AID-FOR-TRADE: CASE STORY

WORLD BANK

Export Development Project

Tunisia

A World Bank program in Tunisia aimed at raising the level of the country's exports and smoothing trade logistics has increased Tunisian exports by more than $400 million from 2005 to 2009.

According to World Bank officials, this figure represents around 5 percent of the country's $6 million export growth during that period.

The roughly $50 million export development project, which follows on an earlier, similar, project, is aimed at removing important constraints on Tunisia's exports. The project has several components aimed at increasing trade, ranging from establishing an export market access fund and setting up a pre-shipment export finance guarantee facility to moves to streamline customs and other efforts to improve trade logistics.

Exports are seen as critical to speeding the growth in Tunisian output and employment, partly because of the country's small domestic economy and partly because of the increasing level of international trade generally, providing opportunities for countries that sell into the export market.

At the outset of the program, Tunisia needed to increase its exports for a variety of reasons, including potential new competition from such places as India, China, Bangladesh and Eastern Europe to supply subcontracted apparel items following the elimination of the Multi-fiber Arrangements.

There are also structural reasons the country needed to increase exports. Tunisian firms were serving as subcontractors for foreign companies, meaning they continued to produce garments and other simple goods – goods that could easily be replaced with products from other countries with lower production costs. Moreover, export growth had been predominately in off-shore companies that primarily produced for export and that had few ties to on-shore industry, so most of those on-shore firms were poorly prepared for the international competition that would flow from the country's international agreements. It was clear from the earlier export development project that Tunisia's on-shore companies had substantial export potential and could help open the country's market to foreign products.

The largest component of the World Bank's current project is an export market access fund, aimed at helping Tunisian firms increase growth, employment and income through export initiatives and the diversification of their markets and products.

The fund offers co-financing for firms and professional associations to spur investment in market research and other programs to raise export market access and competitiveness. It also finances other steps to increase exports – steps such as acquisition of equipment and sponsorship of workshops. The matching-grant fund also helps professional organizations to support groups of firms operating under shared export plans.

The market access fund has increased exports as of the end of May 2010 by $319 million. Moreover, 33 percent of these exports are from new exporters, with shipments going to new destinations such as Mauritania, Benin, the United Kingdom, Sudan, Burkina Faso, Senegal, Mali, Congo, Togo, Ghana, Cameroon, Côte d'Ivoire, Malaysia, Indonesia, and China.

Services account for 28 percent of the exports under the market access fund.

Aside from direct trade results, the fund has allowed the maintenance and creation of jobs. Although the World Bank has no numbers on this, it is estimated that the total is around 98,500 jobs for the firms involved, 55 percent of which have been permanent full-time positions.

In a second major component, the project aims to encourage financial institutions to provide pre-shipment financing for new exporters through an export finance guarantee facility.

This component has increased exports by more than $98 million.

In a third component, the project also includes an effort to increase the efficiency of Tunisian customs, aimed at cutting delays at the border while strengthening control processes. Tunisia Customs modernized its procedures, including automation of part of the customs declaration processing operation, under the earlier Bank project. The new project builds on that effort to reform other customs procedures and add additional equipment.

As a consequence of these efforts, shipments are now held at Tunisia's main seaport, the port of Rades, for significantly less time. The average stay for cargo, including customs processing and other procedures, has dropped by two-thirds – from about 10.1 days in 2003-2004 to 3.3 days in April 2010.

Other components of the World Bank project include:

- an effort to strengthen Tunisia's National Institute of Standards and Intellectual Property, the *Institut national de normalisation et de propriété intellectuelle*, with an eye toward helping companies meet standards important to export expansion, helping Tunisia meet multilateral trade obligations and prepare for bilateral free trade agreements, and easing access to national trade regulations;
- an effort to cut import clearance times through automation and other means, and an effort to support an assessment and data collection program on supply chain barriers in transportation and logistics; and
- a project management component to finance training in such areas as financial management and the purchase of computer and office equipment.

According to the Jean-Michel N. Marchat, a senior economist at the World Bank, the program has laid the groundwork for future exports by both allowing new firms to become exporters and allowing a significant number of companies – 810 as of May 31, 2010 – to develop their abilities in gaining access to export markets.

Regarding the matching grant fund, he says, the key aspect is that it produces an export plan or strategy for firms; it is not a support program for a one-shot operation.

Despite the export benefits from the program, Tunisia's exports dropped in 2009 because of the world financial crisis and the recession in Europe.

Mr. Marchat, though, notes that the program started in 2004-05 – well before the current economic downturn and is not aimed at compensating for that more recent drop.

Overall, he said, the government of Tunisia has been pleased with the project and its results.

Moreover, he is pleased with the program.

"Clear and shared policy goals with clear objectives, make for good projects," he said.

In order to ensure that the next phase of the market access fund (planned to run from 2011 to 2015) will be a success, the World Bank recently proposed conducting a rigorous, quantitative evaluation of the program's impact from 2005 to 2009.

Developed in biology and medicine, impact evaluations have spread only recently to the social sciences. They consist of selecting a treatment group of individuals (or firms) that benefitted from a program and a similar control group that did not benefit, and testing to determine whether performance improved more for the treatment group.

In development economics, impact-evaluation methods are increasingly common to assess the effect of education, health or poverty-alleviation projects. The World Bank's Development Impact Evaluation unit often teams up with university researchers to conduct these complex and costly exercises. By contrast, very few trade-related projects have been formally evaluated as yet, and the World Bank is pioneering the adoption of rigorous methods for such projects as well. Tunisia's export promotion program is one of its key projects in this area.

The evaluation implies surveying over 600 firms, half of which benefitted from the export market access fund. Preliminary results suggest that beneficiary firms were more successful than others at diversifying their export portfolios, although the effect weakens fairly rapidly.