

## CHAPTER 6

# THE CRITICAL ROLE OF TRADE FACILITATION IN SUPPORTING ECONOMIC DIVERSIFICATION AND STRUCTURAL REFORMS

*Contributed by the World Bank, the United Nations Conference on Trade and Development and the Organisation for Economic Co-operation and Development*

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**Abstract:** *Two years after the entry into force of the WTO Trade Facilitation Agreement, it is time for an initial stock-taking. The experience of the World Bank Group Trade Facilitation Support Program (TFSP) and the UNCTAD Trade Facilitation Program, both major providers of trade-related assistance, as well as OECD's analytical work provides relevant insights.*

*In these early years, support has been generally directed to the “foundational” measures of the Agreement, such as National Trade Facilitation Committees. These will oversee implementation; time release studies, providing a baseline to measure progress; and risk management policies and procedures, a precondition for implementation of simplified control and release processes. Progress is being made. TFSP and OECD research find that the level of alignment with the Agreement is increasing, with notable improvements in publication of measures, automation and streamlining of procedures and engagement with the trade community.*

*Positive impacts from these aid-for-trade supported reforms have also been registered. Country reports and periodic time release studies show reduction in customs physical inspections, elimination of unnecessary documents, automation of manual processing steps, and consequent reduction of clearance times. World Bank surveys (the Logistics Performance Index (LPI) and Doing Business) likewise show a positive trend in these aid-supported countries.*

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## INTRODUCTION

Two years after entry into force of the WTO Trade Facilitation Agreement (TFA), an initial stock-taking of the progress made by the developing and least-developed (LDC) countries in implementation of the agreement, and the impact of aid in support thereof, is in order. The TFA has been ratified by 141 WTO members, or 86% of the total WTO membership.<sup>1</sup> Eighty-six developing and LDC members have notified their intent to take advantage of the special and differential treatment provisions of the agreement and identified the measures of the agreement for which they require external technical assistance and capacity building (TACB) implementation support. Trade facilitation has been identified as a top Aid-for-Trade priority by 62 developing countries in their responses to the 2019 joint OECD-WTO Monitoring and evaluation exercise (M&E). On the WTO donor member side, notifications to the WTO indicate that more than USD 1.6 billion has been disbursed worldwide on trade facilitation-related projects since 2014.<sup>2</sup>

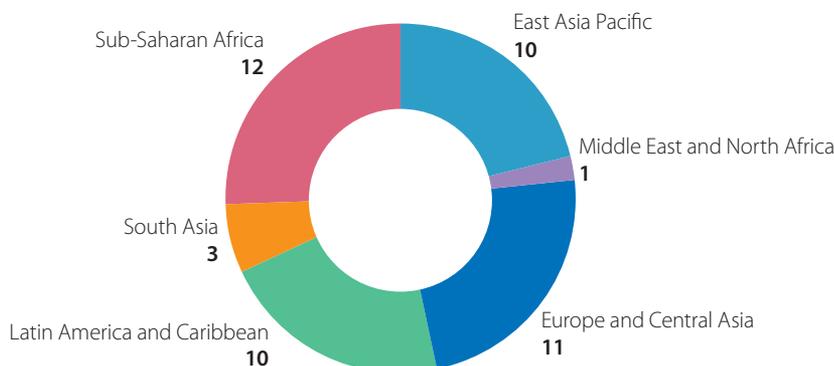
In this chapter, we examine how aid for trade is supporting the implementation of the TFA and other trade facilitation reforms. Part II reviews what TACB assistance has been provided so far and why; what progress has been made by the recipient countries toward implementation of the TFA; and what impacts can be detected at this formative stage as a result of these aid-supported trade facilitation reforms. These questions will be examined in relation to the World Bank Group's Trade Facilitation Support Program, which is one of the implementing agencies and primary vehicles through which donor support to WTO developing and LDC members is provided. In Part III of this chapter, we take a prospective look at trade facilitation. In particular, we review how customs and other border clearance functions are adapting to the challenge of e-commerce and how aid for trade can - and does - support this process.

## TECHNICAL AND CAPACITY BUILDING SUPPORT AND ITS IMPACTS

### The World Bank Group Trade Facilitation Support Program

The Trade Facilitation Support Program (WB-TFSP), managed by the World Bank Group's Macroeconomics, Trade & Investment (MTI) Global Practice, provides support to countries seeking assistance in aligning their trade practices with the TFA. It prioritises assistance to countries with limited access to other donor support; particularly International Development Association (IDA)-eligible, low-income, and fragile and conflict affected countries; and middle-income countries that act as gateways to least developed countries and/or whose performance significantly impacts the performance of regional LDCs. The program is financed by nine development partners, who have committed more than USD 45 million since the program launch in 2014.<sup>3</sup> Since its inception, the WB-TFSP has provided support to 47 countries, approximately 40% of which are LDCs. About one-fourth of the countries in the program are located in Sub-Saharan Africa.

**Figure 6.1. Regional Distribution of WB-TFSP Activities (by number of countries)**



Source: TFSP Data

StatLink  <http://dx.doi.org/10.1787/888933953451>

**Table 6.1. WB-TFSP collaboration with other organisations**

| Partner   | Areas of Collaboration (Illustrative)  |
|---|--|
| Her Majesty's Revenue and Customs (HMRC)                    | ■ TFA gap assessments  |
| International Air Transport Association (IATA)              | ■ Air cargo, expedited shipment measures   |
| International Plant Protection Convention (IPPC)            | ■ "E-phyto" pilot implementation<br>■ Sanitary and phytosanitary (SPS) diagnostics                     |
| International Trade Centre (ITC)                            | ■ Trade facilitation project plans<br>■ National Single Window planning                                |
| TradeMark East Africa                                       | ■ TFA gap assessment   |
| United Nations Conference on Trade and Development (UNCTAD) | ■ TFA gap assessments<br>■ National Trade Facilitation Committees<br>■ Risk management (ASYCUDA)       |
| United Nations Economic Commission for Europe (UNECE)       | ■ Capacity building  |
| U.S. Agency for International Development (USAID)           | ■ TFA gap assessments<br>■ Time release studies<br>■ National Trade Facilitation Committees            |
| World Customs Organization (WCO)                            | ■ TFA gap assessments<br>■ Time release studies<br>■ Risk management<br>■ Authorised operator programs |
| World Trade Organization                                    | ■ TFA information provision<br>■ TACB coordination<br>■ Knowledge management and capacity building     |

The program also supports regional organisations, such as the Caribbean Community (CARICOM) and the Central America Customs Union, to "address regional and sub-regional challenges" in their members implementation of trade facilitation measures and to "promote regional and sub-regional integration" as prescribed in the TFA.<sup>4</sup> WB-TFSP technical assistance is commonly deployed in collaboration with other Annex D<sup>5</sup> or technical or donor organisations, as well as in support of World Bank Group trade facilitation-related lending projects. This collaboration may take the form of a joint delivery of technical support, or it may be separately implemented but designed to complement the activities of these other organisations.

The focus of discussion in this chapter is the WB-TFSP's activities. Developing and LDC WTO members likewise receive TACB support for trade facilitation through programs of other Annex D and other organisations, such as the UNCTAD Trade Facilitation program. Accordingly, when evaluating the relationship between aid for trade and implementation progress and the impact of reforms, as we do below, it will be important to take into account the total TACB contribution made by all such development partners and organisations.

## WTO Country Demand for TFA Implementation Support

Notifications submitted by WTO developing and LDC members to the WTO Trade Facilitation Committee highlight those TFA measures where technical assistance and capacity building support is in greatest demand and the types and direction of support required. Under the TFA's special and differential treatment provisions, a WTO developing or LDC member may, by notification to the WTO Trade Facilitation Committee within prescribed periods, designate

- those provisions of the TFA which it intends to implement upon entry into force ("Category A"),
- those provisions which it intends to implement following a delay period of its choosing ("Category B"), and
- those provisions the implementation of which will require provision of technical assistance and capacity building support and a delay period ("Category C").

Arriving at the scheduling of commitments has been a collaborative process with Annex D and other organisations offering TACB support. UNCTAD's trade facilitation program is profiled in Box 6. 1.

### Box 6.1. UNCTAD Trade Facilitation Program

With over 40 years of experience in trade facilitation, UNCTAD has assisted over 55 countries in the drafting of national trade facilitation plans, forming and training National Trade Facilitation Committees (NTFC), and creating roadmaps to guide the implementation of the WTO TFA. Most of this has been recently done through the UNCTAD Empowerment Program for NTFCs, which provides knowledge transfer training ensuring impact sustainability. The modules composing this program are tailored to country-specific needs, which are developed by international experts. As of 2018, the Empowerment Program has been conducted in 21 countries and will start in 6 other countries in 2019. ([unctad.org/eptf](http://unctad.org/eptf)).

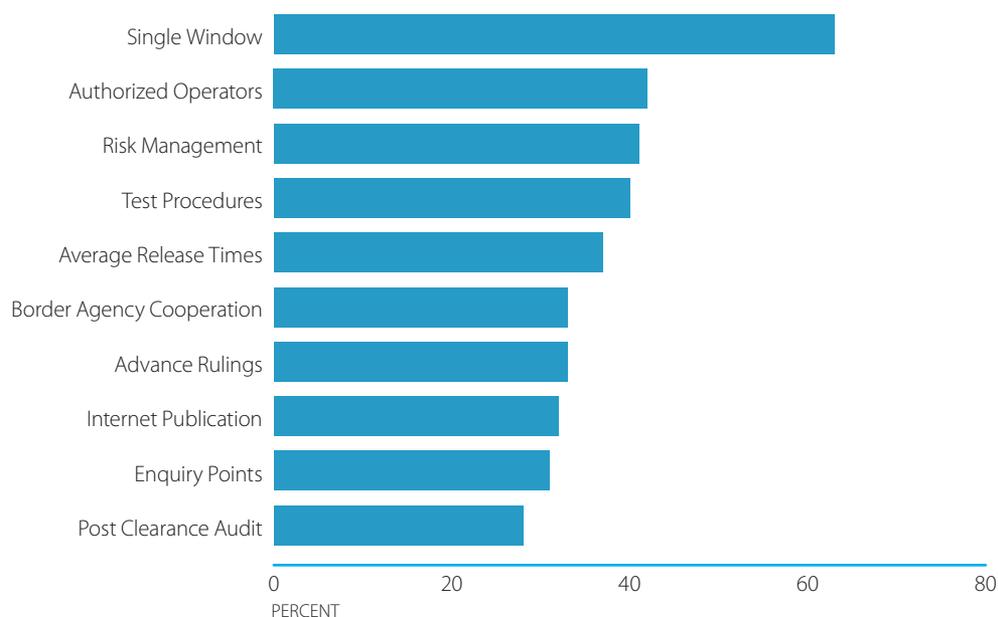
To support developing countries and LDC's work on trade facilitation, UNCTAD has continuously collected and updated information on more than 130 NTFCs all over the world. This has been made available in UNCTAD's online repository ([unctad.org/tfc](http://unctad.org/tfc)). UNCTAD has also published 23 technical notes, which explains trade facilitation measures' scope and rationale, benefits and opportunities, the role of different agencies and NTFCs, guidelines and next steps for implementing the WTO TFA.

In pursuit of customs automation, UNCTAD's ASYCUDA programme has built capacity in Customs Administrations of around 115 countries, 80% of which are already using ASYCUDA. With 51 operational projects, including seven regional and interregional projects, ASYCUDA represents the single largest technical cooperation programme in UNCTAD ([asycuda.org](http://asycuda.org)).

UNCTAD's work on online Information Portals on foreign trade procedures, which promotes transparency in government to facilitate business, trade, and investment, has resulted in the implementation of 68 systems in 37 countries with around 3000 procedures documented online. This brought about an 80% reduction in business registration steps, forms, and documents ([businessfacilitation.org](http://businessfacilitation.org)).

*To learn more about UNCTAD's work on trade facilitation, please visit: <http://unctad.org/tf>.*

As of February 2019, 114 WTO developing and least-developed members have made these notifications, in part or in whole. Of those 114 countries, 63 developing and LDC members have classified measures under category C, signifying a need for TACB support. Implementation support has been requested with respect to each and every measure of the agreement by at least one WTO Member. However, certain measures of the TFA are in higher demand for support than others. The TFA measures that have been identified by developing and LDC members as most in need of TACB implementation support are listed in Figure 6.2, below.<sup>6</sup>

**Figure 6.2. TFA Measures: Highest Technical Assistance and Capacity Building Demand<sup>7</sup>**

Source: WTO Trade Facilitation Agreement Facility (TFAF) Database

StatLink  <http://dx.doi.org/10.1787/888933953470>

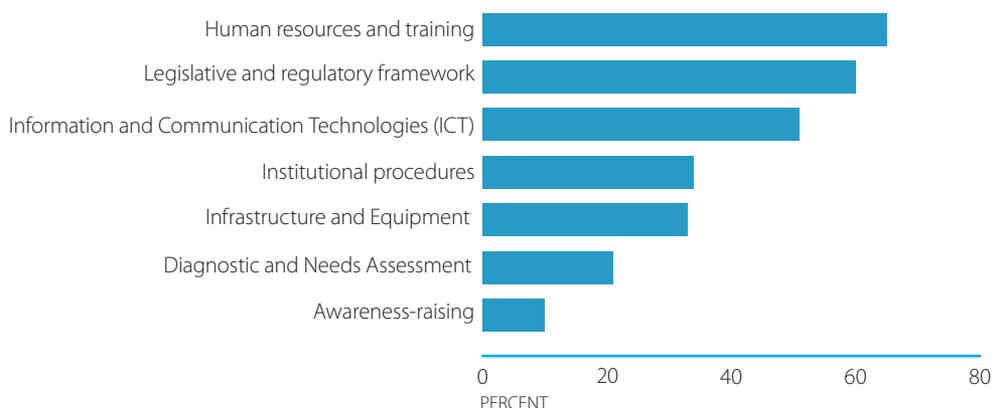
Single Window is the one measure of the agreement that the clear majority of developing and LDC members making category C notifications have expressed a need for implementation support. High demand on this particular measure is likely due to the complexity of designing and implementing a National Single Window, which typically requires integration of the processes and controls of multiple border agencies, involves an ICT component, and requires a governance and legislative framework, among other conditions.

This list of high TACB demand measures may also suggest the authorities in developing and LDCs that are in particular need of support. A common characteristic of the majority of the listed measures is that their implementation falls under the responsibility of border authorities other than, or in addition to, the customs administration controls (such as the border authorities responsible for sanitary and phytosanitary (SPS) and enforcing product standards and technical regulations (i.e. measures falling under the Technical Barriers to Trade (TBT) Agreement) and/or requires multi-agency coordination. This need is consistent with experience in developing countries and LDC, where it is commonly found that the customs administration is often further advanced in the trade facilitation agenda than its border agency counterparts.

Pursuant to TFA Article 16, the category C notification shall include “for transparency purposes” an indication of the types of implementation support the WTO member requires per TFA measure.<sup>8</sup> Nineteen of the 63 countries that have made category C notifications to date have not included this information.<sup>9</sup> However, with respect to the remaining 44 countries, where this information is provided, the types of assistance in highest demand are those listed in Figure 6.3.<sup>10</sup>

As indicated by Figure 6.3, over 75% of the category C notifications request capacity building support and/or awareness raising on some or all the subject measures. TFA measures requiring the heaviest demand for such capacity building support are indicated in Figure 6.4.

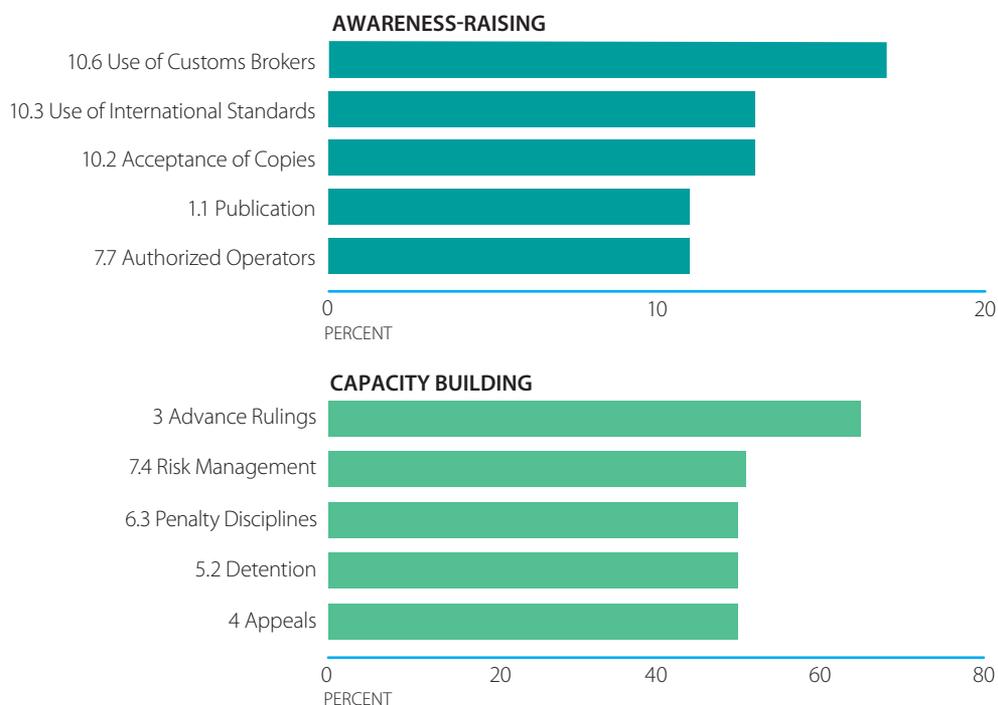
**Figure 6.3. TFA Measures: Support Types Requested**



Source: WTO Trade Facilitation Agreement Facility (TFAF) Database

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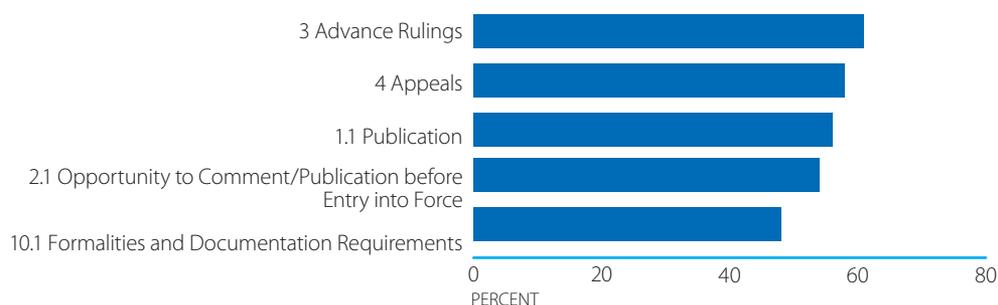
**Figure 6.4. TFA Measures: Requests for Awareness-Raising and Capacity Building Support**



Source: WTO Trade Facilitation Agreement Facility (TFAF) Database

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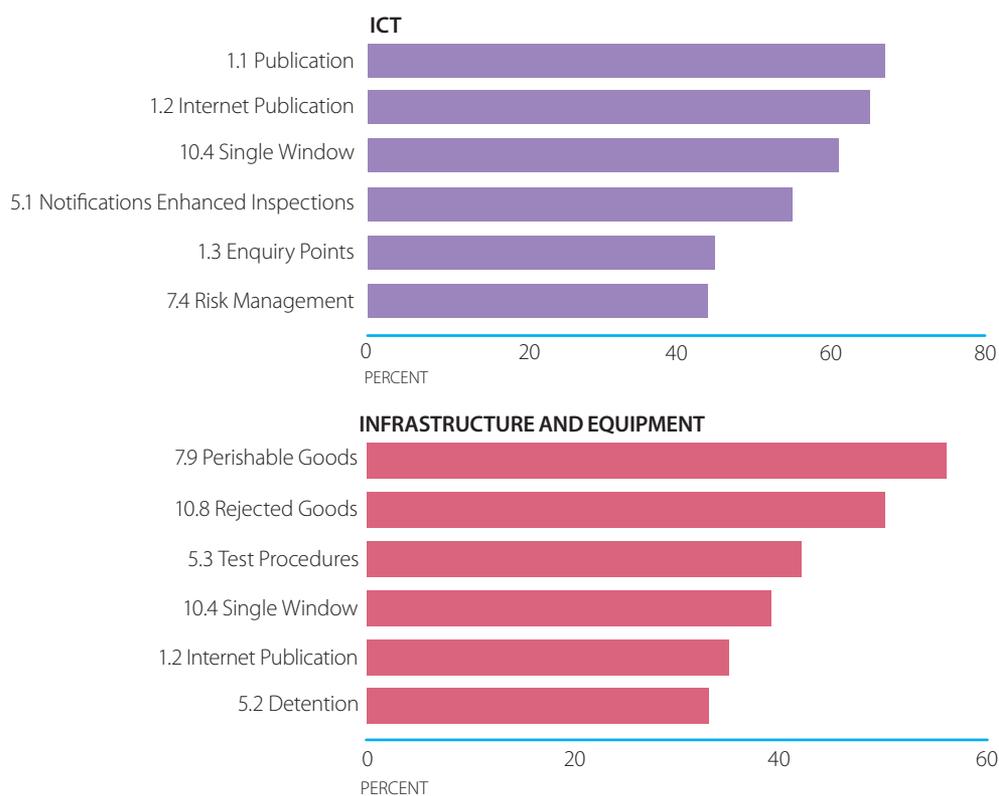
Demand for support for assessment and drafting enabling laws and implementing regulations is also relatively high. Apart from advance rulings – a procedure unique to Customs - these high TACB demands suggest a need for support in developing laws and regulations apart from or in addition to the customs legislation (e.g. general administrative legislation on publication, administrative appeals, or rule-making).

**Figure 6.5. TFA Measures: Highest Demand for Legislation Support**

Source: WTO Trade Facilitation Agreement Facility (TFAF) Database

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Requests for trade facilitation-related “hardware” – e.g. ICT, equipment, physical facilities – appear to be highest in relation to implementation of the transparency-related measures, such as websites to support publication obligations, or ICT support for Single Window implementation, and to the TFA measures that would typically implemented by the technical border authorities other than Customs (e.g. Plant Quarantine, Food Safety or Standards authority), such as laboratory equipment and testing facilities; storage facilities for perishable goods; and IT support for establishment of “rapid alert” notifications for food and feed.

**Figure 6.6. TFA Measures: Requests for ICT, Infrastructure and Equipment Support**

Source: WTO Trade Facilitation Agreement Facility (TFAF) Database

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Finally, note that 22 WTO members - 12 of which are LDCs - have not yet ratified the agreement. Approximately 40 WTO members have not yet submitted or completed notification of their categories. And, where a WTO LDC member made category C notifications, in most cases the country indicated that the types of technical assistance that it requires for implementation is "to be determined." These gaps suggest there continues to be a need for technical assistance to support these WTO members' complete ratification and notification obligations and identify their implementation support requirements. The joint OECD-WTO M&E exercise highlighted the underlying rationale of Members and some regional economic communities in pursuing trade facilitation reforms. Box 6. 2 provides further details.

### Box 6.2. Comments from developing country respondents on trade facilitation

*"The aid-for-trade priorities that have been taken into account with our development partners are the implementation of the Trade Facilitation Agreement within the framework of the World Trade Organization and the implementation of the SADC Free Trade Agreement."* – **Angola**

*"Trade facilitation is important for connection to regional and global value chain. Challenges include coordination of multiple actors. Key policies include ECOWAS Customs Code and ECOWAS Trade Liberalisation Scheme (ETLS). Aid-for-trade support has been impactful in the completion and handing over of two joint border posts."* – **Economic Community of West African States Secretariat**

*"El Salvador continues with the implementation of the Trade Facilitation Agreement and the Regional Strategy for trade facilitation and competitiveness, as well as advancing the process of regional integration, all with the purpose of increasing the capacities of Micro, Small and Medium-sized companies for their insertion in international trade and take advantage of the commercial opening derived from the Free Trade Agreements."* - **El Salvador**

*"In terms of trade facilitation, we wish our practices to be consistent with the principles of the multilateral system in place to facilitate trade."* – **Gabon**

*"Trade facilitation is a major objective to be achieved in Guinea's economic development process as a factor contributing to the promotion and enhancement of Guinea's trade capacity. Trade facilitation, training and information for women in modern trade techniques (compliance with export standards and documentation requirements) greatly assist women in their empowerment."* - **Guinea**

*"Trade facilitation to improve cross border trading with our only neighbour the Republic of South Africa is being pursued. Funding is needed to expedite the process."* – **Lesotho**

*"The ongoing creation of the Trade Facilitation Committee and its piloting, the strengthening of the capacities of the Single Window in the sense of digitisation and the interconnection of this Window with the structures involved (Customs, Taxes, Insurance, Banks, National Directorate of Veterinary Services, National Directorate of Agriculture, National Directorate of Industry), the treatment of essential products within the framework of the Trade Portal Platform, support to the MERCATOR programme at Customs level."* – **Mali**

*"The PENX (National Strategic Export Plan) recognises that trade facilitation is relevant because of its impact on competitiveness by helping to streamline and reduce the cost of trade. PENX incorporates it as one of its pillars. Likewise, the National Policy of Competitiveness and Productivity proposes to consolidate the system of trade facilitation and coordination among the entities involved, as well as the mechanisms to fight against customs crimes such as smuggling that are linked to high informality and low financial intermediation."* – **Peru**

*"On trade facilitation, Togo aims to become a logistics hub of excellence and a first-class business centre in the sub-region (Strategic Axis 1 of the National Development Plan), based on its strategic positioning and in serving landlocked countries from the autonomous port of Lomé."* - **Togo**

*"Zimbabwe has requested technical capacity training from the WTO, UNCTAD and UNIDO for Trade Facilitation, trade in services and industrial policy implementation."* – **Zimbabwe**

Source: Joint OECD-WTO Monitoring and evaluation exercise 2019

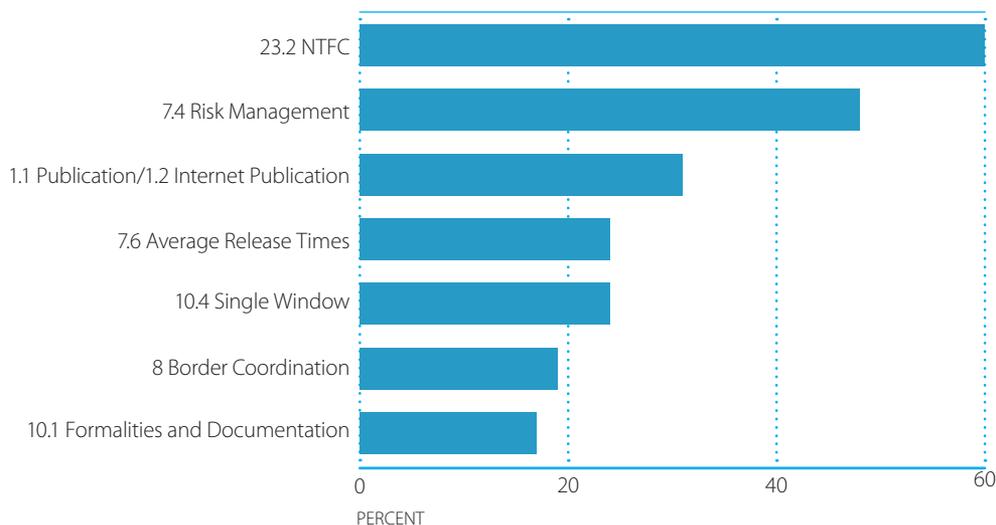
### Focus of WB-TFSP Activities

In the years leading up to the entry into force of the agreement (and continuing thereafter, albeit at decreasing levels), the greatest demand was made for support on determining alignment of the country's trade regime to the provisions of agreement, identifying potential TACB needs and priorities, finalising Category A, B, and C commitments, and developing the national implementation strategies and action plans. Since inception of the program, the WB-TFSP has conducted over 50 such gap assessment missions for these purposes.

As countries move from the assessment and planning stage, demand for technical support has progressed toward implementation. As is clear from notifications made to the WTO Trade Facilitation Committee and the results of national needs assessments conducted prior to entry into force of the agreement, the level of alignment and support needs are varied among different countries and within different border agencies in a given country. Nevertheless, certain general patterns have emerged in provision of support. At present, the largest measure of technical assistance and capacity building support is generally concentrated on a select number of measures of the agreement. This concentration is not by chance, but the result of both client demand and a sequencing strategy applied by the countries concerned.

Thus, as indicated in Figure 6.7, more than one-third of all countries in the program have received technical support to establish or improve the operation of their respective National Trade Facilitation Committees (NTFC). Priority is given to establishment of the NTFC because it is an obligation of the agreement applicable to all WTO members from the date of entry into force of the TFA. Moreover, consistent with the agreement, establishment of an operational NTFC is seen by the countries concerned, as well as donor organisations, as essential to overseeing and managing implementation of the agreement, including prioritisation and coordination of reforms and technical assistance. The rationale for concentration to date on the other measures in Figure 6.7 largely follows a similar sequencing logic.

**Figure 6.7. Percent of Countries Supported on Specific TFA Measures**



Source: World Bank Trade Facilitation Support Program Data

StatLink  <http://dx.doi.org/10.1787/888933953565>

**Risk management**, the fundamental principle for the exercise of border inspection and control, is a precondition to the proper operation of other Customs-related measures of the TFA, such as those on Authorised Operators and Customs post-clearance audit, and has a direct impact on time and cost of clearance. There is therefore high priority demand for technical assistance and capacity building to implement risk management systems and procedures of the customs and other border agencies, such as veterinary and food safety authorities, as well as integration of those controls.

A **time-release study** provides the country with an initial baseline by which progress and impact of implementation of trade facilitation reforms can be measured and therefore is important for early implementation. The WB-TFSP has supported baseline and subsequent time release studies in approximately a dozen countries to date.

### Box 6.3. TRS+ - a fuller picture of time incurred

Gaining insight into the time it takes for goods to pass through a border and the time to undertake other regulatory requirements to either import or export is an important element in identifying key bottlenecks and areas for trade facilitation and modernisation. The World Customs Organization Time Release Study (WCO TRS) is an approach to measure the time taken for goods to complete all the processes associated with clearance and release at the border for export and import as well as for goods in transit.

The WCO TRS, however, does not measure the time businesses incur to comply with regulatory requirements before the goods are presented at the border. These include obtaining the necessary certificates, licenses, and permits and meeting customs requirements to import and export. These processes take time, thus imposing a time cost on businesses.

To get a fuller picture of time required to comply with trade requirements, the WB-TFSP developed a “Time Release Study Plus (TRS+)” approach that measures both clearance and release processes as well as the regulatory processes “away from the border.” TRS+ has been piloted in Eswatini and Lesotho, and the methodology has been shared with the WCO with the aim of collaborating on deploying this enhanced methodology in upcoming projects

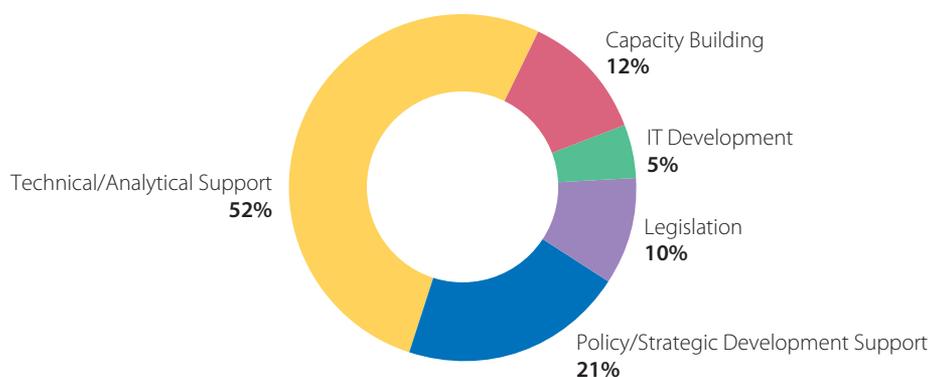
Analysis of existing **formalities and documentation** requirements is a first step toward rationalisation and coordination of border agency processes and is, for example, necessary for Single Window implementation. Country experience shows that often this rationalisation of documents and formalities follows, and results from, analysis of a time release study, which reveals bottlenecks and inefficient processes.

**Single Window** is identified in notifications of developing and LDC countries as the single TFA measure most requiring implementation support,<sup>11</sup> a level of demand that appears also in the group of countries supported by the WB-TFSP. Greatest initial need for support for the national Single Window implementation is strategic planning; in particular, assisting the various government agencies involved in the development and operation of the national single window and private sector representatives to establish at the outset a common “vision” on all critical issues – governance, legal, functional, operational and financing models and strategies, technical scope, and capacity building – to ensure implementation will be consistent with expectations.

Demand for support for the **transparency** measures of the agreement has been in establishing or maintaining Trade Information Portals, or electronic portals that make cross-border information, such as regulatory information, easily available. To that end, the WB-TFSP has facilitated the establishment and design, or assisted in implementation of six portals in countries in East and South Asia, Sub-Saharan Africa, and the Caribbean.

To date, the form of support most commonly required of the WB-TFSP in relation to implementation of these priority measures has been technical expertise such as the “know-how” and international “best practice” experience necessary to design and implement a time release study, to develop a risk-based sampling framework for the animal health, or to set up an effective stakeholder consultation mechanism, to indicate a few of the typical kinds of technical support activities that have been undertaken to date.

**Figure 6.8. Forms of Assistance Provided 2017-2018**



Source: World Bank Trade Facilitation Support Program Data

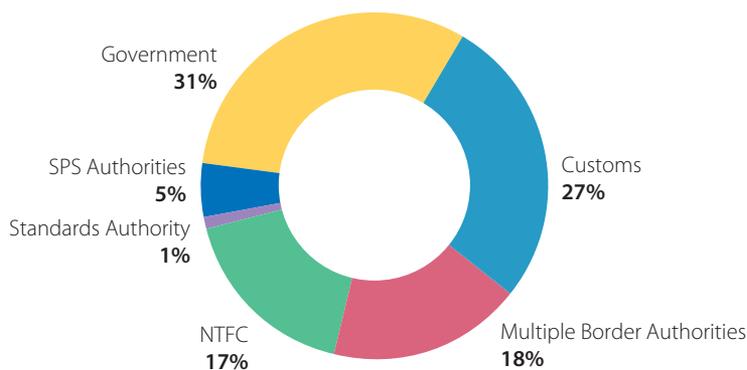
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In these early years of implementation of the TFA, there has also been high demand for advisory support to establish the general policy and strategic framework for trade facilitation reform, particularly support for development or validation of national and regional trade facilitation strategic and action plans and the Single Window “visioning” work that is described above. There is also significant demand for support for review of laws and, where required, drafting amendments or new legislation to enable proper implementation of the agreement. Support has been provided, for example, on revision of customs acts, legislation to enable electronic exchange of information, animal health and quarantine laws, and legal measures to establish the NTFC, among others.

Demand for capacity building is also significant and will likely increase as new or changed laws, policies and procedures are put into operation.

Technical assistance and capacity building support has been directed largely to the public sector to date. As indicated by Figure 6.9, the government – which here refers to the executive authority and ministries of commerce, trade, foreign affairs – is the public sector counterpart with whom support activities have been most frequently conducted in this initial period. This includes support for developing and/or validating strategy and implementation plans, establishing the NTFC, and preparing notifications and ratification of the agreement.

**Figure 6.9. Public Sector Recipients of Support**



Source: World Bank Trade Facilitation Support Program Data

StatLink <http://dx.doi.org/10.1787/888933953603>

As implementation continues to progress, the focus of support will shift to Customs and the other border agencies. Given that many of the provisions of the agreement fall under Customs implementation responsibility, Customs has and will likely continue to demand a large share of support. However, efforts have been made to direct attention to the technical agencies, particularly the SPS and Standards authorities, whose interventions at the border can have significant impacts on time and cost of trade. As previously noted, it is frequently the case that these technical authorities are not as aware of, or as advanced in, the trade facilitation agenda as the national customs authority. Customs often has acceded to and/or implemented the Revised Kyoto Convention and other WCO trade facilitation instruments, received capacity building support in trade facilitation and, as a consequence, is often much further advanced in terms of modernised facilitative procedures, controls and technology. Typically, for example, the Customs authority is partially or fully automated while other border authorities continue with manual, paper-based processes.

## Implementation Progress and Impact of Reforms

In this section, we discuss the progress and impact of implementation.

By “progress”, we mean the extent to which the trade facilitation regime within individual countries has been brought into alignment with the WTO TFA provisions. “Impact” refers to the effect, economic or otherwise, resulting from implementation progress in these countries.

### Implementation Progress

To assist countries in monitoring their individual progress in implementation of the TFA, the WB-TFSP developed a “TFA Alignment Tracking Tool.” This tool enables a country to measure alignment with respect to each of the TFA technical measures across three dimensions-

- the extent to which the legal or policy measures required to enable implementation of the particular measure are in place;
- the extent to which operational or administrative procedures have been developed to implement the TFA measure;
- the extent to which the measure is applied in practice.

The measurements take a whole of government approach, which means that all agencies relevant to the particular trade facilitation measure should be aligned with the TFA’s requirements in order for a country to receive full credit.<sup>12</sup> Moreover, the tool measures progress from the perspective of a *full and effective* implementation of the agreement. That is, although the TFA legal obligation with respect to certain measures may be limited to “best efforts,” trade facilitation benefits are greater where the country adopts a more ambitious implementation posture.<sup>13</sup> For example, while TFA Article 7.4 requires border authorities other than Customs to focus controls on high risk consignments and expedite the release of low risk consignments “to the extent possible,” the tracking tool recognises a country’s full alignment with Article 7.4 only if such border authorities in fact adopt and apply in practice such risk management principles.

Since 2015, baseline measurements have been recorded for some 24 countries and subsequent updates to the baselines have been done for 18 countries. These limited measurements to date indicate progress showing that overall TFA alignment has risen from an average of 45 percent to 53 percent, with largest improvements made with respect to implementation of TFA measures on publication and the National Trade Facilitation Committee.

Apart from measuring progress, the WB-TFSP tracking tool and methodology provide a useful perspective of the actual state of implementation on the ground. There appear to be discrepancies between the state of implementation as measured by the tracking tool and the notifications made by developing and LDC members.

**Table 6.2. Percentage of countries aligned: comparison of Tracking Tool Assessments and Category A Notifications**

|                                       | WB-TFSP Tracking Tool Baseline<br>(% of countries fully aligned) | Category A Notifications<br>(% of countries fully aligned) |
|---------------------------------------|--|--|
| 10.1 Formalities and Documents        | 0  | 61%  |
| 7.6 Average Release Times             | 7%   | 52%  |
| 10.4 Single Window                    | 3%   | 39%  |
| 1.3 Enquiry Point                     | 0  | 54%  |
| 6.1 General Disciplines               | 0  | 60%  |
| 5.1 Notification Enhanced Inspections | 3%   | 61%  |
| 6.2 Specific Disciplines Fees         | 7%   | 66%  |
| 7.7 Authorised Operators              | 0  | 46%  |
| 2.2 Consultations                     | 7%   | 62%  |
| 10.2 Copies                           | 7%   | 64%  |

Table 6.2 lists the bottom 10 TFA measures (least aligned) in terms of lowest average alignment of all countries tracked. Comparison with data from WTO notifications indicate further discrepancies in perspective of alignment.<sup>14</sup>

These discrepancies in views of the level of alignment may be due to differences in the populations measured. The countries in the WB-TFSP are a subset of the 114 WTO member countries that have made Category A notifications, and the WB-TFSP includes a higher share of LDCs. It may also be due to use of a different standard of alignment. As noted, the WB-TFSP tracking tool measures alignment in terms of “full and effective” implementation of the agreement, whereas Category A notifications may have been made by the countries concerned on basis of other factors, including an assessment of technical legal compliance.

### Impact of Reforms

Data available indicate that TACB is having a positive impact on factors that affect time as well as cost of clearance of goods. These factors include the number of physical or documentary checks (reduced as a result of implementation of risk-based controls); number of fees and documents required for clearance (reduced or eliminated through process simplifications); and number of manual processes (reduced through automation of documents and processes).

#### Box 6.4. Select country impacts reported

- Import cargo selected for red channel (physical inspection) *reduced* by 48% (**Ethiopia 2014-2018**)
- Obligation to present copies of tax certificates and bill of lading for export *eliminated* (**Ethiopia 2017**)
- Certificate of origin *automated* (**Ethiopia 2017**)
- Number of products requiring import permits *reduced* (**Liberia 2016**)
- Number of documents required for export *reduced*; cargo terminal handling fees *eliminated* through implementation of simplified “local” clearance procedure (**Montenegro 2018**)
- Import cargo sent to “green channel” (no inspection) *increased* by 32% (**Nepal 2016-2017**)
- Import cargo selected for red channel (physical inspection) *reduced* by 54% (**São Tomé and Príncipe 2018**)

Various metrics can be used to determine the impact of trade facilitation reforms over time and, therefore, indicate the efficacy of technical assistance and capacity building. These include time release studies; trade facilitation surveys; and nationally (or regionally) defined performance indicators. These are discussed in turn in the following sections.

### ■ Assessing Impact with Time Release Studies

Given the overall trade facilitation purpose of the agreement is to “further expedit[e] the movement, release and clearance of goods, including goods in transit,”<sup>15</sup> time is a critical metric to determine overall impact of reforms.

In principle, a properly structured TRS – conducted periodically in a consistent manner over the period during which the reforms are put into operation – will provide reliable data for this measurement.<sup>16</sup>

While the initial baseline TRS’s have been completed with TACB support in some 30 countries, fewer countries have yet repeated the measurement. These initial results do suggest that in those countries where the TRS has been repeated, technical assistance and capacity building has in fact contributed to important reductions in clearance times.

**Table 6.3. Results of time release studies**

| Country   | TACB-Supported Reforms  | Time Reduction                    |
|---|---|-----------------------------------|
| <b>1. Bangladesh<br/>(port of Chittagong)</b>               | <ul style="list-style-type: none"> <li>■ Simplification of procedures</li> <li>■ National border agency coordination</li> <li>■ Risk management</li> <li>■ Trade Portal</li> <li>■ NTFC</li> <li>■ IT (on-line licensing module)</li> <li>■ TRS</li> <li>■ Legislation</li> </ul> | 22.7%<br>(11 days -> 8.5 days)    |
| <b>2. Timor-Leste<br/>(port of Dili)</b>                    | <ul style="list-style-type: none"> <li>■ Risk management</li> <li>■ NTFC</li> <li>■ TRS</li> <li>■ Legislation</li> </ul>   | 62.6%<br>(15.06 days-> 5.63 days) |
| <b>3. Guatemala -Honduras<br/>(land border/pilot study)</b> | <ul style="list-style-type: none"> <li>■ Cross-border coordination (Joint Border Post)</li> <li>■ Electronic document</li> <li>■ Simplification/integration of procedures</li> <li>■ IT (customs processing system)</li> <li>■ Legislation</li> </ul>                             | 97.5%<br>(10 hours -> 15 minutes) |

### ■ Assessing Impact with World Bank and OECD Country Surveys and Indicators

Other perspectives from which the impact of trade-facilitation reforms might be assessed are the World Bank periodic country surveys – the annual Doing Business report and the biennial Logistics Performance Index (“LPI”) – and the OECD Trade Indicators, updated on a two-year cycle.

The World Bank Doing Business report records the time and cost associated with the logistical process of exporting and importing goods. A single “Trading Across Borders” score is calculated for each country each year based on the time and cost (excluding tariffs) associated with documentary compliance (i.e. to obtain, prepare, process and submit documents required of all government agencies to complete the transaction) and border compliance (i.e. customs clearance as well as inspection procedures conducted by other agencies). The World Bank LPI survey includes an assessment of the “efficiency” of the clearance process, which is defined as the speed, simplicity and predictability of formalities by Customs and other border agencies.

**Box 6.5. The OECD Trade Facilitation Indicators (TFIs)**

The OECD TFIs were developed to support the negotiation and implementation of the TFA. They are the most precisely targeted instrument for monitoring and benchmarking worldwide country performance on trade facilitation in existence today.

The TFIs mirror the substantive provisions covered by Section I of the TFA, from Article I on Publication and Availability of Information through to Article 12 on Customs Cooperation. Each indicator is composed of several specific and fact-based variables related to existing trade-related policies and regulations and their implementation in practice. The TFIs measure the actual extent to which countries have introduced and implemented trade facilitation measures and their performance relative to others.

The TFI database covers 163 countries, including economies at all income levels, as well as all geographical regions. Every two years, publicly available information and direct submissions from countries are combined with factual data from the private sector, so as to relate applicable regulation to a practitioner's account on how things work on the ground. The OECD verifies discrepancies with the aim of ensuring accurate information that is geographically comparable and consistent over time.

The TFIs are used to monitor and benchmark country performance on trade facilitation, helping policy makers assess the state of their trade facilitation efforts, pinpoint challenges and identify opportunities for progress. They also play a valuable role in helping identify and prioritise technical assistance and capacity-building needs.

The TFIs dataset allows for comparisons by income group, geographical group and among regional grouping members; for examination of the state of play by individual trade facilitation measure; and for assessing performance evolution over time. They are also used as an evaluation tool to assess the economic impact of trade facilitation reforms and in particular of implementation of the TFA.

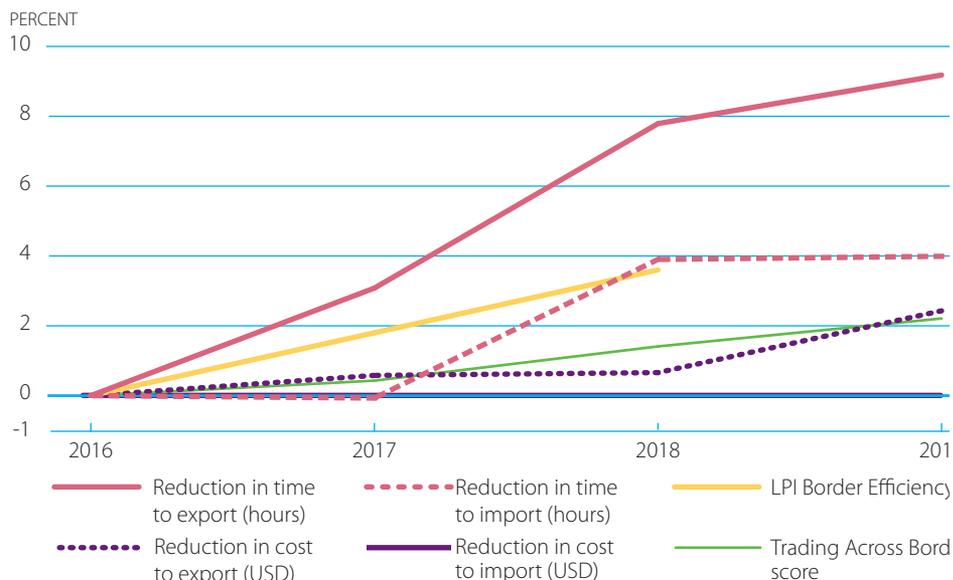
The 2017 dataset showed that at the moment of entry into force of the TFA implementation of measures covered by the Agreement was well underway, although performance varied across and within different income groups in most policy areas. There have been early improvements in areas such as automation and streamlining of procedures and engagement with the trade community. By far the biggest challenges are in the areas of domestic and cross-border agency cooperation. The introduction and use of information technologies and the establishment of Single Windows are amongst the most expensive elements of trade facilitation, but the biggest challenges relate to changing attitudes and culture around border procedures, so training is critically important.

*Source: OECD (2018).*

Improvements do appear in both the Doing Business and LPI indicators for those countries implementing the TFA with WB-TFSP support, as indicated in Figure 6.10.

It may take some time before TFA reform activities appear in improved Doing Business and LPI indicators. The Doing Business and LPI time and cost measurements are based on surveys of logistics and trade-related businesses operating in the country, and there can be a lag between the implementation of a reform and its perception by the surveyed members of the business community. Moreover, the most recent LPI survey was taken between February 2017 and February 2018, i.e. the first year of implementation of the TFA; similarly, data in the Doing Business 2019 report are current as of 1 May 2018. Nevertheless, these survey results, even if early in implementation of the TFA, indicate an encouraging positive trend.

**Figure 6.10 Percentage Improvement in World Bank Trade Facilitation Indicators  
WB-TFSP Countries (2016-2019)**



Source: World Bank Doing Business and Logistics Performance Index data

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#### ■ Other Perspectives (Assessing Impact through National/Regional Defined Performance Indicators)

The TRS and the international surveys and databases discussed in the foregoing paragraphs provide assessment of impact of reform in terms of time and cost of trade, and generally from the perspective of business. This is appropriate given the objectives of the agreement. However, there is also a distinct national perspective: countries will have broader economic or social development objectives that they hope to achieve through trade facilitation reforms, apart from reducing businesses' time and costs alone. These broader objectives might include, for example, regional integration, improving SMEs access to international markets, export diversification, gender equality and women empowerment, etc.

OECD research highlights how small and medium-sized enterprises (SMEs) are significant contributors to economic activity and employment in developed and developing countries. However, their participation in international trade, and therefore their ability to benefit from globalisation, remains limited relative to larger firms. Indeed, despite representing the majority of enterprises, SMEs are responsible for an average of 33% of exports in selected developed countries, and only 18% of exports in selected developing countries. Where imports are concerned, a similar pattern emerges; SMEs represent, on average, 40% of imports in developed countries and about 34% in a range of developing countries.

SMEs face limitations in terms of experience, productivity and access to finance, which make it harder to scale for international engagement, whether through imports or exports. In addition, the costs for shipping goods across borders can be particularly onerous for small firms, which lack specialised human resources to deal with procedural aspects and who may only ship infrequently or in small batches. This makes trade facilitation particularly important for SMEs seeking to engage in international trade. Measures can address fixed or variable costs of trading in turn affecting whether or not SMEs import or export (the extensive margin) or how much they import or export (the intensive margin) respectively. Box 6.6 below highlights OECD research on SME experience internationalising through trade facilitation.

**Box 6.6. Helping SMEs Internationalise through Trade Facilitation** (continued on following page)

The OECD sought to assess the relationship between the trade facilitation environment at the border – as measured through the OECD Trade Facilitation Indicators (TFIs) – and measures for international engagement of SMEs (using the World Bank Enterprise Survey –WBES – and the OECD Trade by Enterprise Characteristics – TEC). Several patterns in the relationship between SMEs and trade facilitation emerge from this analysis. While firms of all sizes from both developed and developing economies benefit from improvements in the overall trade facilitation environment, smaller firms appear to benefit relatively more than large firms.

**Figure 6.11. Trade facilitation policy environment supporting SMEs versus large firms in developing economies**

**Effect of a 0.1 TFI improvement (average index of all 11 trade facilitation areas) on the probability of becoming an exporter or an importer)**



*Note:* The figure presents percentage improvements in the probability to export (import) from marginal effects of the probit model(s). The shaded area refers to the 95% confidence interval around the estimated indicator effect.

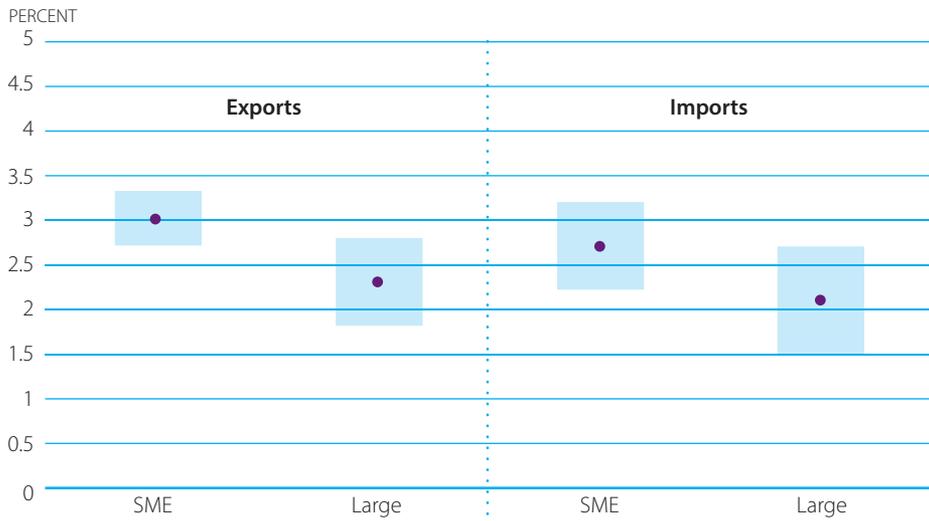
*Source:* OECD (2019a) estimations based on the World Bank Enterprise Survey data.

Across both developed and developing economies, measures such as the inclusion of SMEs in consultation processes or the efficiency of appeal procedures – measures which can be associated with higher fixed costs of trading – have a greater impact on the propensity or probability of firms to engage in exporting and importing. In turn, measures such as fees and charges, streamlining of procedures and automating border processes, which tend to be associated with reductions in variable costs, have a bigger impact on the export and import values of firms.

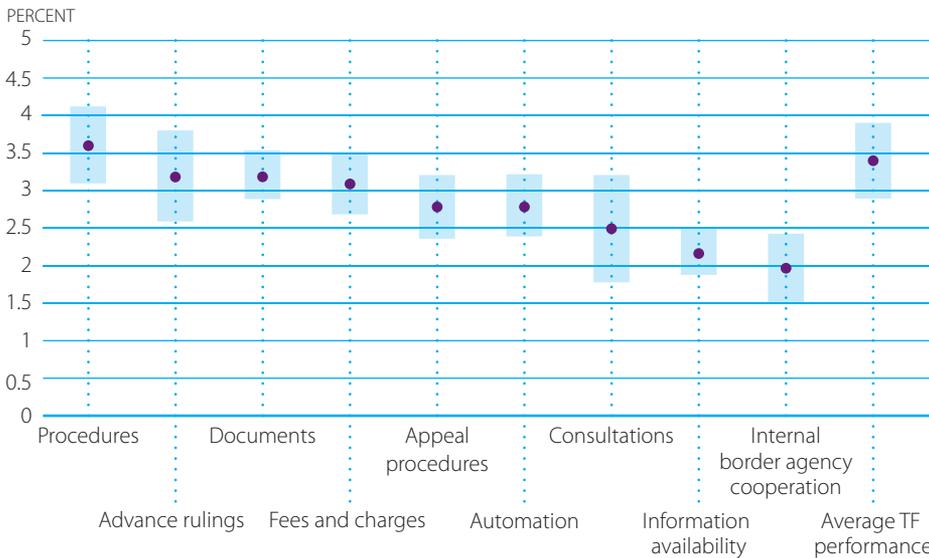
**Box 6.6. Helping SMEs Internationalise through Trade Facilitation (continued from previous page)**

**Figure 6.12. Trade facilitation policy factors underpinning SMEs exports and imports in developing economies**

**Panel A: Effect of a 0.1 TFI improvement (by area) on the probability of becoming an exporter**



**Panel B: Effect of a 0.1 TFI improvement (by area) on the probability of importing**



Note: Panel A presents percentage improvements in the probability to export from marginal effects of the probit model. Panel B presents percentage improvements in the probability to import from marginal effects of the probit model. The shaded area refers to the 95% confidence interval around the estimated indicator effect.

Source: OECD (2019a and b) estimations based on the World Bank Enterprise Survey data.

OECD research highlights that it is not only the trade facilitation environment in the domestic economy that matters. The environment that SMEs face in the exporting markets or in the origin economies of their imported inputs also affects their participation in, and gains from, trade. This underscores the potential of trade facilitation reforms to be a win-win outcome across countries, with benefits increasing if all countries act together. Moreover, improvements in the trade facilitation environment benefitting large firms might also support SMEs' indirect participation in international trade. Upstream and downstream linkages to larger firms can be vital for many SMEs, particularly in the context of global and regional value chains.

Ultimately, the OECD analysis suggests that trade facilitation reforms are not only efficiency-enhancing for firms of all sizes, but they also promote more inclusive outcomes, by helping to level the playing field between large and small firms. An encouraging message also emerges from the joint OECD-WTO M&E exercise in that Aid-for-trade financing for trade facilitation was considered one of the best ways to support the economic empowerment of MSMEs by 50 partner country respondents. Fifty-one partner country respondents also identified trade facilitation as an area in which aid-for-trade support provided has been impactful for economic diversification.

However, in order to fully reap the benefits of trade for SMEs, reforms in the identified trade facilitation areas need to be complemented with reforms and investments in other areas linked to firms' capacity to take advantage of new trade opportunities, including provision of digital infrastructure and support with the adoption of new technologies, and development of skills.

OECD research in Southeast Asia shows that, while greater participation of the region's SMEs in global and regional value chains is linked to employment generation, benefits are not always shared equally across genders. While importing SMEs in Indonesia generated more jobs for women than any other category of trading or non-trading firms, they generated even more employment for men.<sup>17</sup> Reporting to the joint OECD-WTO M&E exercise underscores this point. Aid-for-trade financing for trade facilitation was considered as an instrument to support women's economic empowerment by 38 partner country respondents.

#### **Box 6.7. Montenegro Trade Facilitation Strategy** *(continued on following page)*

In March 2018, the government of Montenegro formally adopted a National Trade Facilitation Strategy setting the direction and priorities of reforms for 2018-2022. The strategy was needed due to the country's various commitments at an international and regional level. These include the TFA, which Montenegro ratified in 2016; Additional Protocol 5 of the Central European Free Trade Area (CEFTA), which includes trade facilitation measures in addition to those of the TFA; and obligations arising out Montenegro's accession to the EU.

The goal of the strategy was to develop a realistic and unified approach to implementation of these commitments in a manner that will best achieve Montenegro's national economic development objectives. Moreover, the investment in on-going reform programs of the border agencies - such as work on integrated border management and Customs long-term business plans - and the limited resources available had to be taken into account.

The strategy was developed over an 8 month period by the National Trade Facilitation Committee, with technical support of the World Bank. Relevant border and government authorities, as well as private sector representatives, participated in the development of the strategy in a series of workshops to brainstorm, draft and refine the document.

The finished product – comprised of a strategy and detailed action plan – designates priority trade facilitation measures to be implemented by 2023, and defines implementation responsibilities of border agencies (as well as private sector), actions and time lines. Most importantly, the national strategy sets out key performance indicators (KPIs) for each action, agreed by stakeholders, that will be used by the NTFC to measure progress and impact.

## Box 6.7. Montenegro Trade Facilitation Strategy (continued from previous page)

Figure 6.13. Montenegro Trade Facilitation Strategy 2018-2022 Action Plan KPI's (excerpts)

| MEASURE 1.1. INCREASE AVAILABILITY AND QUALITY OF INFORMATION  |                   |         |   |   |   |
|--|-------------------|---------|---|---|---|
| Government competent authorities will publish and keep regularly updated, information and forms concerning import, export and transit requirements, in compliance with the TFA and the CEFTA AP 5.   |                   |         |   |   |   |
| Indicator  | Value             |         | Timeframe                                       |   | Outcome   |
|  | Start             | Target  | Start year                                      | End year  |   |
| 1. Percentage of information published pursuant to Articles 1.1. and 1.2. of the Trade Facilitation Agreement and CEFTA AP 5;  | To be established | 100%    | <a href="#">Article 1.1 and CEFTA AP5: 2018</a> | <a href="#">Article 1.1. and CEFTA AP 5: 2019</a> | All information required to be published under TFA article 1.1 and CEFTA AP 5 is easily accessible on the websites of the relevant government competent authorities, including description of procedures for importation, exportation, and transit, procedures for appeal or review, required forms and documents, etc. |
| MEASURE 3.2. EXPAND USE OF SIMPLIFIED PROCEDURES   |                   |         |   |   |   |
| The Customs Administration, in coordination with the Food Safety, Veterinary and Phytosanitary Authority and business associations, will develop and implement programs to increase the use of simplified import and export procedures by economic operators.  |                   |         |   |   |   |
| Indicator  | Value             |         | Timeframe                                       |   | Outcome   |
|  | Start             | Target  | Start year                                      | End year  |   |
| 1. Percentage of declarations processed within simplified procedures in relation to the total number of declarations.  | 2%                | min 40% | 2018  | 2020  | At least 40 percent of total declarations are made under simplified procedures.   |
| MEASURE 5.3. DEVELOP THE FOOD SAFETY INFORMATION SYSTEM  |                   |         |   |   |   |
| The Food Safety, Veterinary and Phytosanitary Authority will develop an automated system to support veterinary, sanitary and phytosanitary inspection officer's border control activities and enable paperless processing of supporting documents for import export and transit of goods subject to SPS requirements, without the requirement of a paper copy. |                   |         |   |   |   |
| Indicator  | Value             |         | Timeframe                                       |   | Outcome   |
|  | Start             | Target  | Start year                                      | End year  |   |
| 1. Percentage of automated transactions in relation to the total number of transactions of the FSVPA.  | 0                 | 70%     | 2019  | 2022  | 70 percent of the Food Safety Veterinary and Phytosanitary Authority transactions are fully automated.  |

The National Trade Facilitation Strategy is published on Montenegro government websites.

Establishment of a monitoring and evaluation framework is critical in the planning of national implementation. However, the data needed to measure progress and impact against these broader national objectives needs to be created. An important activity, undertaken in planning national implementation, is to agree on these national objectives; identify and prioritise the trade facilitation measures that will achieve those objectives; and, define the indicators and processes to be used to measure progress and assess the impact of implementation in relation to those national objectives. It is an activity appropriately undertaken by the NTFC, with strong private sector involvement, and produces a formal agreed national trade facilitation strategy or similar action plan.

## FACILITATION OF E-COMMERCE TRADE

This section examines how customs and other border clearance functions are adapting to the challenge of e-commerce and how aid for trade is supporting this process.

Although “e-commerce,” as commonly defined, includes both national and international sales of both goods and services<sup>18</sup>, the focus of these comments is limited to the trade facilitation aspects of the e-commerce transaction, namely, the cross-border delivery of physical goods purchased on-line.

### General Characteristics

The characteristics of the cross-border e-commerce market have been the subject of previous studies and analyses.<sup>19</sup> The largest portion of the e-commerce retail market involves individual, small-size packages containing low value goods. Typically, the seller undertakes to deliver the goods direct to the consumer’s door or to a local “pick-up point”, contracting with the postal service or an express-delivery operator who assumes responsibility for clearance at export and import.<sup>20</sup> Reliability of the seller; speed of delivery; ability to track and trace a package from the point of dispatch to delivery; and ability to return goods easily are the key demands of e-commerce consumers. Given that speed of delivery is an essential feature, air transport is typically involved.

The e-commerce market is reported to be large and growing rapidly. Although measurement of e-commerce is problematic, what information is available suggests at a minimum the proportions and trend of the market. Survey and other data from consulting firms, for example, indicate that by 2021 global retail e-commerce sales will increase over 250% to USD 4.8 trillion from a 2014 base of USD 1.3 trillion sales.<sup>21</sup> The size of the B2B e-commerce market appears to be more impressive still; total B2B e-commerce sales in some countries have been estimated as constituting 60 to 90 percent of the total e-commerce market.<sup>22</sup> Cross-border sales account for a significant and increasing share of the e-commerce market. In 2015, cross-border sales constituted 15% of the e-commerce market and are expected to grow to approximately 22% of global e-commerce by 2020.<sup>23</sup>

On-line platforms and marketplaces (such as Amazon, eBay, Alibaba and Wish, as well as home-grown developing country platforms such as Jumia) provide a ready-made and cost-effective infrastructure to enable firms in developing and least-developed countries to access global markets. By enabling firms to reach overseas buyers directly via the internet, the costs of travel or physical presence in the export markets or use of intermediaries is reduced or eliminated. Moreover, these e-commerce marketplaces offer services to sellers to more easily engage with third-parties for logistics and delivery of goods.

E-commerce market thus creates new export opportunities for SME’s, which constitute the largest portion of firms in most developing countries, benefits consumers through lower prices and greater range of choices, and benefits government through new job creation, increased exports, and competitive pressure in the economy.<sup>24</sup> However, the rapidly increasing volumes and the nature of e-commerce trade presents specific challenges for Customs and other border agencies, which may require a particular focus to implementation of trade facilitation measures. These are discussed in the following sections.

## Facilitating E-Commerce Cross Border Trade

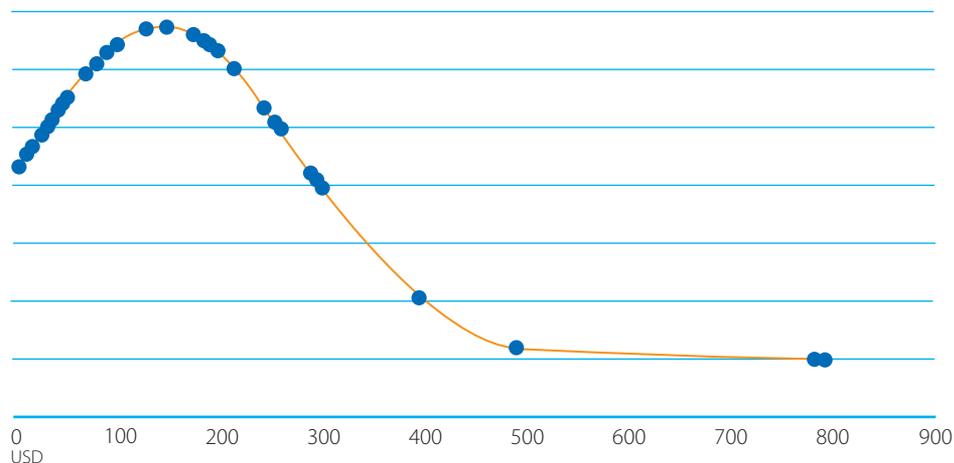
In a general sense, the trade facilitation issues arising out of the cross-border delivery of goods that have been purchased via a website are identical to those where the export sale is concluded in person, in writing or other such traditional means. That is, goods shipped by an e-commerce seller are subject to the same border controls, document and data requirements, customs formalities, fees, etc. required for release and clearance as goods that are sold through traditional channels. A *full and effective* implementation of the TFA measures to eliminate inefficiencies in clearance processing, rationalise fees, improve transparency of requirements, integrate border agencies processing and control activities, etc., will reduce costs of trade and thereby increase firms' competitiveness in international markets and reduce prices paid by consumers, regardless of the purchase channel.

However, it is also well-recognised that certain facilitation measures are of particular importance to support cross-border e-commerce trade, given its specific characteristics, and which should therefore be given emphasis by governments in their implementation of the TFA to support growth of this trade. These key e-commerce facilitating measures are the following -

### ■ *De minimis* duty and tax exemptions

The TFA requires WTO members to "provide, to the extent possible, for a *de minimis* shipment value or dutiable amount for which customs duties and taxes will not be collected."<sup>25</sup> As the terms of the measure indicate, the *de minimis* threshold may be defined in terms of the value of the goods or, less-commonly, the amount of duty and tax payable or a combination of the value and duty and tax amount.

**Figure 6.14. *De minimis* Customs Duty Amounts in 98 Countries (Global Express Association)<sup>26</sup>**



Source: [https://global-express.org/assets/files/Customs%20Committee/de-minimis/GEA%20overview%20on%20de%20minimis\\_28%20March%202018.pdf](https://global-express.org/assets/files/Customs%20Committee/de-minimis/GEA%20overview%20on%20de%20minimis_28%20March%202018.pdf)

StatLink  <http://dx.doi.org/10.1787/888933953641>

The *de minimis* exemption is of specific importance to B2C e-commerce trade. As noted above, the largest share of packages delivered in the B2C channel are low value, and therefore would benefit from an appropriate *de minimis* exemption or waiver. Moreover, apart from the savings in tax and duty, operation of a *de minimis* can reduce time and cost of customs clearance by eliminating processing steps otherwise required for payment and collection. And, as discussed below, a *de minimis* rule is important to support implementation of certain simplified release procedures.

As indicated in Figure 6.14, a *de minimis* rule is not yet established in some countries. Where it is provided, the threshold amount allowed may be minimal or subject to restrictive conditions. Also, where the amount is specified in legislation, there may not be provided any legal or administrative mechanism for periodic adjustment, so that the rule can lose its facilitative effect over time (absent regular amendment of the customs law).

The traditional justification for the exemption is that the administrative costs incurred by the trader and Customs in assessment, payment and collection would equal or exceed the amount of the duty and tax at stake. However, it would be important in setting the threshold to examine not only these administrative savings but overall economic impact, such as positive economic benefits of increased e-commerce transactions.

A challenge that developing and least-developed countries face in implementation of a *de minimis* rule is the impact on revenue collection and, possibly, domestic producers. There is also a concern of fraud in the use of the exemption by, for example, misdeclaration of price paid. Technical assistance and capacity building support will be important to assist government in analysing these impacts, devising an appropriate facilitative *de minimis* threshold, and establishing appropriate risk management and procedures to reduce the potential of mis-use.

### ■ Simplified release procedures

The TFA requires WTO members to establish simplified documentation and procedures for release of expedited shipments, such as packages arriving by air express delivery services, a category that describes much of e-commerce cross-border transactions.<sup>27</sup> These TFA provisions envisage the possibility of customs clearance and release of express shipments on the basis of air cargo documents or a simplified declaration alone, as well as release followed by a subsequent declaration and completion of clearance procedures (for example, for purposes of assessment and payments of any duty and tax owed). It is further envisaged that countries may limit the use of these simplifications to authorised persons or entities, such as express delivery operators with the systems and procedures in place to ensure proper conduct of the operation and enable customs supervision.

The leading instrument to guide implementation of these TFA principles is the WCO Immediate Release Guidelines.<sup>28</sup>

The simplifications described by Category 2, which is linked to the *de minimis* exemption discussed above, and by Category 3 would cover a large portion of B2C transactions. As the WCO guidelines indicate, however, it is up to the country concerned to design these simplifications and define conditions of their use in a manner appropriate to their particular needs and environment.

There is large scope for technical assistance and capacity building support to developing and LDC members which have not yet implemented these simplifications. Implementation of these procedures may constitute a radical alteration of existing, traditional clearance processes. Expertise and capacity building would be important in the design of the procedures and minimum document and data requirements; establishing qualification criteria and controls of express delivery and other potential users of these simplifications; implementation of an appropriate guarantee system; evaluation and adjustments to customs IT systems, etc.

### Box 6.8. WCO Immediate Release Guidelines

The WCO Guidelines are recommendations to customs administrations to assist in development of their national procedures to cope with the increasing volumes of smaller consignments crossing borders as a result of the growth in the e-commerce market. They are intended as possible “solutions” to enable administrations to combine the immediate release of such goods with relevant and appropriate controls.

The guidelines recommend that consignments may be separated into four categories, each with suggested release treatment and data and documentary requirements.

#### ■ Category 1: Correspondence and documents

- Goods cleared and released simultaneously (i.e. no post-release documents or procedures)
- Goods released on basis of a “consolidated declaration” such as a manifest or waybill
- Minimal data required

#### ■ Category 2: Low value consignments for which no duties and taxes are collected (*de minimis* threshold)

- Goods cleared and released simultaneously
- Goods released on basis of a “consolidated declaration” or a simplified declaration
- Individual items in shipment reported

#### ■ Category 3: Low value dutiable consignments (simplified declaration)

- Goods cleared and released simultaneously, if a simplified or full declaration submitted prior to arrival and any duty and tax is assessed and paid
- Otherwise, goods immediately released on basis of manifest/waybill or provisional declaration, subject to provision of a guarantee and obligation to submit simplified (including periodic) declaration following release and pay duty and tax

#### ■ Category 4: High Value consignments (full declaration)

- Normal clearance and release procedures apply

Under any category, Customs may perform documentary checks and/or physical examination of the goods based on risk management.

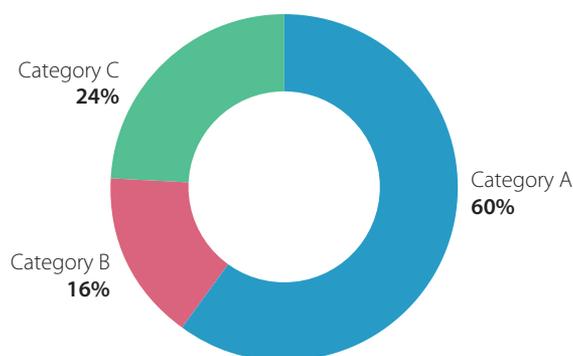
The guidelines include an indicative list of data elements required under categories 1 to 3.

#### ■ Pre-arrival information

The TFA requires WTO members to allow submission of documentation and other information required for importation – including both the manifest and goods declaration documents and information – prior to arrival of the goods so as to enable Customs and other border authorities to process the information (determine required controls, assess duty and taxes, etc.) in advance and thereby expedite release. Moreover, provision should be made, “as appropriate,” for the electronic submission of this advance information.

In their notifications to the WTO Committee, the majority of WTO developing and LDC members indicate that they have, in fact, already implemented these provisions on pre-arrival processing (Category A).

Moreover, of the 16 countries that notified the WTO Committee that they intend to implement the procedure with a delay period but without need of external technical assistance (Category B), more than half indicate that the measure will be implemented by the end of 2020.

**Figure 6.15. TFA Article 7.1 Pre-arrival Processing: Implementation Notifications**

Source: WTO Trade Facilitation Agreement Facility (TFAF) Database

StatLink  <http://dx.doi.org/10.1787/888933953660>

Full and effective implementation of pre-arrival processing in the context of e-commerce trade presents developing and LDC Customs and other border authorities with specific challenges not present to the same degree as in traditional channels. Given levels of automation, declarations for small parcels moving through the international postal channel are less likely to be submitted in electronic form or in advance. Because national legislation typically allows release on the basis of simplified declarations for low value goods (e.g. based on the immediate release procedures described above), less data is available to border authorities for risk analysis purposes. The occasional shippers who typically participate in e-commerce transactions may not be known to Customs (i.e. traders with no compliance history) and, because they are typically not well-practiced in customs requirements, the data provided may not be as reliable. Thus, while the rate of implementation of TFA Article 7.1 appears high, it may be that additional focus, with appropriate TACB support, should be given to overcome these particular challenges to expedited release of goods in the e-commerce arena. In particular, implementation of the various initiatives of WCO and Universal Postal Union (UPU) for advance electronic exchange of postal data might be supported.<sup>29</sup>

#### ■ Simplified procedures for re-export/re-import of returns

To grow the cross-border e-commerce market, consumer demand requires facilitation of return of goods to the seller and possibly, shipment of replacement goods. Implementation of simplified Customs procedures to expedite the re-export (by the consumer) and re-importation (by the seller), as well as duty and tax facilities, including a simplified drawback regime, would therefore be important to respond to this demand.

#### ■ Border agency coordination

Full and effective implementation of the TFA provisions on border agency coordination and cooperation are essential. The facilitation benefit of Customs immediate release of an air cargo express delivery is limited if the operator must wait for approval of other border authorities, such as quarantine services. Alignment of border authorities' presence and working hours at air cargo facilities, integration of their processing and controls, and sharing pre-arrival and risk related information are essential to expedite release.

Coordination with national postal services (public and private) is of particular importance in view of the large and growing volume of parcels and express mail service (EMS) items that move through the international postal supply chain *and* that the clearance of such postal items is a shared responsibility of Customs and the postal service. As postal service processes are often manual and paper-based, there is evident need for technical or other assistance to simplify and integrate clearance processes, and to enable automated exchange of data with Customs, consistent with UPU and WCO standards and recommendations.

### TACB for e-Commerce

The essential elements of a B2C e-commerce transaction are (i) a seller with an internet presence (a web page) to accept on-line orders, (ii) a buyer with internet access to place the order, (iii) a payment method (e.g. credit card, digital wallets, cash on delivery, etc.), and (iv) the delivery of goods.<sup>30</sup> Apart from the trade facilitation issues arising out of cross-border delivery of goods as discussed above, developing and least-developed countries face specific challenges in relation to each of these elements. These barriers include unreliable ICT infrastructure and power supply, limited access to international electronic payment systems, weak legal framework for electronic transactions, and poor distribution and logistics infrastructure. A valuable resource that can assist these countries identify specific barriers and the technical assistance and capacity support required to participate more fully in the e-commerce market is UNCTAD’s “eTrade Readiness Assessment.”

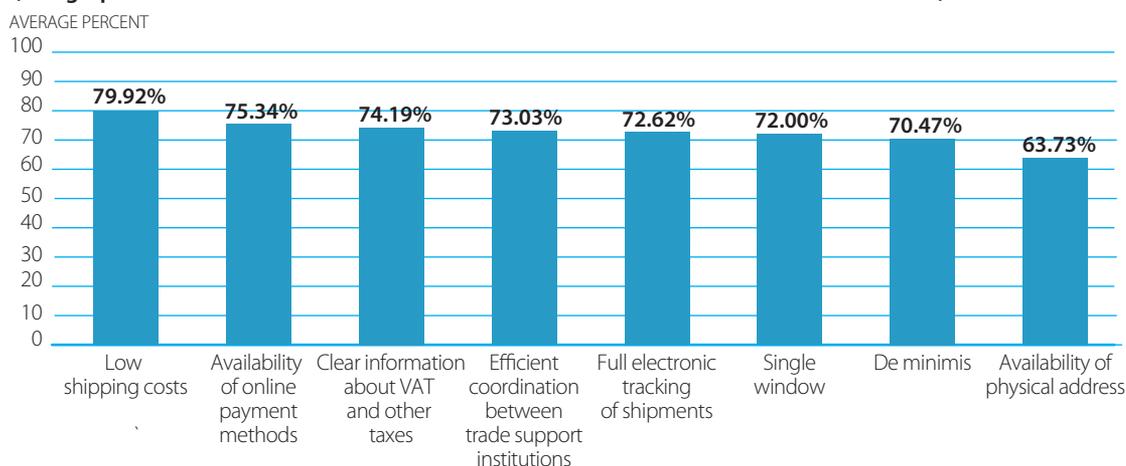
#### Box 6.9. Trade Facilitation and E-commerce: Two sides of a coin

Although e-commerce involves online buying and selling, it still depends on the physical delivery of goods. Poor logistics remain a barrier to cross border e-commerce transaction in many developing economies. While transport costs are coming down and shipping connectivity has improved, the gap between the best and worst connected countries is widening and transport cost and delivery time often remain too high. Improving customs clearance, simplified border procedures and facilitating e-commerce and ameliorate interoperability between transport providers is an all-time high priority for these economies.

Such has been the reflection of the eTrade Readiness Assessment conducted by UNCTAD in 17 LDCs while investigating the e-commerce readiness assessment. Outstanding elements that are parts of the Trade Logistic measures are present in the findings of the assessment reports. Issues ranging from the Single Window to coordination between trade support institutions have been labelled to be very important.

Feedback from the survey indicates that trade logistics and cross border facilitation measures are crucially important to establish a full-fledged e-commerce domain. It goes to show that policy makers must specifically focus their trade facilitation reforms on trade logistic and trade facilitation measures both within the country as well as across the border. Digitalisation and enhanced coordination between trade support institution can help foster a sustainable and competitive e-commerce regime.

**Figure 6.16. Elements very important to create an environment conducive to ecommerce. (The graph shows feedbacks from 9 LDCs under UNCTAD’s eTrade Readiness Assessment.)**

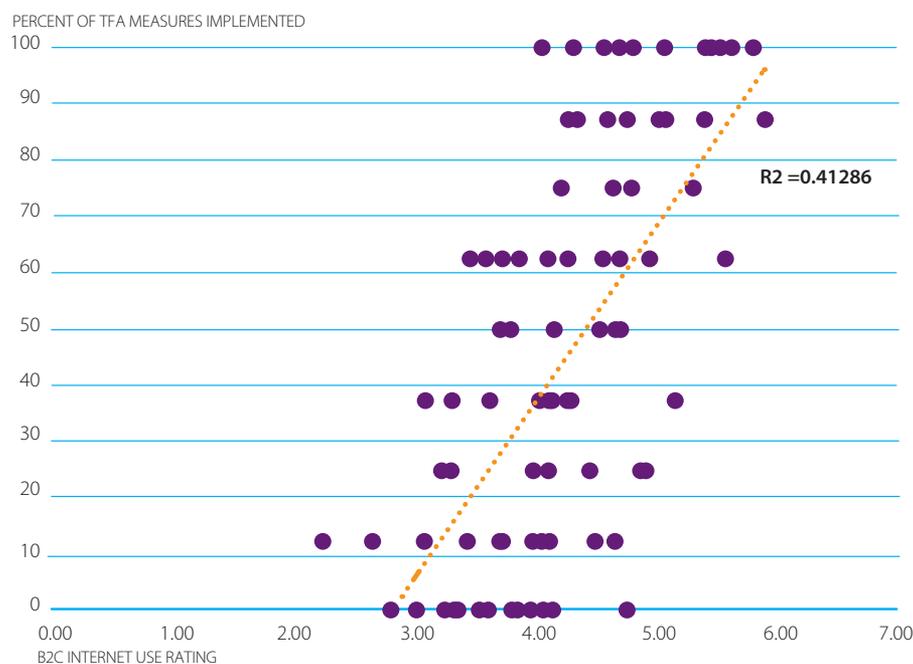


### Box 6.10. Correlation between TFA implementation and B2C internet use rating per region

A correlation is present between the implementation of TFA measures<sup>33</sup> relevant to e-commerce and the Business to Consumer (B2C) internet use<sup>34</sup> within the countries.

As illustrated in Figure 6.17, countries with higher Business to Consumer (B2C) internet usage tend to report higher WTO TFA implementation of e-commerce measures<sup>35</sup> notified as category A commitments. High use of the internet by businesses and consumers makes it easier to implement trade facilitation reforms that benefit such transactions.

**Figure 6.17. Correlation between B2C Internet use and TFA Implementation (E-commerce Measures)**



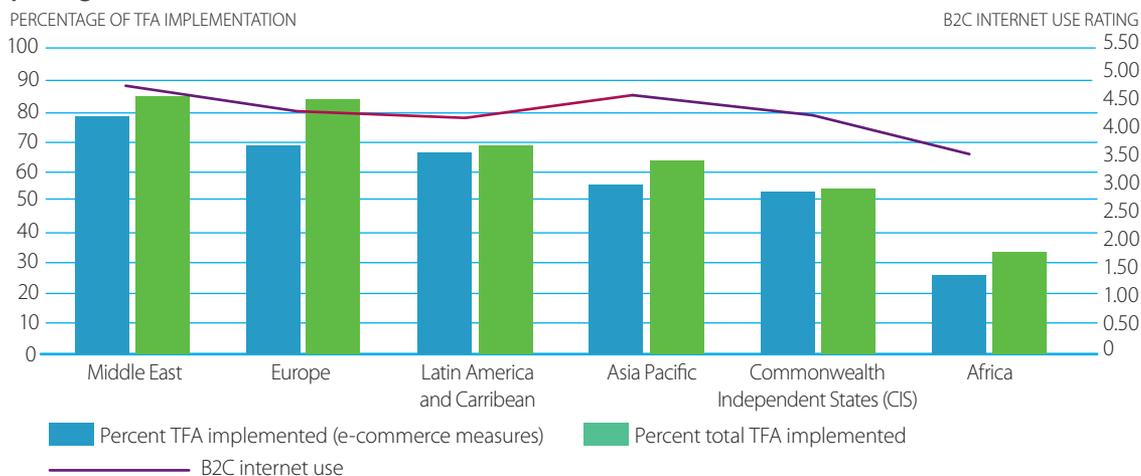
The earlier a country has notified TFA implementation, the higher the B2C Internet usage rating. Countries that notified the implementation of Trade facilitation measures in 2014 have an average B2C internet use of 4.54 while the index is only 3.44 for those countries that notified in 2018.

Looking at the data regionally, as illustrated in Figure 6.18., on average, almost all regions have implemented at least half of the TFA measures relevant to e-commerce. Africa has the lowest average implementation rate of TFA measures and has the lowest average B2C Internet use rating.

Further compliance with the TFA measures can support e-commerce trade when it builds a secure, transparent, and less costly environment to both businesses and consumers.

Box 6.10. Correlation between TFA implementation and B2C internet use rating per region

Figure 6.18. Average percent of implementation of TFA measures and B2C internet use rating per region



Source: UNCTAD

Further compliance with the TFA measures can support e-commerce trade when it builds a secure, transparent, and less costly environment to both businesses and consumers.

Source: UNCTAD

Notifications by WTO developing and LDC members indicate that demand for technical assistance support to implement the TFA provisions specific to e-commerce transactions is not particularly high. Just 25% of the developing and LDC WTO members have indicated a need for external support to implement the TFA provisions on express delivery which include the immediate release procedures, the *de minimis* waiver or exemption and other simplifications described above.<sup>31</sup> An “e-trade” readiness assessment may usefully assist the government and stakeholders validate the current situation, better understand the development potential and barriers to growth of its e-commerce market and, where appropriate, re-focus implementation priorities and revise technical support needs.

E-commerce transactions do present specific challenges for border agencies that are not present to the same degree as the traditional channel. The increased number of micro and small and medium businesses and consumers in the B2C e-commerce supply chain, about whom there is limited information, is a specific challenge for Customs risk assessment.<sup>32</sup> The national postal service, which typically operates in a manual, paper-based environment, is a border agency with which coordination and cooperation has heightened importance for e-commerce transactions. The information requirements and modes of information access of SME firms, which typically engage only occasionally in e-commerce cross-border trade, are not the same as those of firms which are regularly involved in traditional import or export transactions.

Nevertheless, the general foundations upon which these specific challenges can be addressed are being established with TACB support. Thus, as indicated in Part II of this chapter, developing and LDC members are, with technical support, establishing or enhancing their customs and other border agency risk management systems and procedures and improving risk analysis technique, which will be essential to enable the immediate release of low risk goods. Improved coordination of controls and exchange of information among border agencies, progressing toward an electronic Single Window, likewise promote faster release of low-risk goods whether arriving via the e-commerce channel or otherwise. Implementation of trade information portals and publication of plain language guides to requirements - also a focus of early support - are particularly important to enable SMEs to comply with border agency requirements (with which they typically have much less experience than larger firms, and fewer resources to investigate) and to take advantage of release simplifications.

Data suggest that such improvements in the trade facilitation environment is a potential catalyst for e-commerce.

Going forward, what is required to better facilitate e-commerce transactions is to extend and focus the reforms now being undertaken in risk management, transparency, border coordination etc. to the specific challenges presented by the e-commerce transactions. As previously suggested, a “e-readiness” or similar assessment would be valuable as a starting point to identify gaps and support needs in that regard.

## CONCLUSION

Considerable technical and capacity building support has been provided to bolster developing and LDC WTO members in their implementation of the TFA. How does this financing support implementation, what progress has been made, and what impacts have been registered?

The experience of the World Bank Group Trade Facilitation Support Program (TFSP) and the UNCTAD Trade Facilitation Program, both providers of trade-related assistance, as well as OECD’s analytical work provides insights to these questions.

As detailed in this chapter, the focus of support has been determined by client demand and a sequencing logic suggested by the Agreement, whereby certain essential measures are prioritised to enable implementation of others. Priority has thus been generally given to establishment of National Trade Facilitation Committees, the national bodies required to oversee implementation; carrying out time release studies, which provide countries with a baseline to measure progress; and implementation of risk management policies and procedures, which are a precondition for simplified control and release processes. The form of support required for these measures is most commonly technical and analytical expertise, and has been largely directed to the executive authority and the Customs administration.

The current and future direction of aid is also indicated by the notifications made by WTO developing and LDC members under the TFA’s special and differential treatment provisions. There is high demand from these countries for technical assistance in implementation of TFA measures on Single Window, risk management, time release studies and transparency measures. Forms of support most commonly requested in notifications include capacity building, legislative support, and ICT. This chapter suggests that these notifications reveal a particular concern for implementation capacity and resources of the technical border agencies which typically are not as progressed in the trade facilitation agenda as the customs administration.

An important element of support is the establishment of mechanisms to measure implementation progress and to assess impact. A TFA Alignment Tracking Tool was developed by the WB-TFSP to enable countries measure their progress towards a “full and effective” implementation of the individual measures of the agreement. Initial measurements using the tool suggest that aid for trade has had positive effects improving rates of alignment to the TFA in countries receiving WB-TFSP support.

OECD Trade Facilitation Indicators likewise show implementation of the TFA is well underway, although performance is varied across and within different income groups. Early improvements appear in areas such as automation and streamlining of procedures and engagement with the trade community; the biggest challenges to be faced concern cooperation among the national border authorities and with their cross-border counterparts.

Trade facilitation reforms are producing positive impacts. Evidence from country reports indicate reduction in physical inspections, elimination of unnecessary documents, and automation of manual processes through implementation of TFA measures. Results of initial periodic time release studies show reduction of clearance times. The World Bank general trade facilitation surveys also indicate that improvements are being made in reduction of time and cost in countries receiving support. OECD research highlights the positive impact of trade facilitation on the internationalisation of SMEs – a message also echoed by developing country responses to the joint OECD-WTO Monitoring and evaluation exercise. To better enable developing and LDC Members track and demonstrate progress and impact of reforms, this chapter suggests that continued support is needed for establishment of appropriate monitoring and evaluation systems and tools.

Finally, this chapter considered the specific question as to how aid for trade can support trade facilitation of goods sold in e-commerce, a market with enormous export potential for SME's, which constitute the largest portion of firms in most developing and least-developed countries.

The trade facilitation challenges arising out of cross-border trade in goods sold through e-commerce are generally the same as those sold in traditional channels. Much the same response is needed, including full and effective implementation of the TFA measures. However, given the nature of e-commerce transactions, there are certain TFA and other trade facilitation reforms that are of particular relevance to development of this market, including implementation of a facilitative *de minimis* exception; TFA simplified release procedures for air cargo shipments; TFA pre-arrival procedures; and closer border agency coordination, particularly between customs administration and the national postal service. This chapter suggests that to assist development of e-commerce markets, aid for trade might be usefully deployed to extend and focus the reforms now being undertaken in risk management, transparency, border coordination etc. to the specific challenges presented by e-commerce transactions.

## NOTES

1. WTO Trade Facilitation Agreement Facility (TFAF) database, <https://www.tfadatabase.org/>. Hereinafter “TFAF database.” Information from TFAF database in this chapter is as of February 15, 2019.
2. TFAF database. Estimate is based on notifications made by WTO members pursuant to TFA Article 22.1. The estimate is likely understated as Article 22.1 notifications for 2017 and 2018 are not complete and the estimate does not account for support provided but not required to be notified (e.g. support provided by WTO developing country members).
3. WB-TFSP development partners are the Department of Foreign Affairs and Trade of Australia (DFAT), Global Affairs Canada, the European Union, the Ministry of Foreign Affairs of the Netherlands, the Ministry of Foreign Affairs of Norway, the Swedish International Development Cooperation Agency (SIDA), the State Secretariat for Economic Affairs of Switzerland (SECO), the Department for International Development of the United Kingdom (DFID, UK aid), and the United States Agency for International Development (USAID).
4. TFA Article 21(3)(b).
5. WTO members formally agreed to launch negotiations on trade facilitation in July 2004, on the basis of modalities contained in Annex D of the so-called “July package”. International Organisations identified as having a role in the implementation of TF-related reforms and referred to in this Annex have subsequently been referred to as Annex D Organisations. These include the IMF, OECD, UNCTAD, and the WCO. World Trade Organization, Doha Work Programme, Annex D, WT/L/579 (August 2, 2004).
6. TFAF database. In these notifications, certain WTO countries designated part of a TFA provision under one category and part under a different category. For purposes of this discussion, a country is deemed to have notified an entire TFA provision under a particular category if the country classified that provision either in whole or in part under the category.
7. In this and other figures in this subsection, the percentage represents the number of requests (e.g. for Single Window support) in relation to total number of category C notifications for all measures.
8. The time periods for making this notification are different between developing and LDC members.  
 “Developing Country Member Category C  
 (c) Upon entry into force of this Agreement, each developing country Member shall notify the Committee of the provisions that it has designated in Category C and their corresponding indicative dates for implementation. For transparency purposes, notifications submitted shall include information on the assistance and support for capacity building that the Member requires in order to implement.  
 Least-Developed Country Member Category C  
 (c) For transparency purposes and to facilitate arrangements with donors, one year after entry into force of this Agreement, each least-developed country Member shall notify the Committee of the provisions it has designated in Category C, taking into account maximum flexibilities for least-developed country Members.  
 (d) One year after the date stipulated in subparagraph (c) above, least-developed country Members shall notify information on assistance and support for capacity building that the Member requires in order to implement.”
9. These notifications typically state that such information is “to be determined.” All notifications of this type were submitted by LDC’s. The time period under the agreement for LDC’s to provide this information (see footnote 8) has not yet expired.
10. Note, however, that these 44 countries include just 2 LDC members, and therefore the technical assistance needs discussed herein may not fully reflect a LDC perspective

11. See Figure 6.2, above.
12. For implementation to remain manageable, four agencies are defined per country as a proxy for the whole of government: (1) Customs; (2) Plant Protection and Quarantine; (3) the Bureau of Standards; and (4) the agency responsible for health.
13. In design of the tool, the assumption was taken that the implementation objective is maximum economic benefit through facilitation rather than technical legal compliance with the agreement. Using the OECD Trade Facilitation Indicators (TFIs) to monitor country progress in implementing the TFA, the OECD estimates that the potential cost reduction from a “full” implementation of the WTO Trade Facilitation Agreement is 16.5% of total costs for low income countries, 17.4% for lower middle income countries, 14.6% for upper middle income countries; whereas in a less ambitious implementation, limited to compliance with mandatory provisions of the agreement, the potential reduction reaches 12.6% for low income, 13.7% for lower middle income, and 12.8% for upper middle income countries. OECD (2018), *Trade Facilitation and the Global Economy*, OECD Publishing, Paris.
14. According to TFAF database, the measures with the lowest implementation rate are-
  - Art. 10.4 - Single window
  - Art. 7.7 - Authorised operators
  - Art. 5.3 - Test procedures
  - Art. 3 - Advance rulings
  - Art. 7.6 - Average release times
  - Art. 8 - Border Agency Cooperation
  - Art. 1.3 - Enquiry points
  - Art. 1.2 - Information available through internet
  - Art. 7.4 - Risk management
15. WTO Trade Facilitation Agreement Preamble
16. Accordingly, the agreement “encourages” countries “to measure and publish their average release time of goods periodically and in a consistent manner, using tools such as, inter alia, the Time Release Study of the World Customs Organization.” Article 7.6, WTO Trade Facilitation Agreement (Establishment and Publication of Average Release Times).
17. Significant data gaps still exist on the exact nature of barriers that women face in undertaking cross-border trade and on the gendered impact of improved customs and border procedures. Filling these gaps is essential to optimise the design and implementation of effective policy reforms and program interventions that maximise the gains from trade for all. To this end, the WB-TFSP has initiated work to help fill some of the knowledge gaps through the collection of data in face-to-face surveys. The work is being piloted East Asia and the Pacific region.
18. OECD defines e-commerce as “the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organisations.” OECD Glossary of Statistical Terms <https://stats.oecd.org/glossary/detail.asp?ID=4721>
19. See, e.g. UNCTAD, *Information Economy Report 2015: Unlocking the Potential of E-commerce for Developing Countries* (2015); International Trade Centre, *Bringing SMEs onto the E-Commerce Highway* (2016); World Customs Organization, *WCO Study Report on Cross-Border E-Commerce* (March 2017). These comments also draw on an upcoming World Bank Group Note: *Facilitation and Logistics for E-commerce* (Ankur Huria, author).

20. According to surveys of cross-border e-commerce consumers, 61% of packages shipped are valued at less than 50 Euro and 84% weigh 2 kilograms or less. International Post Corporation, *Cross-Border E-Commerce Shopper Survey 2018* (January 2019).
21. eMarketer; Statista.
22. UNCTAD, *Information Economy Report 2015* at 12.
23. DHL, *The 21st Century Spice Trade : A Guide to the Cross-Border E-commerce Opportunity* (2016).
24. UNCTAD, *Information Economy Report 2015* at 6.
25. "8.2 Subject to paragraphs 8.1 and 8.3, Members shall... (d) provide, to the extent possible, for a *de minimis* shipment value or dutiable amount for which customs duties and taxes will not be collected, aside from certain prescribed goods. Internal taxes, such as value added taxes and excise taxes, applied to imports consistently with Article III of the GATT 1994 are not subject to this provision.". TFA Article 7.8.
26. Global Express Association global survey (including 28 EU countries) of *de minimis* customs duty amounts, converted to U.S. dollar (<https://global-express.org/index.php?id=14>). The average *de minimis* amount of the countries surveyed is approximately USD 150.
27. "8.2 Subject to paragraphs 8.1 and 8.3, Members shall:
  - (a) minimise the documentation required for the release of expedited shipments in accordance with paragraph 1 of Article 10 and, to the extent possible, provide for release based on a single submission of information on certain shipments;
  - (b) provide for expedited shipments to be released under normal circumstances as rapidly as possible after arrival, provided the information required for release has been submitted;
  - (c) endeavour to apply the treatment in subparagraphs (a) and (b) to shipments of any weight or value recognising that a Member is permitted to require additional entry procedures, including declarations and supporting documentation and payment of duties and taxes, and to limit such treatment based on the type of good, provided the treatment is not limited to low value goods such as documents[.]"
28. World Customs Organization, *Guidelines for the Immediate Release of Consignments by Customs Version III* (June 2018).
29. These include proposed Joint WCO-UPU Guidelines on the exchange of electronic advance data (EAD) between Posts and Customs. According to the WCO, the guidelines are "aimed at providing policy and technical guidance to designated postal operators and Customs administrations on how to establish the exchange of EAD, as well as gain support within the respective organisations for the adoption of this development project on a priority. They should be published in June 2019, once approved by the WCO Council." <http://www.wcoomd.org/en/media/newsroom/2018/november/wco-upu-contact-committee-endorses-joint-guidelines.aspx>.
30. UNCTAD, *B2C E-E-commerce Index 2017* (October 2017).
31. TFAF database. Fifty-nine (60%) developing or LDC WTO members have classified TFA Article 7.8 (expedited delivery) under category A, indicating that the measure is fully implemented.
32. WCO Study Report on Cross-Border E-Commerce
33. The data show the measures notified by WTO Members under category A, assuming that they have implemented them.
34. NRI World Economic Forum data.
35. For all analysis done, the TFA measures relevant to e-commerce used are Article 7.1, 7.2, 7.4, 7.6, 7.8, 8, 10.1, and 10.4.

## REFERENCES

- OECD (2018), Trade Facilitation and the Global Economy, OECD Publishing, Paris.
- OECD (2019a), "Helping SMEs internationalise through trade facilitation".
- OECD (2019b), "Participation and benefits of SMES in GVCs in Southeast Asia".