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Implementing Trade Logistics Reforms in Complex Multi-Country and Regional Settings: The Case of the Western Balkans

Trade facilitation connects economies and provides opportunities for business growth. However, the national agencies involved in trade often have different objectives, lack coordination with peer agencies in other countries because of different national priorities, high workloads, and absence of platforms to consult with each other. Such a divergence of interests is a challenge when the goal is to address, and seek consensus on, trade issues on the regional level, while undertaking capacity building and reform activities at the country level, all with the objective to benefit the private sector. The IFC Western Balkans Trade Logistics Project faced this very challenge. In addition, the project was constrained by limited financial resources, so “marrying” effectiveness and efficiency was key to achieving results. This SmartLesson summarizes lessons learned from the project implementation.

BACKGROUND

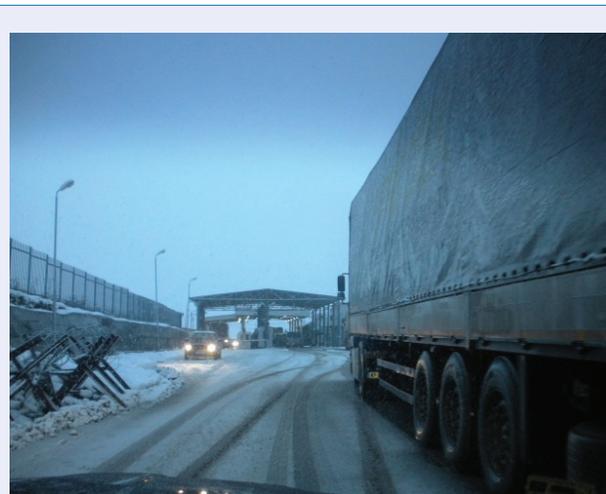
Trade facilitation between countries is important and should be promoted. However, the objectives of national agencies involved in trade are often diverse and lack coordination with their peer agencies

in other countries. Reasons for this divergence of interests range from different national priorities to high workloads that offer little opportunity to consult with each other. A primary goal of the project was to address—and seek consensus on—

trade issues on the regional level while undertaking capacity-building and reform activities at the country level.

From 2012 to 2015, IFC’s Western Balkans Trade Logistics Project operated in six countries—Albania, Bosnia and Herzegovina, Kosovo*¹, the Former Yugoslav Republic of Macedonia, Montenegro, and Serbia. Five of these countries (all except Albania)

¹ This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo* Declaration of Independence.



Border-crossing point in the Western Balkans. (Photo by G. Gabrielyan)

had been part of the former Yugoslavia and had experienced unrestricted movement of goods and people within Yugoslavia. These six countries (plus Moldova) are parties to the Central European Free Trade Agreement (CEFTA) and aspire to be members of the European Union. Bosnia and Herzegovina and Kosovo* are potential candidates for accession to the EU, Albania and FYR Macedonia have been accepted as candidate countries, and Serbia and Montenegro are already in accession talks.

The Western Balkans have benefitted from significant donor and EU support, including with physical infrastructure and trade facilitation. However, inefficiencies in the trade logistics supply chain persist, as is evidenced by the World Bank’s Doing Business report. On average, the Western Balkans continue to require three to five more documents than OECD countries for export and import, and it takes four more days to trade in the Western Balkans than in the OECD, resulting in 20 percent higher costs for traders. The Western Balkans Trade Logistics Project was tasked with bringing about greater efficiency to the process of clearing goods in the region so that they can be delivered to market more quickly and at lower cost.

The project’s core focus was to facilitate trade in the Western Balkans by reducing regulatory and administrative constraints related to trade logistics and by streamlining and harmonizing border clearance procedures. Its primary counterparts were the customs administrations and sanitary and phytosanitary (SPS) agencies in the six countries.



LESSONS LEARNED

Lesson 1: In a complex multi-country, multiagency environment, segmentation and prioritization help maintain focus.

It was a real challenge for the team to identify a common thread among the different needs of stakeholders and their various perspectives on the scope and nature of reforms. Trade logistics interventions are complex. They can be focused on simplifying procedures or building IT systems, ranging from a one-country, one-agency approach to regional integration initiatives involving several countries and multiple stakeholders.

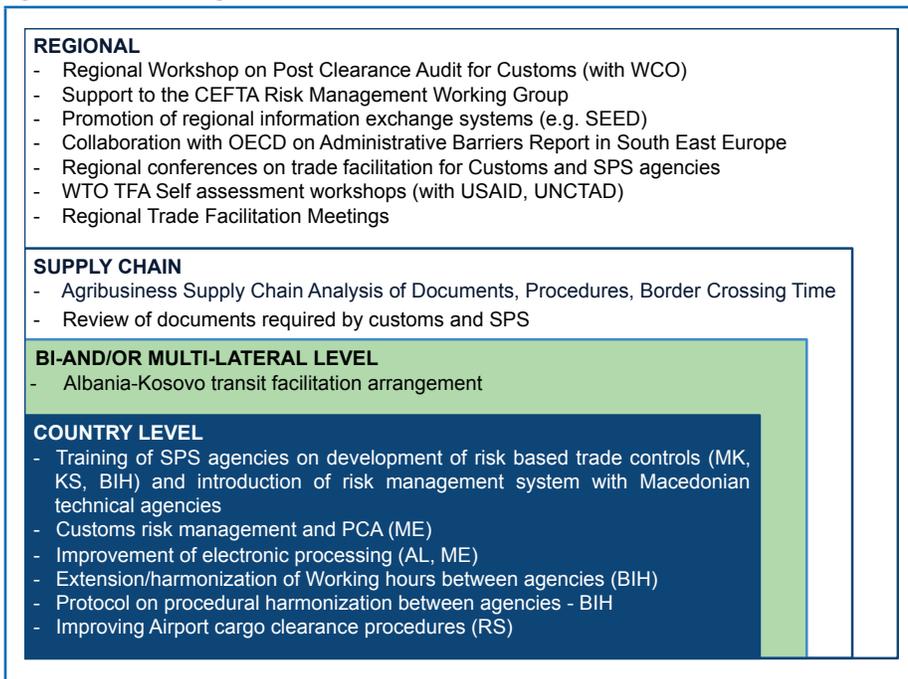
National authorities and businesses were mostly interested in addressing their own country-specific issues—for instance, enhancement of the capacities of customs and SPS agencies, wider use of electronic data, or reforming selected agency-specific procedures—that may have limited impact on the broader regional agenda. Businesses wanted fewer inspections of their goods at the border and more electronic processing of documents and payments. At the same time, regional organizations, such as the CEFTA Secretariat and the South East European Transport Observatory, had a broader outlook on what needs to be done to benefit the entire region. Their interests ranged from harmonizing clearance procedures to achieving mutual recognition of documents, certificates, and operators to improving regional transportation infrastructure.

To respond to this gamut of interests and needs, the project grouped its activities into four tiers: *regional; supply-chain driven; bilateral cooperation; and single-country specific*. This segmentation enabled the project to prioritize and focus its work within each tier while keeping the links between them under the overarching goal of achieving more efficient clearance procedures with clear benefits to the private sector—the lens the project consistently used to focus its approach. The allocation of limited resources became easier when the scope and scale of activities within each segment were clear. Figure 1 lists examples of work performed at these different levels of interventions.

Regional: The project closely tracked the CEFTA objectives² and initiated a regional interagency trade-facilitation forum to share best practices and experiences with risk management and data exchange. It organized a hands-on training for post-clearance audit practices with staff from the regional customs administrations, in collaboration with the World Customs Organization.

2 These objectives include expanding trade in goods and services, fostering investment by means of fair, stable, and predictable rules, and eliminating barriers to trade between the CEFTA parties.

Figure 1: Four-Tier Segmentation



Country abbreviations: AL=Albania; BIH=Bosnia and Herzegovina; KS=Kosovo; ME=Montenegro; MK=FYR Macedonia; RS=Serbia. Source: Project team.

Moreover, through replicating a methodology for risk-based SPS inspections implemented in FYR Macedonia, the project demonstrated how an initiative or reform can go from being country-specific to regional.

Supply-chain based: The project carried out a detailed trade-logistics process mapping for processed fruit and vegetables for three corridors/supply chains (see Figure 2), which helped with identifying country-level and regional issues and selecting focus areas for project activities. For dairy products, the project carried out a detailed comparison of the documents required by SPS agencies on import, and it evaluated their level of compliance with the EU’s documentation requirements. This work provided the basis for much of the project’s reform initiatives.

Bilateral cooperation: The project was instrumental to the conclusion of a Trade Facilitation Agreement between

Albania and Kosovo*, which will contribute to faster and simpler transit of goods from the Albanian seaport of Durres to landlocked Kosovo*. The agreement addressed issues related to customs cooperation and SPS controls for streamlining transit procedures. It also addressed application of risk-based controls, interoperability of electronic systems, enhancing information exchange, application of joint border controls, and enhancing interagency border coordination. This work was complemented by the project’s advisory on the regulation of the customs-broker profession in both countries and its support for the upgrading of Albania’s customs IT system to the level of Kosovo’s*. The agreement could be replicated with other countries in the region to support regional corridors.

Single countries: Country-specific reforms included the following:

- Interagency synchronization of working hours in Bosnia and Herzegovina, which along with other actions reduced time of trade clearance by 13 percent;
- Reduction of physical controls of imported goods subject to excise tax from 100 percent to 23 percent in Montenegro through the application of risk-based controls;
- Streamlining and automation of customs clearance processes in Montenegro, which helped expedite processing time by up to 50 percent;
- Reduction of time required for customs clearance by up to one full day through introduction of elec-

Figure 2: Agribusiness Trade-Logistics Mapping



Source: SEETO maps and project team highlights.

tronic payment of fees and duties and upgrading of the customs electronic system in Albania; and

- Introduction of a risk-based approach in SPS control in FYR Macedonia, resulting in a 40 percent reduction of the sampling rate of imported consignments.

Lesson 2: Maintaining focus is key for achieving tangible outcomes and impact with limited project resources.

From the initial fact-finding mission, the project team identified a long list of disparate agency requests. However, as our resources were limited it was critical to identify reform initiatives that had the potential for replication and regional impact. We therefore prioritized issues common to all or several countries in the region. One such issue was the absence of risk management in SPS controls, where improvements would result in faster processing times and therefore in reduced costs for traders.

We had identified this issue through our supply-chain mapping exercise, during which we baselined the processes and procedures applied by the different countries during clearance. We found that SPS agencies were engaged in high levels of controls and sampling—up to 100 percent of physical checks and up to 50 percent sampling of consignments—in an effort to ensure protection of consumer health and safety. These high rates of physical examinations, sampling, and testing delayed clearance from one additional day to up to two weeks, adding to the cost of transporting the goods. (See Box 1.)

To support more efficient SPS processes, we first offered all SPS agencies in the Western Balkans introductory workshops on the application of risk-management practices for trade controls. We then followed up with hands-on training of selected staff on how to develop risk criteria and risk profiles and, based on this classification, annual sampling plans. Several agencies in the region are now using this method, resulting in a consistent approach across the region. In its first six months of applying risk management, the Macedonian Food and Veterinary Agency generated savings for the private sector of upwards of \$1 million.³

Lesson 3. “Walking the talk” and hands-on support in implementation are critical for sustaining change.

³ The team used a private sector cost-savings time model to calculate the impact of the reform, based on the total value of goods cleared by the agency, the 40 percent reduction in sampling time, and an approximation of the time reduction based on the reduction in sampling. The model uses UN Comtrade data for value of goods and IMF World Economic Outlook October estimates for forecasting trade value for the subsequent year.

Box 1: Measures to Improve Clearance Times

Clearance time can be improved only if all agencies involved improve their performance. Goods in cross-border trade may be controlled by several agencies, in particular where human, animal, or plant health are concerned. In addition to customs, the following agencies may be involved:

- Veterinary, phytosanitary, and food-safety inspections agencies;
- Sanitary or public health inspection, for cosmetics and hygiene products;
- Pharmaceutical or medical inspection of medicines, medical instruments, and equipment.

For goods subject to such technical controls, customs clearance can be completed and goods released only once these controls are completed. Measures designed to facilitate clearance can be effective only if they are applied by all involved agencies.

The project achieved its best results when activities not only included in-depth analysis and presented recommendations for improvement—which we provided in all countries on multiple occasions—but also when we provided step-by-step, hands-on support over a period of several months. This was the kind of assistance our stakeholders appreciated most.

The Macedonian Food and Veterinary Agency’s introduction of risk-based controls, described above, demonstrates well how the project helped implement change, despite the client’s initial hesitation. The agency was concerned that its financial and human resources might be too limited to allow for the development of such a seemingly sophisticated system—and that it lacked systematized data collection and analysis. The client also wanted to be sure of continued support from the project while reducing the levels of controls, since the agency is responsible for consumer health and safety and needed to educate other parts of the agency and the public about the new approach. Not only did we help the agency understand and apply a new approach, but we also helped with the drafting of a strategy; the writing of standard operating procedures; the training of border inspectors on how to apply the new approach in their day-to-day work; training in communicating with the public; and the design, development, and introduction of a new software system that will help the agency more effectively collect and manage data related to import controls.

The team drew on previous experience to assist the client all the way through implementation to ensure that the change is sustainable. One example is the signing

of the Trade and Transit Facilitation Agreement between Kosovo* and Albania in 2014 (after over a year of project-led bilateral meetings of the customs and food agencies of the two countries), which has resulted in streamlined, much faster transit procedures for consignments passing the Albania-Kosovo* borders. Another example is the introduction of risk-based controls for excise goods, which reduced inspections numbers from 100 percent to 23 percent by the Montenegrin Customs Administration.

The time, effort, and dedication of supporting the client throughout the implementation process built trust and confidence among clients and earned the project team a reputation of those who “walk the talk.”

Lesson 4: Foster structured communication and information sharing across agencies and across countries.

The project team ascertained that not only were practices not harmonized, but also agency staff often were not aware of how their peers in the neighboring countries dealt with a particular issue, including what documents or procedures they used. Similarly, there was often little communication between the customs administration in a country and the other agencies involved in cross-border trade. There was no formalized process for exchanging information, discussing common issues, and having a dialog on how to jointly resolve issues faced by several or all agencies.

The project initiated a regional forum for customs and SPS agency staff, which gave agency staff involved in trade controls a place to network and to discuss topical issues, including risk management and interagency coordination. The project organized two large events of this nature. Agency staff were very appreciative of this initiative and expressed a strong interest in the continuation of such regional forums.

The Central European Free Trade Agreement Secretariat has now established the CEFTA Trade Facilitation Forum, which will be a formal structure to enable the continuation of this dialog and provide a fo-

rum for coordination and harmonization of processes and procedures. Similarly, the project shared findings and recommendations with—and provided expert advice to—the CEFTA Subcommittees on Customs and SPS, and the Working Group on Risk Management. The project collaborated with the OECD in designing a regional tool for evaluating and comparing trade-facilitation reforms in the region. The team also cooperated with the EU-funded SEED (Systematic Electronic Exchange of Data) project, which had established bilateral links between the customs systems in the region to enable the provision of pre-arrival information, data matching, and customs performance measurements.

CONCLUSION

In a challenging multi-country environment with diverse needs, interests, and operating environments, identifying priorities and maintaining focus on results for the private sector are key to achieving results. The project team’s effective four-tiered segmentation strategy achieved sustainable results and helped capture and link regional and national-level priorities and initiatives. It also focused the team’s efforts on reforms that were feasible within the project’s time frame and limited resources. For promoting and implementing reforms, a key element was building a constructive regional trade-facilitation forum for interagency dialogue. For building and applying reform momentum, it was of utmost importance that the project not only identified *what* needed to be done but also explained *how* it can be done—and provided hands-on assistance in implementing the reforms.



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