

DISCUSSION NOTE

**INDICATIVE ACTION PLAN FOR IMPROVING INSTITUTIONAL QUALITY (APIIQ)
IN CAREC COUNTRIES**

**12th TPCC Meeting
April 15, 2010
Manila, Philippines**

I. INTRODUCTION

In November 2008, the Seventh Ministerial Conference of CAREC in Baku endorsed the Trade Policy Strategic Action Plan (TPSAP) and its concrete policy actions. The TPSAP emphasized three goals of CAREC on trade policy—increasing trade openness, achieving WTO accession, and building capacity on trade issues. The action plan included capacity building activities aimed at improving the general institutional environment to support intraregional and international trade. Participants in the 10th Trade Policy Coordinating Committee (TPCC) meeting, held in Ulaanbaatar on May 25, 2009, consequently agreed to include in their future work program the preparation of a paper on trade and the institutional environment which would attempt to identify key institutional impediments to trade in CAREC countries. Delegates envisioned that the paper's findings would form the basis for an agreement among CAREC countries on the required policy actions to improve the institutional environment. Such set of actions will further contribute to the first goal of increased trade openness, complementing the existing action plan on tariff and non-tariff measures (NTMs).

The proposed outline of the paper was reviewed and discussed by delegates at the 11th TPCC meeting on October 13, 2009. Delegates suggested a number of modifications and endorsed the proposal to prepare a draft paper for discussion at the 12th TPCC meeting in April 2010. The first discussion draft for the meeting is presented in two parts:¹

1. A background analytical study reviewing the state of knowledge about institutions and trade globally, and including some evidence for CAREC countries (distributed separately to delegates), and
2. An illustrative draft of an action plan to improve institutions in CAREC countries (included in this note).

This note is organized as follows. Section II summarizes the available quantitative evidence on institutional quality in CAREC countries using international data. Section III describes the preliminary inputs provided by delegates on potential priority actions for their countries. Section IV sets out the possible policy actions that may be included in the final version of an Action Plan for discussion at the 13th TPCC. Finally, Section V proposes a number of specific issues and questions for discussion by delegates at the 12th TPCC meeting.

¹ The structure is modified slightly from that shown in the outline to reflect some of the key findings, and the difficulties of having delegations designating potential priority actions without the broader context here provided.

II. INSTITUTIONAL QUALITY IN CAREC COUNTRIES

International Comparison

The accompanying Background Study in Section IV provides an extensive quantitative analysis of relevant institutional conditions in CAREC countries using several international data sets of the World Bank. From that comparison one can draw a number of policy implications.

- In recent years, CAREC countries have undertaken measures to improve institutional quality, with a resulting improvement in many of the indicators. A few countries have seen significant improvements in several dimensions of doing business rankings, and have even been designated by the World Bank as among the top 10 performers in some years. Others may not have moved forward as much, but all have improved on some of the dimensions.
- Despite this progress, in 2009 CAREC countries still ranked at the middle of the range of developing countries on the Ease of Doing Business and Logistics Performance Indicators. The People's Republic of China (PRC) scored much better, however, especially for elements directly related to trade. The Governance Indicators reveal an even weaker relative position.
- Notwithstanding some imprecision of the still-evolving measurements for institutions, their availability has become well known and frequently relied upon by foreign investors and traders to help make decisions about expanding their activities to new countries. The Annual Doing Business news releases and the list of “Top 10 Reformers” are particularly popular.
- Empirical estimates show that Asia could increase exports by nearly 30 percent by improving institutional quality to the Organization for Economic Cooperation and Development (OECD) levels. The effect for CAREC countries is likely to be even larger, since these indicators, with the exception of PRC, are not as favorable as those for Asia as a whole.
- Within the broad category “Ease of Doing Business,” indicators on Trading Across Borders are especially lagging in CAREC countries with the exception of PRC. This suggests that the focus of the Action Plan for Improving Institutional Quality (APIIQ) efforts for many countries should be on such elements. Other elements—such as protecting investors and getting credit—are weak in some countries. Thus, the list of priorities for each country should probably include some measures in these other dimensions.
- Among the concrete impediments to trade that studies identify as particularly problematic in CAREC countries (excluding PRC) is the long time required for documents preparation. In some countries, this is due to a large number of documents required; in others, to the number of agencies that must approve these documents. Clearly, this analysis points very specifically to what might be done to

improve the situation.

III. PRELIMINARY INPUTS OF COUNTRY DELEGATIONS

Discussions at the 11th TPCC meeting led delegates to a consensus view that, in addition to the analysis of institutional environment and trade facilitation in CAREC countries using international datasets, it would be essential to have each country's authorities identify the priority actions, and balance an assessment of which impediments were most important with a judgment on feasibility of implementing changes. Such an identification of priorities was established as an integral part of the final paper, and most of the delegations have submitted some initial inputs along these lines. At the same time, the possibility for delegates and country authorities to provide fully worked out proposals for priority actions on institutional environment and relevant trade facilitation aspects has been constrained by not having the fuller context that the Background Study now provides. A brief summary of the points made by the initial inputs from delegations is provided below, along with a set of related questions for discussions at the 12th TPCC meeting.

Some Issues Raised in Delegates' Initial Inputs

Five delegations provided initial inputs of varying details, and others did not have comments to add at that time, expecting to make full submissions at a later stage. Some of the inputs gave comprehensive and thorough reviews of many institutional shortcomings in their countries, while others narrowly focused on concrete actions that were either already underway, or in planning stages. In the latter submissions, most often the focus was on problems at the border or with border clearance procedures. Some of the actions described fall under the TPSAP or the Customs Coordinating Committee (CCC) action programs. Others are more within the purview of the present institutional environment approach currently under discussion by the TPCC. Hence, potentially these are the measures that could be included in the APIIQ. For illustration and discussion purposes, measures most commonly mentioned by delegations are noted below:

- Simplification of export/import clearance procedures, including fewer documents, and elimination of duplication by reducing the number of agencies that give clearances;
- Improved physical facilities at the borders to reduce waiting times, and setting a maximum time limit for document registration and clearance;
- Establishing a single window for clearance, starting at the borders, but also considering this system for any behind-the-border procedures like licensing, standards control, and trade taxes;
- Installing electronic systems to reduce document preparation as well as clearance;
- Strengthening behind-the-border regulation and relevant services, such as bank lending for trade and insurance; and

- Rationalizing the system of technical standards in conformity with international practices.

Possible Discussion Points for the 12th TPCC Meeting

1. Do delegates agree that the approach here should be continued to complete the listing of country priorities, and final submissions be made by June 15, 2010?
2. Do delegates agree that the general background on instructional impediments to trade and the selected illustrations of concrete proposals in this note provide the necessary basis for follow-up submissions on each country's priorities?
3. Do delegates have any additional concrete suggestions on priority items at this stage and prior to the follow-up submission of June 15, 2010?

IV. INDICATIVE ACTION PLAN

A final version of the Action Plan for Improving Institutional Quality will be presented to delegates at the 13th TPCC meeting. To facilitate delegates' submission of their final inputs on priority actions, however, an indicative Action Plan is illustrated here for discussion at the 12th TPCC meeting. In the final version, actions will be separated into long-term ones (those requiring time for legislative or legal decree preparation), and more immediate measures that are relatively easy to implement. Such a distinction cannot be made here due to a lack of complete information, but ***it will be important that this distinction is made in the delegates' final submissions to be used in the final Action Plan.*** To facilitate discussion, however, the indicative actions below also separate at-the-border measures from behind-the-border actions, reflecting approximately the conceptual distinction made in the Background Study between "soft infrastructure" dimension of trade facilitation, and policies affecting the institutional environment.

Illustrative Actions Related to Border Procedures

1. The number of documents to import and export should be reduced to about five, approaching the level of the best CAREC performers. Countries already at that level should study the question of whether further reductions are appropriate.
2. The number of approving agencies should be significantly reduced. The first step would be a quick review of the situation, listing the number of agencies, and the reasons they are included in the clearance group.
3. Time limits should be set on document registration and clearance (NOT wait-time, but time from first contact with an official), reducing this by half in the first year of APIIQ and to about 15–20 minutes in the second year. This action must also include establishing a handbook for agencies on legitimate reasons for denying clearance and legitimate reasons for designating documents as "incomplete".

4. Proceeding with a “Single-Window “ program where it has already started, establishing a timeline for implementation, or in other cases developing a program for Single-Window clearance within one year.

Illustrative Actions Related to Behind-the-Border Procedures

1. Reducing the number of procedures for starting a business to about 4 or 5.
2. Increasing specialized knowledge by lenders on credit for trade, especially for small and medium sized enterprises (SMEs). The first step may include a study assessing the magnitude of the problem. In case of the countries with a more advanced financial sector, the action might involve a line of credit project with e.g., the European Bank for Reconstruction and Development (EBRD), or establishment of an export development agency with a credit facility.
3. Reducing the number of procedures for enforcing contracts, from current levels of about 35–40 in many countries to 25–30. This action might also include simplification of required documentation.
4. Review the status of the New York Convention (UN, 1958) on recognition of foreign arbitral awards. If a country is not a signatory, take steps to implement it. If domestic court recognition is not properly practiced, follow up with changes in laws or judicial instructions necessary to achieve this.
5. Rationalize and simplify technical standards procedures to eliminate unjustified lobbying by domestic producers against imports. If necessary, move to harmonize with foreign practices in order to ease processes of foreign certification for the country’s exporters based on achievement of domestic certification.
6. Review the system of value-added tax refunds for exporters to ensure timely refunds. Make modifications as indicated by such review.

V. ISSUES FOR DISCUSSION AT THE 12TH TPCC

1. Do delegates consider the indicative nature and level of concreteness of the actions described here as an appropriate model for a final statement of policy actions to be prepared for the 13th TPCC?
2. Do delegates agree that the number of concrete action proposals should not be very large, but at the same time number not less than about 10 in each country?
3. What is delegates’ view on the proposition that, since difficulties of trading across borders (such as document preparation and clearance requirements) continue to be a key impediment in many CAREC countries, the APIIQ should give a primary focus to possible measures in this area?
4. Do delegates agree that, notwithstanding the primary focus on simplifying and reducing documentation requirements, the APIIQ should also include some measures dealing with general doing business conditions that affect trade

indirectly, and that these should be reflective of individual country circumstances?

5. What specific suggestions do delegates have at this stage and prior to the follow-up submissions, on measures to be incorporated in the final APIIQ?
6. It is proposed that the priority lists of delegations be submitted by June 15, 2010.
7. It is proposed that the final version of the paper will be completed by September 2010, and put before delegates for discussion and final approval at the 13th TPCC Meeting.