi-disciplinary activity, bringing together government and business interests at the international, as well as national, level.

The report also recommended the establishment of an executive agency to implement these and other proposals, and the Simpler Trade Procedures Board (SITPRO) was set up as a semi-autonomous body with substantial government funding.

4.38 At the same time, in the United States, the National Committee on International Trade Documentation (NCITD) published an analysis of costs of completing a wide range of export and import documents and of complying with associated formalities. *This showed average costs in each direction of about 7 percent of the value of the goods. When this calculation was applied to national external trade totals, it did much to persuade governments and business of the need for early facilitation reforms.*

5. DESIGNING A FACILITATION PROGRAM⁴¹

INTRODUCTION

5.1 Summarizing chapters III and IV, the role of UNCTAD and the World Bank as well as other international development agencies in the field of trade and transport facilitation has been substantial and in general of considerable value to trade and transport in general and to that of developing countries in particular. Individual initiatives and programs may be criticized, but for many years the trade and transport facilitation efforts of UNCTAD's and the World Banks as well as other development agencies' have been commendable. The weakest points of these programs have often been supervision and implementation. Lacking instruments of implementation and, sometimes, adequate funding, programs have on occasions fallen short of expectations. This has been particularly true of the regional and subregional programs.

5.2 Program implementation and coordination of trade and transport facilitation technical cooperation activities must be well coordinated, particularly as regards funding and fund allocation of projects. UNCTAD and the World Bank must stress the importance of adequate funding of trade and transport facilitation programs when programs are identified and cost estimates prepared.

5.3 Recent trade and transport facilitation programs designed by UNCTAD in coordination with and with the support of the World Bank, which has adequate instruments of funding at its disposal, could open the way for a better implementation of development objectives including their regional and/or subregional impact.

5.4 Looking in retrospective at UNCTAD and the World Bank's activities, several common denominators become apparent. These are:

- (a) Coordination between UNCTAD and the World Bank and other development institutions and/or United Nations agencies should be strengthened. Perfecting the coordination between ITC, UNCTAD and the World Bank would enhance the quality of technical cooperation provided in the field of trade and transport facilitation.

⁴¹ The text of this chapter draws heavily on previously published UNCTAD material.

- (b) The professional quality of staff involved in trade and transport facilitation is the key to program success. UNCTAD and the World Bank must consider ways and means of securing top quality professionals at market-level compensation.

5.5 In addition, three considerations seem pertinent concerning the approach to future trade and transport facilitation work by UNCTAD and the World Bank. These considerations are:

- (a) The different views of both organizations on such important areas of development as shipping policies and the role of the public sector. Although the gap in policy perceptions has been closing in recent years, it is fair to say that the existing policies in various sectors are the direct result of UNCTAD's encouragement of, for example, developing countries' capacities in shipping and insurance. The World Bank finds protective development policies a less-than-cost-effective approach to enhancing competitiveness. UNCTAD, however, believes that in certain circumstances, the least-developed countries may require time to open up their markets to the full onslaught of market forces.
- (b) The role and usefulness of such important documents or documentary practices as the ocean bill of lading, and the ICC documentary credit procedures, is not in keeping with modern needs for telematic or fast transportation techniques. The documentary process in both cases is obsolete and should be reviewed. The World Bank and UNCTAD are coordinating with the ICC with a view to take the necessary action to initiate the review process.
- (c) The regional and subregional dimensions are also important complementary ingredients which have not always received sufficient attention in the past. While the Bank generally focuses on country-specific projects, UNCTAD's technical cooperation activities can also be regional or subregional, indeed even global, in scope. Typical among these initiatives the maritime and multimodal transport subsectors offer an example of potential contributions. The recipient countries could greatly benefit from increased cross-fertilization between the World Bank and UNCTAD in the areas of shipping, ports, and multimodal transport activities. Jointly, the two organizations could benefit from Bank projects for the enactment of long-term programs (assistance to Shippers' Councils, Trade and Transport Facilitation Projects, etc.). The resulting joint programs or projects could help the two organizations to reach more deeply into the reform of regional sector policies in these fields, which otherwise have proven to be elusive.

IDENTIFICATION OF ISSUES AND PROGRAM COMPONENTS

5.6 The complex coverage of trade and transport logistics makes facilitation a multidiscipline undertaking. It affects various institutions and impinges on diverse government policies. Designing a facilitation program is therefore a highly specific task which must start at the lower end of the problem scale in each one of the disciplines identified as "issues."

5.7 A checklist for identification of facilitation components is enclosed in Annex 1. The checklist is a guide for designing a transport and trade facilitation strategy. Identification of issues should lead to a dialogue with the borrower; this dialogue should create awareness of these issues at the country level and within the financial institution leading the reform effort. Based on the findings of the initial identification, a full program may be designed which can be included in a lending operation.⁴²

5.8 Four points need to be addressed at this stage: *First*, is the need for clarity and depth in the identification of inter-related issues. Often, a look at transit time at ports leads to monetary issues or to banking problems (Angola); road transport operations lead to issues surrounding operators liabilities (India, Cameroon); freight-forwarding leads to financial issues in terms of trade (most developing countries); containerization leads to insurance and terminal planning (Colombia, Pakistan, Nepal, Ethiopia); port logistics lead to institutional interference and immobilizations (Mozambique, Côte d'Ivoire), etc. Depth in identification means the uncovering of the interaction between the various components of a logistic operation and the ramifications from a transport problem to regulatory, financial, and trade related aspects. All such aspects must be part of identification.

5.9 *Second*, is the need to build, especially at this stage, borrower conviction and awareness of the reality of the problem and of the possibility and benefits of solving it — that is, to quantify the problem. The best examples of this approach have been the corridor studies, the facilitation studies in Zaire and the Philippines, and the recent study in Côte d'Ivoire.

5.10 *Third*, is the need to prepare a mechanism for execution of the proposed actions or program based on the will of the government to act on the issues. This mechanism is better understood as a multi-discipline committee receiving its authority from the highest level (Prime Minister or Economic Council) and authorized to enact policy reform, regulatory change, and procedural change, as advised by the committee. The typical committee would be formed along the lines of the Trade and Transport Facilitation Committees sponsored by UNCTAD.⁴³

⁴² Most Bank project work on facilitation has followed the latter pattern.

⁴³ The Competitiveness Committee in Côte-d'Ivoire headed by a former Minister of Finance, part of the SECAL Competitiveness project. The Transport and Trade Facilitation Committee in Ethiopia (prior to the recent war), part of the strategy of the Transport Sector project. The Transport and Trade Facilitation Committee in India, etc.

5.11 *Fourth*, is the need to emphasize three basic perspectives in which facilitation may be necessary: the multimodal transport perspective; the trade perspective; and the regional perspective.

5.12 *The multimodal transport perspective*: International multimodal transport⁴⁴ based on modern technology, especially containerization and EDI, has established itself in trades between developed countries, and is now spreading to the trades to and from developing countries. Lack of foresight in judging the magnitude of the massive introduction of containerization caused many developing countries to be totally unprepared for multimodal transport. Lack of preparedness in turn has meant that virtually no developing country's transport organization is engaged in multimodal transport. This means that transport technology is being planned almost exclusively by operators from developing countries. Owing to the "newness" of the concept, the expertise in the field is extremely limited, and developing countries therefore need to make increasing efforts to ensure the safeguarding of interests of indigenous MTOs, shippers, and actual carriers.

5.13 A high percentage of the containers entering developing countries are still stripped in the port of entry, and the cargo is moved inland as breakbulk cargo, thereby denying the advantages of containerization and multimodal transport to the country. This less-than-cost-effective situation is being aggravated by a parallel lack of regulations concerning multimodal transport, a very poor level of information and/or understanding of the entire concept and of its influence on national transport capabilities and economies. This in turn has resulted in a low level of planning in some government departments on how best to cope with multimodal transport. While there is a growing realization both at public and private levels of the potential benefits of multimodal transport, the current pattern of control is not likely to change in the short-term unless a concerted effort is made to inform governments and interested commercial transport organizations in developing countries of the economies of scale, handling benefits, security, and economic gains brought by containerization.

5.14 *The trade perspective*: From the perspective of the user of transport, the buyer or the seller of goods, only the total transport time and price matters. It is, therefore, important to appraise transit as a total concept in which immobilizations caused by trade or transport transactions contribute to the total transport time and financial cost of the operation. Documents and procedures, their cost, and the time consumed in their preparation are integral factors of transport cost.

5.15 *The regional perspective*: From a sub-regional point of view, the discrepancies between national transport laws and regulations, trade procedures and documents,

⁴⁴ International multimodal transport of goods is defined in the United Nations Convention on International Multimodal Transport of Goods as meaning "the carriage of goods by at least two different modes of transport on the basis of a multimodal transport contract from a place in one country at which the goods are taken in charge by the multimodal transport operator (MTO) to a place designated for delivery situated in a different country." (Art. 1 of the Convention).

commercial, insurance, and banking practices create as many impediments to long-term integration process. The gradual and harmonized development of multimodal transport in a sub-regional context should bring a new and system-wide approach to analyze these issues and improve the international transport of goods of each country concerned. Multimodal transport should foster regional integration by facilitating intra-regional trade in the countries as well as international trade in the sub-region. For example, it might stimulate non-traditional exports and create an opportunity for regional transport operators who could compete with international operators (international marketability of domestic transport services).

5.16 In order to derive maximum benefits from the new transport technologies, both the physical infrastructure and the institutional framework need improvement at the national level and need coordination at the sub-regional level. For the smooth development of transport services and to avoid misallocation of resources, it will be necessary to formulate policy measures on a national and sub-regional basis that reflect the character of international multimodal transport. The regional perspective should therefore be an integral part of issues identification in designing a trade and transport facilitation program.

PREPARATION OF A TRADE AND TRANSPORT FACILITATION PROGRAM

5.17 *Multidisciplinary Approach:* In order to facilitate the introduction of policy reforms in a country or in various countries in a sub-region, and to secure an appropriate environment for developing national or sub-regional trade and multimodal transport systems, the following multidisciplinary measures must be considered in the approach:

- (i.) *Regulatory measures* to harmonize transport liability regimes and insurance practices, and to provide an appropriate legal framework for the establishment and development of MTOs in the sub-region;
- (ii.) *Trade and transport facilitation measures* (Customs regulations, trade and transport documentation, EDI technology) and their acceptance by the trading community, transport operators, government agencies, banks, and insurance companies;
- (iii.) *Development policy measures* to secure the smooth development of transport services and to avoid misallocation of resources, particularly regarding the improvement of physical infrastructure (ICDs, intermodal transfer facilities, etc.) and transport equipment; and
- (iv.) *Sub-regional co-ordination measures* to secure the appropriate harmonization and integration of the different actions taken at the national level.

5.18 *Development criteria:* The development objectives of a project on transport and trade facilitation would be to enhance the transport capabilities, the economic

development, and the economic integration of one or various countries through the gradual development of trade and transport practices in the country or through its regional integration.

5.19 The immediate objectives would contemplate a step-by-step introduction of multimodal transport and the facilitation of regulations, documents, and procedures in the sub-region. In particular, they should consider the following.

- (i.) creating awareness of trade and transport issues among national transport regulating entities, carriers, and users;
- (ii.) strengthening the freight-forwarding sector's management and services;
- (iii.) strengthening Customs systems and procedures;
- (iv.) strengthening institutions involved in the transport of import-export cargo;
- (v.) simplifying and harmonizing documents, procedures, and logistics related to international transport operations within the country. In particular, definition and implementation of documents and procedures leading to the adoption of UN lay-out key documents;
- (vi.) relieving congestion at the main national ports by making a gradual change towards the DTD movement of containerized imports and exports;
- (vii.) studying the feasibility of establishing cost-effective private ICD's to relieve port congestion and further streamline line-haul and distribution operations between ports and inland destinations;
- (viii.) providing assistance in the improvement of communications (EDI);
- (ix.) providing appropriate coordination between the different actions implemented at national levels to secure harmonization and compatibility in the development of cost-effective transport in the sub-region.

5.20 Proposed Actions and Studies: The expected outputs of such a project would include the following:

- (a) creation of a *Trade and Transport Facilitation Committee* (TTFC) in each country, with sub-regional coordination; these committees, composed of key decision-makers from the public and private sectors, should work closely with national or regional trade facilitation committees where they exist;

- (b) up-dating existing national laws, regulations, documents and procedures on trade and transport-related matters in each country so as to allow coherence between the laws of a region;
- (c) formulation of appropriate recommendations to unify and harmonize trade and transport-related laws, regulations and procedures within a region;
- (d) formulation of appropriate recommendations to unify and harmonize trade and transport insurance practices;
- (e) formulation of appropriate recommendations on financial (foreign currency, documentary credits) facilitation measures;
- (f) formulation of appropriate recommendations on physical transport infrastructure and operations in each country;
- (g) implementation of institutional instruments and procedures to obtain a concerted development of trade and transport in the sub-region.

ORGANIZATION OF THE PROGRAM: STRUCTURE

5.21 In order to allow for a gradual implementation of the necessary changes, the program should be organized in three phases: *Phase I to cover a diagnosis* of the present situation in each country to formulate an approach for harmonizing the different situations and to propose a coordinated plan of action for each country; *Phase II to carry out the recommendations* for improvement; and *Phase III to implement* the recommendations documents, procedures, regulations, and physical actions. In other words, the program should provide: first, identification of issues and remedies; second, preparation of proposals; and third, after review by government, implementation of the selected recommendations.

5.22 The satisfactory conclusion of one phase should not imply that the next phase has to be executed. Each phase will produce a plan for further actions which will serve as a guideline at national as well as sub/regional levels for the work in the next phase. This plan of action will have to be endorsed by the government through its Trade and Transport committee and, if deemed necessary, by any existing sub-regional institutional structure dealing with transport issues.

5.23 A typical description of each phase is presented below. It must be understood that the activities contained in each phase of the program should be adapted to the local situation of each country.

Phase I

5.24 A diagnosis of the international transport situation in each country should be provided. In particular, certain legal tasks in the area of transport facilitation should be

identified. An action program leading to the enhancement and the facilitation of freight-forwarding activities and the coordination of actions related to transit of domestic and international cargo should be prepared. Specific proposals should be presented to streamline and simplify procedures in cargo handling between the concerned authorities (port, Customs, transport operators, freight-forwarders, etc.). Among the proposals, attention should be drawn to the opportunity of installing a computer package for automatic Customs data entries, control, and management to speed up the processing of Customs import and export declarations and other appropriate systems. To implement this action program, a Trade and Transport Facilitation Committee should be established. A model of possible terms of reference for a typical committee is included as Annex 2. The committee should analyze and discuss the recommendations of Phase I in order to ensure that these recommendations can reasonably be implemented at a later stage (see para 5.22).

5.25 The national diagnosis should be synthesized at the sub-regional level, if required, and a proposal for coordinated actions to be taken by each country should be prepared. This proposal and the action program should serve as guidelines for the activities of Phase II.

Phase II

5.26 Phase II activities are a continuation of Phase I outputs. The following topics will probably deserve special attention:

- (a) The regulatory environment related to trade and transport in a country consists of a network of provisions which are of procedural rather than legal nature. Complicated procedures, including Customs formalities, are not the result of legally binding relations or international conventions. They are often procedures which have developed over the years and could be simplified without major legislative change. Work is necessary for re-drafting and bringing to acceptable sub-regional and international standards the most important trade and transport related regulations of a national legislation.
- (b) Some regulatory changes might also be required to facilitate Customs, banking, and commercial handling of multimodal transport operations. Minor amendments to the exchange control regulations might be proposed to the national Central Bank in order to cover the use of multimodal transport documents in documentary credits issued and negotiated by national commercial banks. A change in the current status and legal scope of the freight-forwarders might be considered to give national operators easy access to the necessary foreign exchange required to operate as an international freight-forwarder. A change in policies concerning import/export insurance may be required. In coordination with the various institutions involved and with the local Chamber of Commerce, a plan

might be presented to national traders to change their practice of INCOTERMS in order to facilitate the development of EDI.

- (c) National operators usually do not value the potential of containerization as a means for streamlining outputs and reducing transport added costs. In some countries, containers are considered as heavy lifts and penalized with antiquated rating systems. Modern container transport regulations should be drafted using, where appropriate, the Customs Convention on Containers (1972) as a basis. In addition, the freight-forwarding sector may need technical assistance to improve cargo traffic flows and container movements through the creation of more efficient and practical procedures.

5.27 Phase II should provide draft proposals for terms and conditions of carriage, terminal operators' liability, specific documents and procedures to be facilitated, scope and compatibility of current computer systems, a blue-print for improved logistics, and a short-term plan of action to relieve congestion at the main national ports. These proposals should be as realistic as possible and blend both state-of-the-art solutions with the current national environment and needs. Each one of the potential remedies and recommendations should be thoroughly reviewed and discussed in the field with management and staff of the institutions involved in the transit process, and presented for consideration to the Trade and Transport Facilitation Committee. This set of proposals should serve as guidelines for the activities to be carried out in Phase III.

5.28 Phase II should also consider the need to train a number of government officials on international trade and transport issues, including practices, procedures, and documents related to trade facilitation, multimodal transport, and container operations.

Phase III

5.29 Phase III should aim at assisting the governments in the implementation of the recommendations contained in Phase II. This phase should provide technical assistance to government and private sector in:

- (a) the finalization of legislative changes to national transport laws and regulations;
- (b) the finalization of Customs-related changes in documents and procedures and their introduction into the appropriate electronic program for Customs transactions;
- (c) the introduction of changes in the commercial, insurance, and banking sectors; and
- (d) the introduction of changes in the transport operators' environment.

Management Arrangements

5.30 The activities covered in each phase can be grouped into four major areas: Customs; transport legislation; trade and transport facilitation; and transport operations. They require appropriate coordination arrangements to make the best use of available national capabilities, sub-regional expertise, and international technical assistance.

5.31 In each country the program should rely on international top experts and national counterparts specialized in the three areas to compile information on the current national situation. Sub-regional expertise should be used to synthesize the results obtained at national level and to prepare the pertinent guidelines for the work of the regional counterparts. The agency executing the program should provide overall management, guidance on the development of the project, and specific ad-hoc consultancy when and where required.

5.32 The project team should include a transport legislation specialist, a transport operations specialist, a number of Customs advisers, a trade and transport facilitation specialist, and a *project coordinator* who will coordinate the activities carried out by the team of consultants. It will therefore be desirable to identify consultants with substantial experience and practice to have a global perception of the major issues involved.

5.33 *A program preparatory mission is recommended:* The preparatory assistance mission will provide the opportunity to identify and meet the potential project counterparts. It will then be possible to adjust the objectives and amend the work program proposed in Phase I according to the local situation, and to the experience and practice of the counterparts in each country, in order to achieve the stated objectives and make the best use of available local expertise. In addition, the preparatory mission will ensure coordination with other ongoing and related technical assistance projects. When and where they exist, these projects will be identified and the project activities amended accordingly.

5.34 The role of the financial institution funding the program and the role of the agency executing the program (UNCTAD has been entrusted so far with most programs at the execution stage) must be clearly defined. The financial institution has the following key roles:

- (a) it defines the program most likely to serve the needs of the borrower; definition is done jointly with the borrower and the executing agency (identification stage);
- (b) it makes contractual arrangements with the executing agency and sees that these arrangements meet the borrower's expectations;
- (c) it approves the human resources and expertise proposed by the executing agency;
- (d) it finances the execution of the program by the executing agency;

(e) jointly with the borrower and the executing agency, it supervises and approves the program's outputs.

5.35 The role of the executing agency may include the following tasks:

- (a) it prepares a budget for the program;
- (b) it selects, proposes for approval and recruits the required international and local expertise;⁴⁵
- (c) it executes the program.

RISKS

5.36 The development of the program might be affected by a number of risks which have been analyzed for each phase.

Phase I related risks

- This phase relies on active contributions from the private and public sectors to identify the main issues affecting international transport in the country. The role of the national counterparts (national capabilities) will be essential. These counterparts should provide all the necessary information which might be required to carry out an objective diagnosis of the present transport situation, particularly regarding laws and regulations, Customs and commercial practices, and transport operations.
- This phase of the program may be subject to delay if the pace taken by the country in its contribution is not well planned or if conviction and will are missing.

⁴⁵ The contractual rates (fees) of the international experts in the facilitation-related fields have posed a problem in the past, the availability of required expertise may not readily be available at UNCTAD's proposed rates. It will be necessary for the financial institution to coordinate and agree with UNCTAD on expertise required and levels of remuneration.

Phase II related risks

- This phase relies on the effective contribution of the Trade and Transport Facilitation Committee. The committee is a high-level decision-making body whose task will be to agree on the scope and to supervise the proposals for simplification and modernization of formalities, procedures, and documents used in international trade and transport in the country. It might create pertinent sub-committees to deal with legal issues, to solve the day-to-day bottlenecks at port level, and to provide the basis for lateral communications between local institutions directly involved in the movement of goods in and out of the country as well as for sub-regional coordination. The committee will have to be operational at the very beginning of the project (during Phase I), with the full collaboration of the various institutions. The program might be delayed by the effective launching of these national committees, and some of the expected project outputs might not be obtained if those bodies do not function effectively at the end of Phase I.
- Phase II may be subject to delay if the pace taken by the country in its contribution is not harmonious. A decision will have to be made whether to revise the timing of the activities, to drop the activities which cannot be performed, or to terminate the program.
- This phase should include an important component of training, complemented by the delivery of workshops. The training outputs will be essential. The program may have to be terminated if training is not available.

Phase III related risks

- This phase also relies on the effective performance of the national Transport and Trade Facilitation Committee. The main risk associated with the third phase is related to the effectiveness of government in agreeing on a policy environment which will contribute to the implementation of the proposed facilitation program and on the administrative and legal approval of proposed reforms.

IMPLEMENTATION AND EXECUTION

5.37 Implementation of the facilitation program should start during the third phase, but will overlap with project execution whenever the program has been made a part of the financing of a project. This was the approach taken in Ethiopia⁴⁶ and Mozambique and is the approach proposed for Pakistan, Nepal, and (probably) for Colombia. The Ethiopian experience illustrates a specific risk of the program approach since, by spreading actions

⁴⁶ Transport Project, 1989. The third phase of the Ethiopian Facilitation Program should have been carried out in coordination with the Emergency Recovery and Reconstruction Project (ERRP), which encompasses some of the Transport Project components. So far, nothing has been done.

over time, programs are subject to the same risks as projects are; in the case of Ethiopia the third phase has been interrupted by the war with Eritrea, and has not yet resumed.

5.38 The terms of reference for the Trade and Transport Facilitation Committee contained in Annex 2 are relevant to implementation and execution. Comments on implementation and execution made in Chapter IV, are relevant here.

6. LENDING IMPLICATIONS OF POLICY REFORM

REQUIREMENTS OF POLICY REFORM

6.1 The proposals for a trade and transport facilitation program which could originate as a result of trade and transport policy reform will normally encompass various sectors and sub-sectors. Reform of such broad content will be difficult and should only be undertaken as a result of a broad Bank consensus fully acceptable to the country or countries included, at least in its general scope.

6.2 Substantiation of the proposed reforms will need detailed studies prior to the preparation of a project document or regional sector report (in the case of a regional initiative). As an example, preparation steps for two of the current transport and trade facilitation initiatives in Africa (Côte d'Ivoire and UDEAC) are highlighted in boxes 9 and 10 below. Preparation of the proposed Facilitation Program in Pakistan was initiated in 1989 as part of the Port Project; it has continued through UNDP -financed UNCTAD assistance and is scheduled to continue as part of the Trade and Transport Logistics Project (see Box 1). As a pre-requisite to any subsequent project dialogue and/or action, two ingredients seem essential: *First*, to design the approach in the project document in such a way that flexibility is built into the decision-making process in two specific areas: the degree of reform required and the timing for introduction of reform. Flexibility of approach will be required at the time of project negotiations with a view to adjusting the overall goals of the Bank with the will of the government. *Second*, to obtain and substantiate in a satisfactory form during project preparation the government's will and conviction to carry out the proposed reforms.

Flexibility of Approach

6.3 In the case of the Ivorian Competitiveness project (Box 9), the reform proposals designed in the project preparatory studies were the subject of laborious negotiations and were tuned down. The Bank and the government agreed to carry out studies to ascertain the feasibility and timing of the original full proposals while key conditionalities in various sectors (i.e., maritime transport) would become effective. This decision, which is now being implemented, is satisfactory to both parties. It is the result of the flexibility built up in the original proposals.

Box 9: Côte d'Ivoire

The preparation of the Competitiveness "Sectoral Adjustment Lending" (SECAL) in Côte d'Ivoire (Dec. 1991), required sectoral studies related to the fiscal, commercial and trade and transport sectors. In the case of trade and transport procedures, separate studies of Customs on the one hand and of transport and trade on the other, were prepared. The transport and trade study was based on the "Transport Sector Review" (TSR) completed by the Bank (June 1991). The Customs study team worked in close coordination with the transport/trade study team. The resulting matrix of recommendations of the SECAL contained a priority selection of proposals of both studies under the following headings: External Trade-International Competitiveness; Promotion of Domestic and External Competition; and, Export Incentives. Measures proposed in the Matrix of the SECAL were designed as a *first step* to be complemented at a later date with a sector lending instrument, the current Transport Sector Project now under preparation, or by subsequent structural adjustment operations as has been the case in 1994.

6.4 The above example illustrates the need to reformulate project contents when warranted by changing political/economic conditions. In conceiving facilitation measures, flexibility for reformulation is an essential requisite of project design.

Box 10: UDEAC

The preparation of the UDEAC regional initiative (Customs Union of Central African States, encompassing Cameroon, Congo, Chad, Central Africa Republic, Gabon and Equatorial Guinea) has taken a different path. A Green Cover report on fiscal reform, dated October 1991 and proposing lending conditionalities for future operations, became the subject and part of a Protocol of Agreement signed by the finance ministers of the six UDEAC partners in November 1991. It has been followed by a Transport Sector Report (now in Green Cover) a base document for a potential structural adjustment operation. The report contains proposals for transport and trade conditionalities, endorsed jointly by the European Union and by the Bank, related to transit, Customs, shipping, freight-forwarding, banking and insurance. The conditionalities should be outlined in a joint protocol agreement as part of the introduction of the new transit system for cargo (TIPAC) which is part of the original 1991 proposals.

6.5 The approach to policy reform exemplified in the above Bank projects also contains an important ingredient of joint decision-making and joint project design between government and the Bank. It moves to the field, or to the open, delicate arguments on policies which could otherwise become bottlenecks at the moment of implementation. This approach could contribute to an implementation culture —i.e., having things happen in the open or in the field as much as possible. It also means that design of future sector projects can be influenced upstream when things can be changed and options considered.

Government Conviction and Will

6.6 In looking back at the Bank experience in transport facilitation, it is easy to note that cross-sectoral issues related to transport and trade are not often reflected in the lending programs and, therefore, have been very rarely selected as conditionalities for

lending, or have seldom been the subject of lending operations;⁴⁷ this trend is now changing. At the root of the problem we find the type of reforms needed to facilitate specific aspects of Customs, transport practices, or trade situations. Reforms required usually impinge on important vested interests of groups or institutions which carry substantial monetary value, and therefore are difficult to dismantle. Without government conviction that the reforms proposed will contain strong economic impact (and therefore are warranted), and without government will and power to act on the proposed reforms, the transport and trade facilitation proposals will not be acted upon.

Resources for Execution.

6.7 A natural consequence of the complexity of reform proposals required to carry out a facilitation program is the necessity to plan adequate resources for execution. The pervasive nature of the policy reforms proposed is such that sustained supervision will be required at the implementation stage. Implementation culture is still weak in many developing countries; this means reinforced supervision and execution resources which may, *first*, keep alive the will of acting upon policy reform and, *second*, coordinate government actions to implement reform.

MISSING ELEMENTS IN PAST BANK OPERATIONS

6.8 The review contained in Chapter IV suggests that in spite of increasing Bank interest in facilitation, furthering Bank initiatives will depend on improved organization and information practices. The most important missing elements in past Bank trade and transport facilitation operations (paragraph 4.18), can be summarized as follows:

- (a) insufficient in-house technical capacity
- (b) ineffective communications with UNCTAD and other facilitation institutions
- (c) insufficient allocation of resources to project and sector work
- (d) excessive emphasis in theory at the expense of practical experience;
- (e) limited scope of transport sector work (sector work not reflecting the user's perspective).

6.9 In addition, insufficient capacity and communications at Bank level have resulted in important shortcomings; these are:

- (a) poor definition of lending operations

⁴⁷ General Operational Review of Road Transport and Transport Rehabilitation, June 1987 (Transportation Department, OPS).

- (b) facilitation objectives in projects often competing with program priorities
- (c) sector work not adapted to needs (resulting from insufficient technical expertise, poor selection of consultants and poor supervision of their work)
- (d) isolationism of technical staff.

6.10 Concerning sector work on facilitation, the shortcomings mentioned above have led to scarcity of materials which may be used by Bank staff to further technical information. Among the themes which are missing, the following are worth mentioning:

- (a) *the social structure of the transport industry*, and how forms of association and the social background of the operator (e.g., Pakistan) affect the organization and capital formation of the industry;
- (b) *issues related to foreign-exchange scarcity*;
- (c) *dispatching and freight information management procedures better adapted to operating conditions in developing countries*; a management intensive activity which is often the root of substantial inefficiencies;
- (d) *role of freight consolidation and distribution facilities*; and the potential for improving the capacity of existing truck-stops, lorry-parks, freight-centers, and terminals and for providing basic services to the transport operator and freight-forwarders;
- (e) *the analysis of different approaches to deregulation*; although the topic of deregulation has been studied in Bank sector work, studies have been too theoretical and have not focused on the institutional environment of developing countries and on their social structures; in depth study of potential for substitution of regulatory requirements by commercial practices seems essential;
- (f) *international transport facilitation, the Customs and liability issues and the financial consequences of these issues*; the international framework of regulations which could facilitate international transport is deficient; many modal transport conventions on liabilities lack ratification by sufficient number of countries and domestic regulations in developing countries hamper applicability of potential agreements; there is a critical gap between the need for free transit procedures and the availability of practical instruments; this gap affects more specifically developing countries which suffer from obsolete regulatory frameworks and depend on the supply of transport and insurance by developed countries for handling their trade;
- (g) *development of freight-forwarding services in developing countries*; an essential condition for transport facilitation is the existence of a transport

market in which forwarding agents can decide and act upon the most advantageous routes and modal mix; domestic freight-forwarders in developing countries generally lack the ability to operate effectively in more than one mode or the standing to compete internationally; one major difficulty is the sheer lack of knowledge among Bank staff of the role of international freight-forwarding especially with regard to foreign-currency earnings (transport and insurance services);

- (h) *transit facilitation issues in land-locked countries*; in spite of specific studies, an analysis of the basic issues, practices, and agreements —and the potential for remedies—is essential.

6.11 It is evident from past Bank experience that when Bank sector work has been deep in content and broad in scope, the Bank has been able to provide a sound base for its lending and ultimately reach its goals; on the other hand, when sector work has been deficient, not sufficiently coordinated with borrowers or lacking depth or clarity, the Bank has failed to create a base for its supporting policy dialogue and, often, failed to reach its goals.

LENDING IMPLICATIONS

6.12 Implementation of a facilitation strategy presupposes both active participation and follow up. This should take place at the highest possible level and under the supervision of the Trade and Transport Facilitation Committee.

6.13 The Bank Group could intervene in the form of a structural adjustment credit for the transport sector (the funds of which would be released in accordance with the progress made and the steps taken) to finance the technical assistance components, equipment, and software to be identified. The subject is complex:

- (a) While some of the measures envisaged can be taken in the context of a sectoral transport project, others —particularly the ones that have to do with financing and banks— involve other disciplines; hence, there is a problem of project structuring:
- (b) The present difficulties in developing countries are mostly managerial; but the borrowers frequently attribute them to the absence of material means: poor management leads to a lack of material means, either because the material is not properly maintained, or because it is stolen, or because it is used inefficiently and not soon enough; and the desire to have as many material components as possible in a project can be explained by the personal advantages derived from procurement and the award of contracts; as a result, defining the project will pose a problem.

- (c) The most important instruments for obtaining policy reform are the conditions attached to lending operations, without which disbursement should not be carried out.

Lending Instruments

6.14 *SAL Operations*: Structural adjustment operations, in particular if they are followed by sector investments in sequence, are a good instrument for achieving policy reform on facilitation. The approach taken in Côte d'Ivoire (Box No. 9) with the Competitiveness SECAL followed by a Transport Sectoral Project is a good example of two operations in sequence, the second of which takes on redefining and adjusting the policy process left unfinished by the first. The approach now taken in Cameroon (Technical Assistance Credit, Transport Sector Adjustment Credit, Transport Sector Project) has the elements to be successful (see Box 10 for Cameroon components).

6.15 A number of criteria are important here:

- (a) outlining in the initial sectoral effort (in this case the Transport Sector Review of 1991 and the preparatory papers of the SECAL in Côte d'Ivoire) a time-frame, an order of magnitude, and a priority list of the subjects earmarked for reform, and completing the above with the scope of the reform, and with the essential products to be obtained from the reform effort;
- (b) setting up the objectives of the sector adjustment operations at the lowest possible level, but designing them in a way that leads to areas of global reform through one or various lending operations;
- (c) preparing the ground and scheduling a long sequence of lending operations suitable to achieve the desired global reform objectives identified.

6.16 *Specific Sector Investments*: Specific investment lending operations can be used, in particular, when policy reform can be linked to specific investments desirable to the country, and when projects can be designed by the Bank with a definite dual objective: investment and policy.

6.17 However, the General Operational Review of 1987 shows a very low level of compliance of conditionalities on specific investment lending operations. Supervision and lack of compliance with conditions seem to be at fault. In light of this, the full array of disbursement conditions and options available to the Bank should be investigated when preparing a facilitation operation as part of a sector investment.

Lending Conditionalities

6.18 There is disagreement within the Bank on the usefulness of conditionalities in furthering transport industry development. The core of the problem seems to be

implementation of conditionalities. While manageable conditionalities (realistic and which can be the subject of government implementation without impinging on deep social or political principles) are based on institutional change, there is a school of thought in the Bank that believes that institutional change must be preceded by a change of minds of the planners and, therefore, that institutional conditionalities are not realistic. Another school of thought, however, believes that there is an inertia in the policy framework of governments and that, therefore, policies tend to come back to square one if institutions (meaning the human element which make the institutions) are not changed. The Bank ought to follow the second school of thought. If the human element that makes the institutional strength is not changed from top to bottom, agreements on policy reform will be neutralized by the weight of the institutional inertia. It is true, however, that policy reform may filter down through the institutional level and have a long-lasting effect; but for this to happen it is necessary to have a series of projects with suitable inputs and continuity of dialogue.

6.19 In general, a review of project conditionalities, shows poor enforcement; it seems as if the Bank was either not interested in jeopardizing its general policy dialogue with the borrower, considering the transport industry and facilitation stipulations a nuisance to its main policy dialogue, or as that the Bank had other policy priorities which took preference.

6.20 *Agreement on conditionalities:* The approach proposed in the UDEAC fiscal and transport initiatives (Box No. 10) is based on the following steps:

- (a) preparation of a sector report, in this case regional, substantiating and defining desirable policy conditionalities and other actions which could become conditions of effectiveness or disbursement in subsequent lending operations —structural adjustment lending or specific lending—for a country or countries in a sub-region;
- (b) agreeing on the proposals of the report, between co-financiers and between co-financiers and borrowers;
- (c) incorporating the agreed conditions into sector adjustment credit or other type of lending followed by a transport sector operation (the current stage).

6.21 In all cases, the conditionalities agreed become instruments of policy reforms if future lending is considered in the specific sectors, prior compliance with the required conditionalities should become essential.

CONCLUSION

6.22 This review above review emphasizes that if the potential for improving trade and transport through facilitation has to be tapped, it will require the close cooperation of the various parts of the Bank and other institutions involved, and, furthermore, it will require that this cooperation is spread through the various stages of the project cycle. It is only in this manner that coherent strategies for development in diversified political, social, and

geographical environments may be worked out; these strategies should offer suitable programs of assistance on four different fronts:

- (a) institutional, encompassing the policy and human resources development of public and private institutions intervening in trade and transport;
- (b) technical, encompassing the improvement of direct or indirect resources contributing to the efficient delivery of trade and transport services;
- (c) financial, encompassing the lending instruments, mechanisms, and channels more suitable to reach the industry; and
- (d) operational, encompassing the utilization of resources through improvement of systems and facilities, and the simplification of documents and procedures.

CHECKLIST FOR IDENTIFICATION OF TRADE AND TRANSPORT FACILITATION COMPONENTS

The following topics may include items in need of facilitation. A checklist of potential problem area topics is provided for identification purposes.

Regulatory measures

- (a) institutional interference and means of facilitation
- (b) policies and regulations
 - (i) commercial
 - (ii) fiscal
 - (iii) financial
 - (iv) transport-related
 - maritime and water transport
 - land transport
 - multimodal transport
 - national/regional transport
- (i) profession-related
 - transport intermediaries criteria of qualification
 - liabilities/responsibilities
 - standards of services

Trade and transport facilitation measures

- (a) role of Customs controls: criteria for a "risk management policy" on Customs clearances
- (b) banking practices and monetary policies affecting trade and transport
 - (i) exchange controls
 - (ii) foreign-currency regulation
 - (iii) import/export monetary controls surplus to letter of credit requirements

(c) documents and procedures: alignment with UN lay-out key for documentary procedures

(d) insurance practices

Development policy measures

(a) shipping and water transport

(b) modal and intermodal logistics including port and land interfaces

(c) infrastructure facilities and their role in facilitation of logistics

(d) land-transport

(i) road

(ii) rail

(iii) transport intermediaries

(e) communications (electronic)

(f) air transport

Sub-regional coordination measures

(a) bonded facilities for transit traffic

(b) priority itineraries for transit traffic

(c) cost-recovery measures for use of transit infrastructure

(d) bilateral traffic-sharing agreements between neighboring countries

(e) liability provisions for international traffic

(f) road controls on transit traffic

Human and institutional resources development measures (HRID)

(a) the primary role of ministries should be as policy makers;

(b) administrative and operational control of transport services should be delegated to the agencies responsible for providing these services;

- (c) effective performance of transport service requires the application of objective criteria for the contracting of services, and the recruitment of personnel — subjective ministerial interventions in these areas must be eliminated;
- (d) ministerial policies and procedures should not restrict the effective performance of services; and
- (e) government ministries must be supportive of institutional restructuring, including the definition of sector strategies which take into account the level of resources available.

The sustainability of HRID reform also depends upon the commitment of private sector organizations. Change resulting from external pressure on such organizations is often marginal and difficult to sustain. Governments must actively seek to include private sector organizations in the reform process.

Topic	Potential Problem Areas	Suggested Actions
(a) Shipping	<p>Shipper's Council allocation of capacity</p> <ul style="list-style-type: none"> ◆ Delays ◆ Cost 	<ul style="list-style-type: none"> - removal of Shippers Councils' role in cargo allocation, and/or - Computerization of allocation process with entries made "a posteriori" - Privatization of Shipper's Council activities
(b) Modal and intermodal logistics	<ul style="list-style-type: none"> ◆ Port interface ◆ Late arrival of "Shipping Manifest" to destination port. ◆ Lack of local counterpart funds to cover L/C bank charges on imports ◆ Port congestion with goods waiting clearance (Customs) ◆ Multiple handling and transport operations at port. 	<ul style="list-style-type: none"> - Deposit and Fax of manifest at/from embassies/consulates at country of origin to ship agents and/or consular agents at destination - Use of EDI - Central Bank/Chamber of Commerce financial facility for importers - Privately-owned and managed container yards for container long-term storage - Input of "shipping Manifest" at Customs 4 hours after ship arrival - Auctions of good after reasonable period - Port rates review and upgrade - Review freight-forwarding tariffs and rationale for multiple handling - Logistic study of handling operations (basic commodities) and regulations
(b) Modal and intermodal logistics	<ul style="list-style-type: none"> ◆ Land Transfers ◆ Multiple handling- excessive cost at transfer points ◆ Pilferage/loss at transfer points. 	<ul style="list-style-type: none"> - Review freight forwarding tariffs, scope of operations and equipment levels - Review modal regulations for goods transport - Review liability levels for goods in transit - Review loading/unloading practices on truck railcars - Review writing and contents of documents (transit) - Review insurance levels (goods and transport unit) - Review transit management practices of carrier

Topic	Potential Problem Areas	Suggested Actions
(c) Infrastructure facilities	<ul style="list-style-type: none"> ◆ Lack of capacity for storage ◆ Inefficient use of transport facilities. ◆ Inadequate maintenance of facilities. ◆ Ownership of facilities 	<ul style="list-style-type: none"> - Review parastatal and private freight-forwarding storage rates. - Review provisions of Investment Code - Review potential for an ICD - Review storage rates - Review management practices of parastatals - Review maintenance responsibilities, private sector incentives and investment code provisions - Review privatization prospects and user rates
(d) Customs	<p>Its means of administration, performance and overall influence on goods immobilization and transit time;</p> <ul style="list-style-type: none"> ◆ Manual tasks and/or degree of introduction of electronic data processing; ◆ Customs declarations <ul style="list-style-type: none"> • timing and rationale for information • documentation ◆ Policies: risk management ◆ Pre-shipment quantity and quality inspection 	<ul style="list-style-type: none"> - Assess overall performance, means of operation and computerization levels - Selection of electronic program compatible to needs - provision of technical assistance for access to program. - Assess and workout program jointly with transport, intermediaries (facilitation) - Assess fiscal risk of encouraging "risk management policy". - Assess needs of professional services such as SGS
(e) Institutional Interference	<ul style="list-style-type: none"> ◆ Impact of informal transactions and payments on freight immobilization. 	<ul style="list-style-type: none"> - Assess, study cost, try to obtain government conviction and will to provide corrective action
(f) Banking and financial practices	<p>Banking regulations and procedures.</p> <ul style="list-style-type: none"> ◆ Foreign-currency regulation ◆ Exchange rate regulation ◆ Liquidity of imports 	<ul style="list-style-type: none"> - Assess needs for facilitation and make proposals - Join dialogue on foreign currency reform - Join dialogue on exchange rate regulatory reform - Work plan with Central Bank to easy financial provisions
(j) Communications	<ul style="list-style-type: none"> ◆ Power and telecommunications situation in the country. ◆ Use of EDI communications. ◆ Introduction of UN-EDIFACT. 	<ul style="list-style-type: none"> - Assess preparedness of country to receive EDI systems specifically Customs, ship agents, freight-forwarders, banks, port authority, etc.

<p>(h) Policies and regulations</p> <ul style="list-style-type: none"> ◆ Commercial ◆ Fiscal ◆ Transport 	<ul style="list-style-type: none"> ◆ Inadequate trade procedures ◆ Restrictive Trade Regulations ◆ Disincentives to transport operators to improve services capabilities and invest in equipment replacement ◆ Road Transport (domestic) <ul style="list-style-type: none"> • entry limitations • quantify restrictions • economic regulations • import restrictions • safety regulations • technical inspections • vehicle registrations • means of association • monopolistic practices • oligopoly • liability regimes • insurance • access to financing ◆ Road Transport (international/regional) <ul style="list-style-type: none"> • fiscal regulations • registrations • quantify and entry restrictions (bilateral agreements) ◆ Rail Transport <ul style="list-style-type: none"> • internal regulations (parastatal) • economic regulations • protection from other modes • operational regulations • procedural requirements (commercial regulations) ◆ Water Transport (inland) (as for rail transport above) ◆ Intermodal including container and modal interface (transfer) 	<ul style="list-style-type: none"> - Assess trade regulatory procedures for compliance with ICC rules - Assess cost of import/export major commodities and start dialogue with government on deregulation - Assess fiscal environment of trade and propose measures - Assess rationale, content and effect on efficiency; propose modifications or updating - Assess rationale, content and effect on efficiency; propose modification or updating - Assess rationale, content and effect on efficiency; propose modification or updating - Assess rationale, content and effect on efficiency; propose modification or updating - Assess adequacy and propose state-of-the-art (container conventions) and/or review existing needs
<p>(i) Transport intermediaries and operators: standards, criteria of qualification and role</p>	<ul style="list-style-type: none"> ◆ Freight-forwarders <ul style="list-style-type: none"> • regulatory and economic environment • entry into the profession. • standards and qualification • liability provisions • financial performance • agency network coverage. 	<ul style="list-style-type: none"> - Assess current situation and propose modernization (e.g. FIATA standards) and/or study role of freight-forwarding in non-factor services financial flows - Assess performance and discuss

	<ul style="list-style-type: none"> ◆ Customs Brokers <ul style="list-style-type: none"> • reliability • criteria of qualification • regulatory environment. ◆ Ship Agents/port handlers stevedores <ul style="list-style-type: none"> • economic and contractual environment • performance 	<p>with Customs; prepare ground for regulatory modernization.</p> <p>- Assess situation through study of professional capabilities</p>
(j) Documents and Procedures	<ul style="list-style-type: none"> ◆ Compliance with UN layout key standards ◆ Compliance with ICC Rules. ◆ Compliance with national and standard international practices 	<ul style="list-style-type: none"> - Alignment of documents to UN layout key - Facilitation of procedures to ICC international requirements. - Thorough review of import/export documentation and proposals
(k) Insurance	<ul style="list-style-type: none"> ◆ Restrictions on insurance of imports ◆ Protection of national companies. 	<ul style="list-style-type: none"> - Assessment of the situation and proposals - Dialogue at appropriate level

NATIONAL TRADE AND TRANSPORT FACILITATION COMMITTEE

TERMS OF REFERENCE

A. Purpose and Objectives

1. The purpose of the National Trade and Transport Facilitation Committee (NTTFC) is to encourage the modernization of transport practices and technology in support of the international trade of the country.

2. The specific objectives of the committee are as follows:

- (a) to provide a national forum for the facilitation of formalities, procedures and documentation used in international trade and transport (*facilitation objectives*);
- (b) to propose, for government approval, draft transport and trade-related regulations and practices (*regulatory objectives*);
- (c) to make policy recommendations on future transport investments (*development policy objectives*); and
- (d) to increase awareness of the methods and benefits of trade and transport facilitation (*training objectives*).

3. These four specific objectives will lead to the following activities:

- (i) *Facilitation objectives:*
 - (ii) to ensure the proper coordination in the field of facilitation of international trade and transport;
 - (iii) to keep under review the procedures required in international trade, including multimodal transport, with a view to their simplification and harmonization;
 - (iv) to collect and distribute information on international trade and transport formalities, procedures, documentation, and related matters;
 - (v) to pursue the simplification and alignment of trade and transport documentation on the basis of the United Nations layout key, including documents designed for use in computer and other automated systems; and

- (vi) to promote the adoption of the standard trade and transport technology and international codes for trade and transport information (EDI).

(b) Regulatory objectives:

- (i) to review, comment, amend, and propose for government approval new draft documents on liability, civil responsibility, banking and intermodal transport regulations (including container transport) with a view to update current regulations and practices embodied in the Commercial Code and other legal texts;
- (ii) to follow up on the final approval of proposed regulations and practices with the various institutions concerned and through institutional and executive channels; and
- (iii) to examine the convenience for the country to adhere to international conventions which can facilitate international trade and transport, including the United Nations Convention on the Carriage of Goods by Sea, the International Multimodal Transport of Goods Convention, the Kyoto Convention, the 1972 Customs Convention on Containers, the Convention on Temporary Admission of Containers and the Pool Containers Convention

(c) Development Policy objectives:

- (i) to review the policy content of intermodal investments (such as potential ICDs) and to facilitate, as appropriate, the introduction and development of transport and trade technologies and investments (such as EDI technology); and
- (ii) to address, as a national consulting body, questions related to the institutional development of intermodal regional and international transport (such as the international coverage of national companies; public responsibility and management of facilities; joint-ventures; etc.).

(d) Training objectives:

- (i) to organize and implement campaigns to publicize the benefits and requirements of simplified documents and procedures, aimed at policy-makers and senior decision-makers in government organizations, parastatal bodies and transport operators, and Customs and other regulatory bodies;

- (ii) to organize and present a series of seminars or workshops for policy-makers and senior decision-makers, and for middle and junior managers in transport operations, to make them aware of multimodal transport principles, practices and implications; and
- (iii) to organize, as a follow-up to the awareness programs, short visits by technical experts to advise on how to streamline transport logistic operations and to maximize the benefits derived from facilitation.

B. Composition and Authority

4. The National Trade and Transport Facilitation Committee would bring together representatives of all parties concerned with multimodal transport and trade in the country:

- transport authorities
- other government agencies (Customs/ministries of finance, planning, Central Bank, etc.)
- other banking institutions
- insurance companies
- transport users (shippers, consignees, importers, exporters, freight forwarders, etc.).
- Chamber of Commerce
- international transport operators (shipping companies, airlines, MTOs and their agents)
- port authorities and transport terminal operators (including ICD operators), and
- inland transport operators (road, rail, inland waterways).

5. To make the Committee operational, it might be appropriate to create a Permanent Commission that will be responsible of following closely the implementation of the Committee's decisions. This Permanent Commission, composed of a reduced number of key institutional Committee members, will be assisted by a Technical Secretary who will have full-time responsibility of following up national facilitation and human resource development activities and who will prepare the agenda for meetings of the national Committee.

6. The lead organization for the National Trade and Transport Facilitation Committee should be identified by the National Central Planning Unit, in consultation with the concerned ministries. It might be convenient to give this responsibility to the Ministry of Transport/Communications, which can also provide secretariat services to the committee or to the Ministry of Finance as responsible for Customs. The committee will designate a *chairman*, preferably the minister, the secretary general, or the permanent secretary of the ministry. The

committee will also appoint a *National Transport Coordinator*, who will have full-time responsibility of national facilitation and human resource development activities and who will prepare the agenda for meetings of the National Committee.

7. The authority of the committee is part of the authority of the respective participating institutions.

C. Scope of the Committee Recommendations

8. The committee is a consulting body. It will have authority to prepare recommendations and advise on domestic and foreign policy matters related to the development of trade and transport. Its recommendations will be made in the form of proposals to the institutions concerned and to the executive branch of the government.

9. The chairman of the committee will, at the request of the committee, submit the committee's proposals to the appropriate authority.

D. Work Program

10. The committee will prepare and implement its work program aimed, *inter alia*, at:

- (a) the implementation of harmonized national transport regulations and the organization of trade facilitation and multimodal transport training activities;
- (b) the development of policies and solutions to trade facilitation and multimodal transport problems, in particular regarding daily problems of port operations, inland transport as well as Customs related issues; and
- (c) the national promotion of the development of electronic data interchange systems (EDI).

11. The committee will meet regularly (e.g., once every two months) or at the request of its chairman or any of its members.

E. Sub-regional Coordination

12. From each of the National Committees, two of three members, including the chairmen and the national transport coordinators, will constitute the Sub-Regional Trade and Transport Facilitation Committee, which will meet every six months. The basic terms of reference for this Sub-Regional Committee are:

- to monitor regional progress in the field of transport and trade and to coordinate regional awareness campaigns;

- to identify common inhibitions (technical, institutional or commercial);
- to identify common solutions/regional action required to solve existing problems;
- to set region-wide standards for documentation, tariff structures, EDI, etc.

13. *The Sub-Regional Committee will have an important role to play.* Some activities, such as standard-setting, necessarily have to follow a top-down approach, while the very nature of facilitation measures and multimodal transport requires that cross-border coordination takes place. In fact, the need for coordination will not be confined to the trading partners and third countries, since the introduction of facilitation measures and multimodal transport by one country and not by its neighbors may create problems with respect to transit trade from, to, or through such countries.

14. The important steering role of the Sub-Regional Committee could be substantially strengthened by assigning *ad-hoc* expert services at its disposal.

TRANSIT TRAFFIC FACILITATION IN SUB-SAHARAN AFRICA

REVIEW OF BANK ASSISTANCE: 1960-1990

SEPTEMBER 15, 1992
OPERATIONS EVALUATION DEPARTMENT

1. A large percentage of the hundred-odd million of inhabitants in land-locked countries encompassed in this review (Uganda, Rwanda, Burundi, Malawi, Zambia, Chad, CAR, Niger, Burkina Faso, and Mali) will for the next decade or so be increasingly dependent on overseas aid, not only for development but for physical survival. Limited aid can be delivered by air, most of it will have to come on surface routes, and since surface routes traverse the territory of littoral neighbors, it is imperative that transit conditions be improved. On their own, land-lock countries and littoral countries cannot do it. Donors must therefore play a much more active role than in the past. Given that transit facilitation is a complex, time consuming, multi-country undertaking, donors must anticipate that their technical and financial assistance will have to be extended through consecutive interventions over a period not of years but of decades. It might therefore be advisable for donor planning to rely more on adherence to basic principles than to elaboration of elusive details.

INCEPTION/PREPURATION

2. Corridors provide an opportunity for multimodal transport, involving railways (which are parastatal organizations), private trucking firms, and port agencies (which are also parastatal). Parastatal agencies are not held in high regard by shippers. This is due to perceived management inefficiencies, shortage of railway rolling stock, poor availability of port cargo handling equipment, cumbersome Customs regulations, and high levels of corruption. In addition, major difficulties associated with road transport (which is by and large the preferred mode) relate to poor condition of roads, to severe damage to roads caused by heavy volumes of overloaded trucks (particularly oil tankers), and to harassment by Customs and police officials. All these factors add to the cost of transport. Consequently:

first recommendation:

Donor assistance for transit facilitation must no longer be delivered as just another component of a highway, port, or railway project. It must be *planned* and delivered as an integrated package.

3. Donor assistance will fall under two categories: (a) Financial (for creation or maintenance), and (b) Technical (for improvement of policies and operations).

second recommendation:

Infrastructure and Equipment: Minimum emphasis on capital formation; maximum emphasis on maintenance.⁴⁸

third recommendation:

Operational Policy: Minimum —emphasis on regulation and maximum emphasis on staff training and career development.⁴⁹

4. Transport system performance is affected by the balance of imports and exports and the choice of route for each. Exports are affected by world markets, which for coffee, tea, cotton, timber and minerals (that is to say, the principal exports of landlocked countries in SSA) are presently depressed and likely to remain so for some time to come. Route choices are also influenced by political relations, border hostilities, and traditional arrangements for shipping a particular product out of a particular port. Transport services are affected by the prevailing work ethos regarding work discipline, financial scrupulousness and lack of familiarity with modern business practices; absence of any one of these characteristics leads to poor service, poor utilization of equipment, unused capacity, and operational losses.

fourth recommendation:

Since no recipient or donor can, on his own, resolve such a multitude of problems, genuine collaboration is to be regarded not merely as desirable, but as absolutely necessary.⁵⁰ Generally speaking, the private sector in recipient countries should be encouraged to participate far more than it has in the past whenever any donor-assisted initiative is planned to facilitate transit traffic.⁵¹

⁴⁸ The only exception ought to be for new corridors expected to encourage trade among the Sub-Saharan countries. So far, the tendency was to improve corridors that would facilitate overseas trade. Comparable attention ought to be given to corridors between, say, CAR and Sudan, Niger and Chad, Mali and Burkina Faso.

⁴⁹ Truck overloading is a common occurrence that leads to rapid road deterioration. Attempts to standardize axle load limits are usually slowed by pressures from the truck owners who want time to phase out existing fleets. Enforcement is an altogether different issue: the bribes necessary to avoid fines are usually treated as one element of the cost of doing business.

⁵⁰ Fortunately, the one element not in short supply is local expertise regarding what needs to be done to facilitate transit traffic. In all recipient countries, domestic and international firms working in transport, shipping, forwarding and warehousing, as well as academics and consultants who have been observing local trends and conditions for years, would make invaluable contributions to the design of better interventions.

⁵¹ Extensive interviews conducted in early 1992 by OED staff in the 15 SSA countries suggest that private sector participation would not only help identify the specific obstacles which impede the free flow of traffic in specific corridors but would also offer solutions that would be feasible in the specific socio-political environment.

APPRAISAL

5. The appraisal phase of future interventions should focus on four topics: institutional barriers, technical assistance, privatization, and specific measures to strengthen a particular point of the transport chain.

fifth recommendation:

Relaxation of institutional barriers must be vigorously pursued because it promises to encourage competition and to reduce costs.⁵²

sixth recommendation:

Recipient resistance to technical assistance is a fairly widespread phenomenon, often justified by the poor quality of expatriate staff. At the appraisal phase, donors must see to it that the technical assistance they offer is of the highest quality. By the same token, recipients who accept financial assistance must also agree to accept the technical assistance that goes with it.

seventh recommendation:

In order to encourage efficiency, the donor community ought to require a high degree of privatization of many of the functions currently performed by parastatal agencies.⁵³

eighth recommendation:

Donors must pay the greatest attention to railway modernization in SSA.⁵⁴ One possible improvement would involve obtaining recipient agreement to

⁵² Standardization of trucking regulations and axle loads, streamlining of Customs procedures in ports and at border crossings, and greater interlining of railway rolling stock would go a long way towards removing obstacles to the free flow of goods and passengers. There is much scope for increasing the use of unit trains for transit traffic, and this would reduce both delays and cost. However, unit trains depend upon interlining locomotives and the concept falls apart when it becomes necessary to stop trains simply to change locomotives.

⁵³ In the case of railways, functions that are ripe for privatization include both rolling stock and track maintenance. The railways themselves ought to retain adequate supervisory staff for inspection and control. However, these functions are generally a small part of the total cost of equipment maintenance and maintenance of way. Port operations offer greater latitude for privatization, including equipment operation, equipment maintenance, and even stevedoring. It is doubtful that the efficiency of these operations can be improved in any other way. In addition, pilotage and tugboat operation can also be privatized, a common practice in many ports of the world.

⁵⁴ The long-term objective ought to be to make greater use of existing railway facilities which, if properly managed, have inherent cost and even travel time advantages because the distances involved generally fall within the range where rail can compete with road transportation, certainly for bulk commodities, including container traffic. Actual experience with most railway projects shows that objectives have not been achieved for a variety of reasons, the most important of them being government interference in tariff matters and in the appointment of senior staff.

have a donor appoint one or more members to the railway Board of Directors as a precondition for loan approval and disbursement of funds. Similar conditions could apply to other parastatal agencies (such as Port Authorities) receiving large donor assistance.

6. Current *administrative* arrangements in the Bank, with different divisions responsible for different country programs, are not suitable for the delivery of assistance to multi-country.

7. Working-level contacts among the Bank, other donors and recipients have to be significantly strengthened. Bank staff working in anglophone countries are not sufficiently aware of conditions in neighboring francophone countries. Bank staff are not sufficiently in contact with their counterparts in major donor agencies. Technical staff in member countries have few opportunities to meet, and thus to begin collaborating, with their counterparts in the neighboring country. Working-level contacts cannot be established as long as corridor projects depend on periodic visits from Washington-based staff.

ninth recommendation:

Specially selected Bank staff must be posted in the field and granted sufficient authority to plan and supervise Bank-financed corridor projects.

8. For the Bank, this will be an expensive step. However, the Study Team considers this to be its most important recommendation. In SSA, the present state of railways, the inefficiencies of parastatal organizations, and the poor quality of most road infrastructure result in costly and unreliable transportation for both domestic and transit flows. Issues and problems are well understood. Some relate to the shortage of capital for reconstruction and maintenance; others to inefficient management and corruption; still others to the lack of training and to the choice of what frequently turns out to be inappropriate technology.

9. Examples of malfunctioning or poorly utilized equipment are legion. Most of them can be explained in terms of provision of inappropriate technology, or failure to include after-sales maintenance. For this reason alone, the Study Team feels that supervision of Bank Assistance delivery ought to be done by the staff resident in the field who would be fully empowered to control funds and personnel associated with any Bank-financed project. Specifically, the Study Team feels that contract awards ought to be done independently of government agencies, and that construction contracts ought to include arrangements for a 10-year maintenance contract with the firm that executed the work.

TRANSIT CORRIDOR EVALUATION SUMMARY

1. A major effort to study transit corridors linking land-locked developing countries (LLC) to the sea in West Africa was recently completed by the World Bank.⁵⁵ The study reiterates the need for a methodology which quantifies the overall benefits and costs to each of the countries involved, taking into account factors which at first sight may not seem directly related to the actual flow of goods but which are perceived by both shippers and freight-forwarders as major determinants in the choice of one corridor over another. Such exogenous factors include, but are not limited to, the trucking allocation agreements (e.g., the one third/two thirds rule) between LLCs and Transit countries (TCs), the maritime shipping codes (e.g., the United Nations Code of Conduct for Liner Conference), Customs procedures, freight-forwarding fees, and storage policies. Proper quantification of net benefits or costs for each of the countries involved in the transit movement is probably the first step for serious negotiations of transit policies, Customs, and trade facilitation procedures between the *governments* involved. The periodic estimation of those benefits and costs may also serve as a deterrent to unilateral decisions by Customs and transport ministries to alter facilitation procedures without proper assessment of the economic and financial impact of those changes on their countries and their importers or exporters.

2. To illustrate the magnitude of the costs incurred with transit traffic flows in the Sahelian region, the World Bank study estimates that in 1987 the total direct generalized costs (including ocean shipping costs) for the 337,000 tones of transit traffic to/from Mali were approximately US\$100 million. The total economic cost for Mali for this transit traffic was roughly 5 percent of the estimated GDP for 1987. Payments to other countries for the transit traffic totaled US\$48 million, approximately 50 percent of total direct costs. To obtain a significant reduction of the direct cost of transit traffic and of payments to other countries, Mali should attempt to reduce shipping rates for its imports and exports. A reduction of 25 percent of the present conference rates, by using a combination of non-conference and tramp shipping, would reduce the transport bill by 10 percent and the payments to foreign countries by 18 percent. These results highlight the importance of reducing shipping rates and suggest that Mali should attempt to take as much

⁵⁵ Infrastructure Division, Technical Department, Africa Region (AFTIN)- "Corridors de Transport en Afrique Sahélienne, Le Cas du Mali (Rapport No. 7670-MLI); Le Cas du Burkina Faso (Rapport No. 8813-BUR); le cas du Niger (Rapport No. 8814-NIR)." The World Bank 1989 & 1990.

advantage as possible of the non-conference shipping market. Moreover, an analysis of the composition of total generalized costs of imports to Bamako originated in Atlantic Europe suggest that shipping rates represent 33-37 percent of the cost per tonne while land transit costs and port charges account for 30-33 percent and 6-9 percent respectively. Delays in ports and terminals caused by low productivity and slow Customs clearance and red tape add between 29-45 percent to the total time from origin to destination and are longer than the sea leg of the movement which represents 29-36 percent of the total time, depending on the seaport chosen. The analysis of the composition of the total transit time is necessary to identify major bottlenecks and estimate the inventory costs incurred with the movement. The latter reflects the inventory financing costs to the consignee, since the capital invested in the imported goods en route could be earning interest elsewhere. In the case of Mali the inventory costs estimated at a 10 percent interest rate ranged from 7-8 percent of total costs.

3. Direct transport and transit charges are only elements of much larger total transit-transport costs faced by the landlocked country. The concept of generalized cost is based on the fact that direct costs are only one element of the total transport cost. The prices charged for handling and moving freight are important but so are the costs attached to *average transit time*, the *reliability of delivery times*, and the *loss and damage* to goods.

4. For example, the longer the transit times, the higher are the inventory financing costs for the owner (consignee), because the capital invested in the goods could be earning interest elsewhere. These other, more indirect transit costs may, when taken together, be far higher than the direct transport prices charged, although they are not reflected in terms of immediate out-of-pocket costs. Any improvement which reduces the direct costs of transport may also affect these other elements of generalized cost and thus the total benefits of the improvement.

5. Similarly, the study estimates that the total cost for Burkina Faso's international traffic in 1988 was US\$133 million or 23 percent of the total value of its imports and exports and 7 percent of its GDP. The land transport portion of that bill was roughly US\$73 million (4 percent of GDP) while the ocean shipping costs were estimated at US\$33 million (2 percent of GDP). Furthermore, it was estimated that Burkina's general cargo generates annual gross revenues of US\$30 million (about 100\$US/ton) for Côte d'Ivoire, and US\$3.3 million for Togo (about 50\$US/ton). In Niger, the total generalized cost in 1988 for the international traffic was estimated at US\$150 million or 37 percent of the total imports. The land transport cost for that traffic was estimated at US\$67 million (3 percent of GDP) while the ocean shipping costs amounted to US\$36 million or 1.5 percent of GDP. The international traffic of Niger generated annual gross revenues of US\$25 million

(US\$100/ton) for Benin, US\$7.6 million (\$US86/ton) for Togo, and US\$3.3 million (US\$90/ton) for Nigeria. In short, the costs and benefits involved in transit movements are quite important and their proper evaluation is crucial if the decision-makers are interested in assessing the impact of major changes in transport policy and facilitation procedures.

6. The technical and economic evaluation of transit corridors which link landlocked LLCs to the sea is somewhat complicated because one must take into account the infrastructure, operations, and institutional aspects in at least two countries and very often in more than three countries. Furthermore, the analysis must examine in detail the custom procedures, inter-country agreements, and trade facilitation procedures in all the countries involved. The economic evaluation of improvements in a transit corridor would usually be incomplete if only the effects on transit traffic are considered. Normally, transit infrastructure is an integral part of the domestic transport network of the transit country. It is the nature of most transport investments that the improvement of the infrastructure for one specific flow will also improve conditions for all other traffic using the *same* infrastructure. Consequently, three distinct flows may have to be considered.

- (1) Transit traffic: between the landlocked country, the seaport, and overseas;
- (2) Domestic traffic: internal transport of goods within the transit or landlocked countries; and
- (3) Mutual trade or regional traffic: goods flowing between the landlocked and transit countries.

In order to appraise any infrastructural improvement to the transit system, the costs and benefits stemming from each of these individual flows must be estimated. Moreover, as discussed previously, the distribution of net benefits between landlocked and transit countries must also be considered. It is necessary to evaluate the *financial* effects for both countries, and then the real resource effects as market prices often do not reflect social costs. The appraisal is further complicated when transit goods are carried in vehicles owned by nationals of both the transit and landlocked countries. The relatively simple appraisal technique used in most transport investments (multiplying total flow by the unit reduction in social costs) is inadequate. A much more complex analysis of flows and costs, together with consideration of competition within the transport sector, is required.

CUSTOMS SOFTWARE PROGRAMS

(EVALUATION OF CURRENT PROGRAMS AVAILABLE IN MALI, SENEGAL AND CÔTE D'IVOIRE

1. Sydonia (ASYCUDA) — Mali

Mali is currently using ASYCUDA version 2.51 which was released by UNCTAD in 1994. It plans to move to version 2.6 this year. Since this generation of ASYCUDA will be phased out over the coming years there will be no more functional enhancements prepared for it. Instead, development efforts will be entirely focused on ASYCUDA++ (version 3), which is based on state-of-the art IT tools. This client/server architecture runs on UNIX base servers (micros, minis or mainframes) using INFORMIX or Oracle. The user access the system through DOS/WINDOWS based work stations assisted by a modern user interface. The system design relies completely on the exchange of messages between the clients and the server and therefore can readily handle network interruptions, remote trader input (DTI) and EDI using EDIFACT. The existing functions in version 2 have been enhanced in a number of ways. In particular, the system provides a fully fledged selectivity module, an SQL window for direct and powerful access to the data base and user friendly translation utilities. The fact that UNIX is being used in all departments of the Ministry of Finance will facilitate the eventual migration towards ASYCUDA++. Through many years of implementation experience in more than 60 user countries ASYCUDA has matured to a highly regarded package which is used as the major tool for Customs reform and modernization projects. Its universal suitability has been achieved through the close cooperation with Customs experts from all major countries having national experience with computerization. All relevant international standards are supported such as recommendations of the World Customs Organization, the United Nations Trade Data Element Directory, the relevant ISO codes and EDIFACT. The most impressive features of ASYCUDA are its cost and the operational support that is offered from the United Nations. ASYCUDA is provided free of charge in the context of a technical cooperation project which includes technical advisors and training to help in the rationalization and streamlining of procedures. ASYCUDA is currently available in eight languages and comes with utilities permitting easy translation if required. It can be configured for the entire range of very small to very large countries and can also dynamically grow following emerging needs or progressive automation strategies. ASYCUDA's hardware or RISC machines are better able to respond to user needs and the system is compatible with this type of hardware platform.

2. Gainde — Senegal

Gainde is a traditional mainframe based system. It is very new and is currently experiencing the growing pains that come with a new product. The Senegalese are not willing to sell it. Gainde runs on ISM MVS mainframes under CICS. It was written using Computer Associates product Universe. The Senegalese currently have approximately 100 users of Gainde and are experiencing slow response time even though they are using two IBM 4381. Work is currently under way to convert Gainde from the Universe product to other Computer Associates products called Ideal and Datacom. This conversion along with the upgrade to an IBM 3090 should improve response times tremendously. Gainde covers all of the major functions that are required in a Customs system. The modules that they currently support are: manifests, declarations, licenses, warehousing, collections, in-transit goods, selectivity, tariff calculations, and examination findings. Gainde is very sophisticated and has many good features; however, the biggest problem it faces in a developing country is the reliance on a centralized system. A centralized system requires a very good communications infrastructure which countries like Senegal do not possess. There is no doubt that within one to two years Gainde will have matured into a very robust system, if the problems associated with proprietary architectures (IBM and Computer Associates) do not hamper them. The designers of Gainde built into the system the ability to support international standards such as EDI and EDIFACT. The Dakar Port Authority is going to implement an open port system called ESCALE; and Gainde will be able to interface with it and accept data from it. The hardware/software configuration that the Senegalese are using to support GAINDE is as follows:

- IBM 4381 (1 92E and 1 91 E) running MVS/SP
- IBM 3380 Dasd units
- Tape drives
- Communications controllers
- Vtam and NCP for telecommunications
- terminals (Both PC emulations and actual terminals)
- programs to comprise the bulk of GAINDE

This configuration allows the support of 100 concurrent users processing approximately 300 - 400 declarations per day and 3 - 4 manifests per day.

3. Sydam — Côte d'Ivoire

- Sydam appeared to be the most stable of the large systems that were evaluated. The Ivoirians have built Sydam into what appears to be a very stable system. Sydam supports the major functions that a

Customs system must possess such as manifest, warehousing, collections, penalties, and declarations. From a users standpoint Sydam is not very friendly, there are no facilities for on-line help or code lookups. It is these features that makes Sydam look old and dated. Other drawbacks to Sydam include the lack of support and no desire to support international standards such as EDI and EDIFACT. Another drawback to Sydam is the closed environment in which it operates. Private companies that may already be automated are not allowed to prepare data on their own system and simply transfer it to Sydam. Instead, they are forced to key all data in. The local port authority, like that in Dakar, is preparing to implement ESCALE as an automated port community system; however, unlike Dakar, the policy in Abidjan is that Sydam will not draw data from ESCALE. On the positive side Sydam does work and more than pays for itself, since the consignors and transitaires are forced to use it and also must pay to use it. Sydam requires Honeywell Bull DPS6000 series computers running GCOS6 as an operating system and TPS6 as the data base. This machine is available in a range of configurations from a small single processor unit all the way up to a six processor unit. Sydam, like Gainde, makes very good use of preprinted forms for manifests, declarations, liquidation notices, examination instructions, and receipts. There are currently two data centers in Abidjan to support the operations of Sydam. The hardware/software installed in each location is:

- Honeywell Bull DPS6000
- Mbabytes of Dasd
- Honeywell Bull tape drives
- modems
- GCOS6 as the operating system
- TPS6 as the data base.

This configuration allows Sydam to process approximately 400 declarations per week at the seaport and 300 declarations per week at the airport. On an average there are 25 concurrent users of Sydam with a maximum of 60. Under the current configuration the practical maximum number of users would be in the range of 100.

DESCRIPTION OF THE ADVANCE CARGO INFORMATION SYSTEM (ACIS)

1. ACIS provides the following overall facilities:

- *improved information* to help control the operations of individual transport operators,
- advance information on the movement of individual consignments, providing the opportunity to transport managers to plan the optimum use of transport networks, equipment and standing facilities, leading to *improved transit times for goods*,
- a database facility available to a party registered as having an interest in a consignment and its transportation, providing them with the *latest reported location and status of goods* and transport equipment,
- a database for *rational corporate planning* by transport operators through the production of regular statistics and performance indicators,
- a *long term record* of transport movement data to build up national and sub-regional databases where appropriate and to permit governments and institutions to analyze national, sub-regional and regional problems in order to investigate alternative investment in the transport sector.

The four components of ACIS are described below.

2. *PortTracker* comprises five separate modules:

- The manifest transfer system enables shipowners to electronically transmit manifest data from abroad to the port and vice-versa, using the UN/EDIFACT standard manifest message. This module provides information on cargo coming in and out of the port by sea.
- The Harbour Master/Operation Planning module monitors ships' movements, port services and berth occupancy.

- The Gate Pass module tracks cargo consignments leaving the port by surface transport and being handed over to onward hauliers, or vice-versa.
 - The Port Statistics module is based on the UNCTAD Uniform System of Port statistics and performance indicators.
 - The telecommunication module links inter-port sites.
3. *RailTracker* comprises six separate modules:
- RailTraffic tracks rolling stock and consignments.
 - Railstats is a Uniform System of Rail Statistics and Performance Indicators produced from data gathered by other RailTracker modules.
 - RailInterchange monitors border traffic interchange as well as interchange between railways (not necessarily at borders).
 - RailCommunications deals with intra- and inter-railway communications.
 - RailTutorial provides user training via a standard software module. This basic tutorial module is also used for the other modes of transport.
 - SETIM: a Commercial module for railway bill management (co-developed with SOFRERAIL based on SICOF-SNCF).
4. Other optional modules are foreseen for the future: "Terminal Control" for monitoring terminal operations in marshaling yards or port rail-heads, "Maintenance" for locomotives and rolling stock.
5. *RoadTracker* will be different from RailTracker due to the particular nature of road transport; it has three modules:
- Road Bill Data Entry records roadway bills at a central location.
 - vehicle Database built around a central commercial vehicle database.
 - Road Statistics analyze the roadway bill data.
6. *LakeTracker* will comprise two modules: (can be incorporated into RailTracker)

- LakeTraffic monitors the traffic on the waterways (lakes or rivers).
- Lakes Statistics produces statistics and performance indicators.

7. *Interfaces to other systems:* A TrackerInterface system will manage the exchange of information between ACIS and other information systems which are usually computerized in most countries. These include the Port Authority Management Information Systems, the Customs Systems and the various Clearing and Forwarding Agents' Systems. It will also provide the unified interface to any future external systems to which ACIS is connected.

8. *Central logistics Units (CLUS)* are national hubs for storing and forwarding cargo and equipment transport data collected from user modes and interfaces which are connected to the Central Logistics Unit of each country: The CLUs act as hubs for storing cargo and transport equipment movement data and status information, nationally. The CLUs are designed to be connected to each other to form an international network called the Backbone Information System (BIS) which will manage the fully automated data flow.

THE CONCEPT OF MULTIMODAL INFORMATION PLATFORMS

(SEE DIAGRAM 1 ON TEXT, PARAGRAPH 1.37)

1. Multimodal information platforms can be described as the converging points for goods and information related to goods movements, where transfers between modes of transport occur, where "trade-transport-financial" documents change hands, and where the various actors intervening in a trade and transport transaction operate. This description fits ports, dry-ports, multimodal transfer points and the like. Several kind of services converge in the multimodal information platforms: services linked to the physical movement of goods; services linked to the commercial transaction of goods movements; services linked to the financial transaction of goods movements; and information services linking all the above with origin destination parties.
2. Development of EDI communications, information systems, software programs for the Customs administration, and the prerequisite of simplified documents and procedures (meeting the agreed standards of the UN lay-out key for documents) have contributed to create specific hubs, where substantial volumes of goods converge, and where further rationalization and cost-effectiveness in handling goods and goods information can be achieved. This is the case of information platforms at Felixstowe port in East Anglia (UK), Schiphol airport in Amsterdam (Holland), Hong Kong port, GARONOR trucking terminal in Paris (France), and of thousands of other hubs.
3. Contributing to the coherence of an information platform, reception, distribution and expedition of the information related to the goods in transit to the various actors (banks, goods-forwarders, Customs, port authorities), becomes essential. Distribution of information can be coordinated advantageously by suitable software ad-hoc programs complemented as necessary by EDI communications.
4. The concept of an information platform which has grown naturally from users needs in developed countries, does not yet exist in many developing countries. It may be argued that EDI communications are still unrealistic for some developing countries. This may be true, but it is also true that handling of cargo information to the various actors from the very first moment the shipping manifest, as an example, arrives at the port of entry and handling this through EDI into a suitable software program, would drastically curtail opportunities for fraud, and increase Customs revenues.

5. Most of the software programs needed to set-up an information platform have already been developed by commercial or public organizations, by UNCTAD, ITC or other agencies (ASYCUDA for the Customs administration, ACIS for tracking freight in transit, TRAINS, TINET *for commercial transactions, etc.*). *What is needed is a concerted action and funding with a view to coordinate the setting-up and delivery of information hardware and software to one specific location and with a unity of purpose. Creating a pilot project for an information platform, to be developed in adequate and timely stages from simple more complex to suit the needs of the desired location.*

6. This is an area of intervention which would warrant UNCTAD and the World Bank funding and attention. ITC, and other interested multilateral and/or bilateral agencies could earmark such activity and investment as a worthwhile initiative in the facilitation field.