BACKGROUND DOCUMENT 4

IMF Involvement in Trade Policy Issues in Low-Income Countries: Seven Case Studies

A. Introduction

1. This paper examines the IMF's involvement in trade policy issues in low-income countries. The Fund's involvement has occurred through surveillance, conditionality, and other advice in the context of lending programs under the Enhanced Structural Adjustment Facility (ESAF) and its successor, the Poverty Reduction and Growth Facility (PRGF), and through technical assistance. Because of their medium-term horizon and emphasis on growth and poverty reduction, ESAF/PRGF-supported programs have tended to feature stronger structural adjustment components (including trade reform) than those typical of short-term lending arrangements, and often the structural measures have been designed in cooperation with the World Bank. A number of low-income countries also qualify for IMF assistance in the form of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Low-income countries that do not want or need IMF financial assistance may make use of the Policy Support Instrument (PSI), a nonfinancial mechanism under which the Fund provides advice, monitoring, and endorsement of their economic programs.[1]

2. The paper focuses on the IMF's trade policy advice and program conditionality in seven case study countries: four African (Ghana, Kenya, Mozambique, and Tanzania), one Caribbean (Guyana), and two Asian (Bangladesh and Vietnam).[2] All seven countries had arrangements under the ESAF and/or PRGF during 1996 to 2007. Tanzania and Mozambique began programs under the PSI in 2007. In the African countries and Guyana the Fund had a relatively continuous program involvement over the period, while in the Asian countries, lending arrangements were interspersed with stretches of surveillance only (Table 1).

3. The seven countries had widely varying ratings on the Fund's Trade Restrictiveness Index (TRI) during the evaluation period. Table 2 shows the TRI ratings from 1997, when the index began to be systematically compiled, to 2005, when staff were instructed to stop using it in their reports.

4. All but one of the seven countries have been members of the World Trade Organization (WTO) since 1995. Vietnam acceded to the WTO in 2007, the end of the evaluation period. As developing countries, all seven are entitled to so-called special and differential treatment under certain WTO rules, for example, longer transition periods to implement certain WTO agreements, higher priority in developed-country commitments on access to their markets, more opportunities to benefit from developed-country preferential tariff schemes, and technical assistance. Three of the seven—Tanzania, Mozambique, and Bangladesh—have been designated as least developed countries (LDCs) by the United Nations (UN). As such, they are entitled to benefit from the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (IF). Tanzania and Mozambique have completed the first phase of the (revamped) IF process—the preparation of a diagnostic trade integration study (DTIS)—while Bangladesh has not applied to be included (Table 3).

5. The IMF became involved in a wide range of trade policy issues in these countries, with varying degrees of conditionality and effectiveness. Programs in all seven countries included plans for tariff reductions and simplifications and/or reform of customs administration. Most of the programs included some conditionality on these issues, mainly before 2001 when the IMF began streamlining its conditionality. Beyond these traditional trade policy issues, other issues such as subsidies, trade in services, export taxes, and preferential trade agreements (PTAs) were addressed in some of the programs. Increasing attention was paid—typically quite expertly—to fiscal, trade, and structural aspects of preference erosion. The treatment of trade policy issues was backed by varying degrees of Bank-Fund cooperation and of in-house Fund expertise. The correlation between the

[1] The PSI is not a lending arrangement but a form of technical assistance.

[2] Trade-related technical assistance will be noted where applicable but an assessment of its content and implementation is beyond the scope of this evaluation.

Table 1. Seven Case Study Countries: History of IMF Arrangements

Type of Arrangement	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Tanzania (date of Fund membership: September 10, 1962)				
SAF[1]	October 30, 1987	October 29, 1990	74.90	74.90
ESAF	July 29, 1991	July 28, 1994	181.90	85.60
ESAF	November 8, 1996	February 7, 2000	181.59	181.59
PRGF	April 4, 2000	August 15, 2003	135.00	135.00
PRGF	August 16, 2003	February 26, 2007	19.60	19.60
Kenya (date of Fund membership: February 3, 1964)				
SAF	May 15, 1989	March 31, 1993	71.00	71.00
ESAF	December 22, 1993	December 21, 1994	45.23	45.23
ESAF	April 26, 1996	April 25, 1999	149.55	24.93
PRGF	August 4, 2000	August 3, 2003	190.00	33.60
PRGF	November 21, 2003	November 20, 2007	150.00	150.00
Mozambique (date of Fund membership: September 24, 1984)				
SAF	June 8, 1987	June 7, 1990	42.70	42.70
ESAF	June 1, 1990	December 31, 1995	130.05	115.35
ESAF	June 21, 1996	June 27, 1999	75.60	75.60
ESAF/PRGF	June 28, 1999	June 28, 2003	87.20	78.80
PRGF	July 6, 2004	July 5, 2007	11.36	11.36
Ghana (date of Fund membership: September 20, 1957)				
SAF	November 9, 1988	March 5, 1992	102.25	102.25
ESAF	November 9, 1988	March 5, 1992	286.30	286.30
ESAF	June 30, 1995	May 2, 1999	164.40	137.00
ESAF/PRGF	May 3, 1999	November 30, 2002	228.80	176.22
PRGF	May 9, 2003	October 31, 2006	184.50	184.50
Guyana (date of Fund membership: September 26, 1966)				
SAF	July 13, 1990	December 20, 1993	34.44	34.44
ESAF	July 13, 1990	December 20, 1993	47.08	47.08
ESAF	July 20, 1994	April 17, 1998	53.76	53.76
ESAF/PRGF	July 15, 1998	December 31, 2001	53.76	24.88
PRGF	September 20, 2002	September 12, 2006	54.55	54.55
Vietnam (date of Fund membership: September 21, 1956)				
SBA[2]	October 6, 1993	November 11, 1994	145.00	108.80
ESAF	November 11, 1994	November 10, 1997	362.40	241.60
PRGF	April 13, 2001	April 12, 2004	290.00	124.20
Bangladesh (date of Fund membership: August 17, 1972)				
SBA	December 2, 1985	June 30, 1987	180.00	180.00
SAF	February 6, 1987	February 5, 1990	201.25	201.25
ESAF	August 10, 1990	September 13, 1993	345.00	330.00
PRGF	June 20, 2003	June 19, 2007	400.33	316.73

[1] Structural Adjustment Facility.
[2] Stand-By Arrangement.

Table 2. Seven Case Study Countries: Trade Restrictiveness Index (TRI)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Tanzania	7	7	6	6	5	5	5	5	5
Kenya	6	6	6	6	6	6	6	6	6
Mozambique	3	2	2	2	2	2	2	2	2
Ghana	5	5	5	5	6	5	5	5	5
Guyana	5	5	5	5	5	5	5	5	5
Vietnam	8	8	9	9	9	9	9	9	9
Bangladesh	8	8	8	8	8	8	7	7	6

Table 3. Seven Case Study Countries: WTO Relationship and IF Status

	Date of Membership	Trade Policy Review (TPR)	Integrated Framework (IF) status
Tanzania (LDC)	January 1, 1995	February 2000; October 2006[1]	DTIS completed (2005)
Kenya	January 1, 1995	January 2000; October 2006[1]	Not eligible
Mozambique (LDC)	August 26, 1995	January 2001	DTIS completed (2004)
Ghana	January 1, 1995	February 2001	Not eligible
Guyana	January 1, 1995	October 2003	Not eligible
Vietnam	January 11, 2007	n.a.	Not eligible
Bangladesh (LDC)	January 1, 1995	May 2000; September 2006	No DTIS

[1] Joint TPR for Kenya, Tanzania, and Uganda.

success of trade policy components of programs and the degree of depth of either Fund expertise or Bank-Fund collaboration was high.

6. The case studies assess Fund advice/conditionality on trade policy issues with respect to its quality and effectiveness. Specifically:

- Were staff recommendations based on a coherent theoretical framework and sufficiently detailed knowledge of micro-macro linkages to allow a reasonable assessment of their implications?
- In cases where trade policy conditionality was used, was it well designed, and were its scope and scale commensurate with the macroeconomic effects of trade policy distortions?
- How effective was the collaboration between the Fund and the World Bank (and/or other agencies)?
- Were trade policy recommendations implemented in a timely manner with approximately the effects intended? Were the implemented policies sustained?

We define favorable outcomes as those where IMF support and analysis appear to have contributed to changes in trade policy that are likely to have increased economic efficiency, and growth, or to have better positioned countries to offset the revenue impact of trade liberalization. Poor outcomes are those where no policy changes occurred, or where changes occurred but were later reversed, or where IMF advice or conditionality prompted serious and high-profile objections.

B. Tanzania

Background

7. Tanzania's trade regime was liberalized significantly starting in the 1980s but was still considered restrictive in the mid-1990s. During 1988–95, most import restrictions were removed, as were virtually all taxes and restrictions on exports. Several tariff reforms were implemented during this period, and by 1996 the number of tariff bands had been reduced to five (with rates ranging from zero to 40 percent), though the average nominal tariff rate still exceeded 20 percent. Duty exemptions and remissions, mainly on industrial inputs, were granted to selected importers including the public sector (Kanaan, 1999).

8. In the mid-1990s, Tanzania belonged to two overlapping regional organizations: the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).[3] Under the COMESA treaty, members agreed to reduce tariffs for one another by 80 percent by 1998 and by 100 percent—thus establishing a free trade area—by 2000. The SADC protocol on trade also envisaged intraregional preferences, to be established over eight years beginning in 2000, with the creation of a free trade area by 2008, a customs union by 2010, a common market by 2015, monetary union by 2016, and a single currency by 2018.

9. Tanzania signed the Cross-Border Initiative (CBI) in 1993, setting the direction for its trade reform program for the rest of the decade.[4] The CBI was a common policy framework that aimed to facilitate cross-border activities among 14 participating countries in Eastern and Southern Africa and the Indian Ocean through a coordination of ongoing reform programs, including those with IMF and World Bank support. The CBI was not a PTA even though its objectives were generally consistent with

[3] At the beginning of 1996, SADC members were Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe; and COMESA members were Angola, Burundi, the Comoros, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zaïre, Zambia, and Zimbabwe (IMF, 1996c).

[4] Besides Tanzania, the other CBI participants were Burundi, the Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Uganda, Zambia, and Zimbabwe. The CBI was cosponsored by the Fund, the World Bank, the European Union, and the African Development Bank.

those of COMESA, SADC, and other regional PTAs, and had been endorsed by those organizations.[5] A set of core measures was adopted in August 1993, and a road map for further trade liberalization was endorsed in March 1995 that included the elimination of tariffs on intraregional trade and the convergence of external tariffs to a trade-weighted average of 15 percent, both by October 1998 (IMF, 1996c).

Policy dialogue and trade conditionality

10. Tanzania had three back-to-back arrangements with the IMF during the evaluation period, all containing some form(s) of trade conditionality: an ESAF-supported program from 1996–2000, followed by two PRGF-supported arrangements (2000–03, 2003–07). A PSI-supported arrangement began in 2007. The IMF's trade policy dialogue with Tanzania was conducted against a backdrop of a weak revenue base and active involvement in regional PTAs.

11. The 1996 ESAF-supported program incorporated a plan for tariff reform derived largely from the CBI's road map for trade liberalization. The signatories to the CBI had committed voluntarily to put in place by October 1998 a common external tariff with three nonzero tariff bands and a 20–25 percent maximum tariff. This was an ambitious plan for Tanzania given its starting point of a five-tier system with a maximum tariff of 40 percent. Aware that the reform would have major fiscal consequences, the ESAF-supported program planned for measures in the customs area to raise the revenue ratio, such as the closure of most owner-operated bonded warehouses (a prior action) and an audit of the bonded warehouses and establishment of a monitoring system by end-December 1996 (structural benchmarks) (Annex Table 1). Alongside these initiatives, the program also pursued (i) a reform of the state monopoly on petroleum products through measures (subject to a prior action and subsequent structural benchmarks) on pricing and importation and (ii) measures to harmonize import taxes (structural benchmark) and tax administration (prior action and structural benchmark) in mainland Tanzania and Zanzibar.

12. Several compromises were made in implementing the tariff reform that, from the IMF's viewpoint, made the tariff system more complex. A technical assistance mission by the IMF's Fiscal Affairs Department (FAD) in 1998 looked more deeply into the tariff situation and concluded that there were so many anomalies in the duty structure and complexities in the exemption regime that a more comprehensive reform was needed. Such a reform could not be prepared in time for the revised CBI deadline of December 1998, but a comprehensive policy package (a structural benchmark) was eventually agreed with the authorities and a new import duty structure with rates of 5 percent, 10 percent, 20 percent, and 25 percent was announced in June 1999. However, the proposed tariff reductions provoked a sharp protectionist response from local producers, and the government compromised on some of the proposals, including by creating split rates (lower rates on certain commodities when imported as raw materials rather than finished products), imposing a range of minimum dutiable values above world market prices, and introducing so-called suspended duties (import surcharges) to protect certain domestic industries (IMF, 2000a).

13. The PRGF arrangement that was approved in June 2000 aimed to address some of the new complexities in the tariff system but by then the authorities had lost much of their appetite for unilateral trade liberalization. IMF staff noted that "substantial liberalization of the external trade regime over the course of the last four years [had] exacerbated protectionist pressures in Tanzania" (IMF, 2000a), but continued to press strongly for trade reform that would lower Tanzania's rating on the IMF's TRI from 6 (in 2000) to 3 (IMF, 2000a). Staff also noted the observation in the WTO's trade policy review (WTO, 2000b) that Tanzania's nontariff barriers were a problem.

14. In the event, the trade reforms in the 2000 PRGF-supported program were far less ambitious. In the review process, the IMF's then Policy Development and Review Department (PDR) pressed for a more rapid lowering of tariffs, including an attempt to incorporate a specific tariff reduction target as a condition for reaching the HIPC floating completion point (although the mission was unable to prevail on this point in the HIPC negotiations). In the first-year program, one structural benchmark committed the authorities to base dutiable values on international prices (except for sugar) and another to establish a new duty drawback system. Other stated goals in the authorities' memorandum of economic and financial policies entailed a review of the tariff structure. Subsequently, however, staff criticized tariff changes in Tanzania's 2001/02 budget as nontransparent and unpredictable. The budget proposed, alongside a

[5] According to IMF (1996c), differences existed between the CBI and regional integration efforts of organizations such as COMESA and SADC: (i) the CBI was a policy framework, not an organization or institution; (ii) the CBI was "outward looking" in the sense that the reduction in barriers to cross-border flows among participating countries was accompanied by a reduction of most-favored-nation tariff rates; (iii) the CBI's focus was not on creating a PTA such as a customs union or common market but on policies to lower transactions costs and enhance efficiency gains from trade; and (iv) the CBI's goals were relatively flexible, generally calling for a harmonization across participants while allowing scope to accommodate differences in needs of individual countries.

reduction in the number of tariff bands and the average tariff rate, the imposition of suspended duties of 10–50 percent on 12 categories of imports to counter perceived "dumping." The authorities explained that the reason for many of the additional measures was that the pace of reform required by the Fund had been too rapid and that a more gradualist approach would have led to a smoother implementation and given rise to less protectionist initiatives from the business lobby. But in the March 2002 program review, the mission, after consulting with the WTO, stressed the need to eliminate all suspended duties and introduced a structural performance criterion on committing to a timetable for their elimination (IMF, 2002a) (Annex Table 2).

15. By that time, the authorities had started to shift their attention to regional PTAs including Tanzania's membership in the newly recreated East African Community (EAC). The EAC treaty was signed in November 1999, and gave its members—Kenya, Tanzania, and Uganda—four years to formulate a protocol specifying the steps to be taken toward trade integration. Work on the technical aspects of a regional customs union began in 2000. Around the same time, Tanzania announced that it would withdraw from COMESA in September 2000, citing concerns that COMESA's plans to form a free trade area by October 2000 would harm Tanzania's industrial development. IMF staff reported but did not comment on this controversial decision (IMF, 2000a).[6] Tanzania retained its membership in SADC, which it claimed incorporated a more gradual timetable for reduction of internal and external duties and placed greater emphasis on investment in regional infrastructure.

16. The authorities also turned toward other organizations for trade policy advice and technical assistance. Tanzania was among the 12 countries that went through the first IF process in 1999–2000. That process led to a multi-donor funded program of legal and regulatory reforms to improve the environment for private sector development, whose implementation began in December 2003.[7] Tanzania was subsequently approved for the second IF process under which a DTIS was prepared under the leadership of the World Bank (IF, 2005). The Fund's involvement in Tanzania's IF was limited to a contribution on Tanzania's macroeconomic developments and prospects in the DTIS.

17. In the discussions for the 2003 PRGF and 2007 PSI arrangements the authorities presented Tanzania's commitments to PTAs as the binding constraint on trade policy. During the discussions for the 2003 PRGF-supported program, the authorities stated that further tariff reform would only be possible if agreed by all three EAC member states. Thus, no conditionality on tariff reform was included in that arrangement or thereafter. To curtail tax exemptions, the 2003 PRGF-supported program included a structural benchmark limiting the issuance of licenses for the newly established export processing zones to companies that produced exclusively for the U.S. and EU markets under the Africa Growth and Opportunity Act and Everything But Arms Initiative. Measures to streamline and strengthen customs administration, developed with the help of technical assistance from FAD, were incorporated as structural benchmarks throughout the 2003 PRGF- and 2007 PSI-supported programs.

18. The IMF continued to cover trade policy in Article IV consultations and, to some extent, program reviews, focusing on Tanzania's overlapping PTA memberships. In March 2004, the trade protocol was signed establishing an EAC customs union with a three-band common external tariff of 0, 10, and 25 percent. Implementation of the protocol was delayed to January 2005, and transitional arrangements were put in place allowing surcharges to be levied on "sensitive" products, the list of which was specific to each member country. Staff reckoned that the EAC customs union could have a "moderate revenue-losing impact" (IMF, 2004c) but urged the authorities to "deepen integration" in the EAC by lowering the maximum tariff, rationalizing overlapping memberships in PTAs, and harmonizing standards and investment incentives (IMF, 2006e).[8] Those issues were raised again in the 2007 Article IV consultation when staff recommended bringing "sensitive" products into the common external tariff and lowering the top rate (IMF, 2007f). Staff drew on a joint selected issues paper (SIP) prepared for the EAC countries (Everaert, Palmason, and Sobolev, 2006). That paper argued forcefully that overlapping PTA memberships (Tanzania's EAC partners, Kenya and Uganda, belonged to COMESA but not to SADC) would prevent the EAC from becoming a fully functioning customs union and would be impossible to maintain once COMESA and SADC also became customs unions, unless all three customs unions adopted

[6] However, a 1999 Fund update on the CBI had suggested that "excessive" PTA membership may have interfered with the pace of trade liberalization under the CBI by imposing "conflicting obligations, different and uncoordinated strategies, inconsistent external liberalization goals, and different and conflicting rules and administrative procedures" on the signatory countries (IMF, 1999i).

[7] The donors were the governments of the Netherlands, the United Kingdom, Denmark, and Sweden.

[8] The EAC customs union was expected to lower Tanzania's average tariff by almost 2 percentage points to 12.5 percent (IMF, 2004c).

the same common external tariff.[9] The authorities responded that harmonization efforts were under way and that the EAC common external tariff would be reviewed by 2010. The SIP also argued that—unless they led to a rationalization of PTAs—the ongoing negotiations on economic partnership agreements (EPAs) with the European Union could complicate the overlapping membership problems and lead to further trade diversion if not accompanied by most-favored-nation (MFN) tariff reductions.[10] No staff reports commented on the EPA until 2008 (after the EAC members signed an interim agreement with the European Union) when the mission drew attention to the modestly negative medium-term revenue impact (IMF, 2008b).

Assessment

19. For the most part, the IMF's trade policy advice to Tanzania covered the right issues and was consistent with general guidance to staff. Staff took account of the initial degree of restrictiveness of the trade regime, which was high by most standards, and the programs had trade liberalization objectives that were set in a medium-term framework.

20. But the IMF's approach to trade liberalization clashed with the authorities' approach. Given the starting point of a 40 percent maximum tariff and a very complex, nontransparent system in 1996, the CBI objective of a three-tier system with a 20–25 percent maximum tariff by October 1998 was always going to be an ambitious target, as regards both the impact on local businesses and the low tax ratio (14 percent of GDP) alongside high dependence on trade taxes (about 30 percent of tax revenues). According to the authorities, the Ministry of Finance and Ministry of Trade had made recommendations for gradualism in the phasing of tariff reforms, but IMF staff had disagreed, pressing instead for sharp reductions in tariffs and duty exemptions. The two sides approached the issue of tariff reform from different perspectives. To the IMF, the overall aim of tariff reform was to reduce protection and move toward a less distortionary, more uniform, tariff system, while the authorities—particularly the Ministry of Trade—believed that each industry needed to be examined separately and individual circumstances taken into account in deciding on the appropriate level of protection. The two approaches were difficult to bridge, particularly as staff lacked the expertise to conduct a sector-by-sector analysis. In one instance, the authorities argued that the mission team had no technical analysis to support their policy recommendation, but staff decided to take the issue directly to the President, who decided in their favor. From the authorities' viewpoint, a more gradualist approach would have led to a smoother implementation of the tariff reform and less protectionist pressure from the business lobby.

21. With hindsight, the pace of tariff reform in the 1996 ESAF-supported program was probably too ambitious. While it is not clear that slower phasing of the tariff reform would have aroused less opposition from business groups, it could arguably have allowed the authorities to deal better with the fiscal implications of lower tariff rates. The authorities claim that staff should have shown greater awareness of the fiscal constraints, including the fundamental point that tax reform was a laborious process that would take time to bear fruit. Tax revenue projections during the period of trade liberalization did tend to be overoptimistic, though revenue slippages were in part a result of delays in implementing other reforms. Indeed, consistent with its recommendation for quickening the pace of tariff reform, PDR pressed the mission to negotiate a stronger revenue effort. In 2006, a Fund technical assistance mission found that the tariff reductions in the ESAF-supported program had, despite customs reforms, led to a sharp decline in revenues from import taxes (from 1.84 percent of GDP in 1996/97 to 0.82 percent of GDP in 2004/05) and to a decline in the overall tax-to-GDP ratio, which did not start to recover until 2002/03. In its ex post assessment of Tanzania's ESAF- and PRGF-supported programs, the IMF called the revenue target under the ESAF-supported program "unrealistic" because "tax collection and administration did not keep pace with the rationalization of the tax system and tariff reform" (IMF, 2006c).

22. The IMF's efforts to improve customs administration were necessary if somewhat belated. The programs incorporated many measures to improve the effectiveness of customs administration. But despite some early efforts under the 1996 ESAF-supported program, critical areas of customs administra-

[9] Everaert, Palmason, and Sobolev (2006) noted that while EAC market access benefits were not extended to non-EAC SADC and COMESA partners, EAC members were allowed to continue with their existing obligations to SADC and COMESA. This meant that border controls had still to be maintained and rules of origin enforced within the EAC to prevent "trade deflection," for example, the possibility of SADC members using Tanzania as a transit route to Kenya and Uganda. They argued furthermore that overlapping PTA memberships added considerable complexity and costs to the trading process (due to the need to administer multiple rules of origin schemes) and impeded the harmonization of standards and technical regulations within the EAC. The same points were raised in IF (2005).

[10] Everaert, Palmason and Sobolev (2006) noted that, because at that time Tanzania was negotiating the EPA as a member of the SADC group while Uganda and Kenya were under the COMESA group, the EAC members could face different commitments vis-à-vis the European Union unless the two groups' negotiations with the European Union were closely coordinated.

tion reform only started to be addressed during the 2003 PRGF-supported program, more than a decade after the major tariff reforms were implemented.[11] Substantial amounts of technical assistance on customs administration—largely coordinated by FAD—were provided to Tanzania from 2004 onwards. The recommendations of technical assistance missions were incorporated into the later part of the 2003 PRGF-supported program as a series of structural benchmarks relating to a detailed plan of action for customs reform. Virtually all of those benchmarks were observed. At the conclusion of the 2003 PRGF-supported program, staff reported that revenues as a share of GDP had increased by about 2.5 percentage points without any increase in tax rates (IMF, 2006c), and the WTO noted "significant customs reforms in Tanzania since its last [trade policy review]." (WTO, 2006b.) But more remained to be done and the agenda was carried into the 2007 PSI-supported program.

23. The programs succeeded in lowering Tanzania's average tariff rate but not in discouraging the authorities from protectionism. The tariff reforms in the 1996 ESAF-supported program simplified the tariff system and significantly lowered the unweighted average tariff rate from 22 percent in 1997 to 16 percent in 1999. After that, the authorities reconsidered their strategy and decided to protect certain domestic industries by using other measures such as high minimum dutiable values and suspended duties. The authorities did observe the structural performance criterion (introduced in the fourth review of the 2000 PRGF-supported program in March 2002) to prepare a timetable for the elimination of all suspended duties, but the six-year phase-out period was long.

24. The IMF largely stayed away from the issue of Tanzania's overlapping PTA memberships. The Fund had supported the CBI and integrated it into the 1996 ESAF-supported program, but according to the authorities, the mission did not actively advise them on the subject of PTAs.[12] Tanzania formally withdrew from COMESA in September 2000, a year after announcing its intention to do so. Various reasons were given for the withdrawal, including burdensome membership fees and administrative costs and overlapping/duplication of objectives with EAC and SADC (which may have resonated with IMF staff) and the need to protect domestic industries (which staff could have countered had they chosen to do so). According to internal memoranda, staff were concerned that Tanzania's trade regime would become more unstable and vulnerable to lobbies after the withdrawal from COMESA. Staff were, therefore, careful to oppose any new trade policy changes that would backtrack from previous trade liberalization. The government did not change its decision to stay out of COMESA (and in SADC) despite periodic protests by the local business community that Tanzania was losing out by not rejoining COMESA, and frustration on the part of other EAC members (and the European Union) over Tanzania's indecision as to how to approach the EPA negotiations (whether to negotiate as part of the SADC group or as part of the COMESA group). The Fund's reluctance to get involved in bilateral/regional politically charged issues is understandable. Nevertheless, staff could have contributed usefully to the debate by providing unbiased analyses of the macroeconomic ramifications of various options that were on the table.[13] In October 2008, the EAC, COMESA, and SADC held their first tripartite summit in which they agreed to merge the three trading blocs into a single free trade area.[14] In December 2008, COMESA launched its own customs union with the same common external tariff structure as the EAC. SADC plans a customs union in 2010.

C. Kenya

Background

25. At the beginning of 1996, Kenya had a moderately restrictive trade system. Though tariff reforms had been implemented under earlier ESAF-supported programs, the tariff schedule still had six primary bands and a maximum rate of 40 percent. There were also numerous surcharges and various nontariff barriers. IMF staff had become increasingly concerned

[11] A November 2005 FAD technical assistance mission on tax policy estimated Tanzania's tax revenue potential and tax effort to be lower than those for most of its neighboring countries. The Fund's 2006 ex post assessment (IMF, 2006c) listed "poor customs systems and procedures" as one of the constraints that the ESAF and PRGF programs had been unable to address effectively.

[12] The CBI was succeeded in 2000 by the Regional Integration Facilitation Forum, a nonbinding and voluntary arrangement to facilitate the flow of investments into member countries and improve their trade regimes.

[13] In a working paper issued by PDR, Khandelwal (2004) computed bilateral product complementarity indices for COMESA and SADC member countries and concluded that there was asymmetric complementarity in both PTAs, meaning that the more developed economies of Egypt, Kenya, and South Africa were in a much better position to market their exports in COMESA/SADC than were the less developed members (including Tanzania). The paper found little evidence of trade diversion in COMESA and SADC and "encouraging" growth in total exports from COMESA and SADC since 2000 (though the impact the PTAs may have had on that growth could not be determined). There is no evidence that the results of the paper were discussed with the authorities.

[14] "Twenty-six African leaders resolve to form single market," *BBC*, October 23, 2008.

with Kenya's repeated imposition of import bans on food products, such as grains and dairy products, which could be authorized by the Ministry of Agriculture. Corruption and inefficiency in the customs administration was also believed to be a significant problem. At this point also, Kenya was a member of COMESA and had endorsed the CBI.

Policy dialogue and trade conditionality

26. During the evaluation period, Kenya entered into three arrangements with the IMF, but none proceeded smoothly. Under the April 1996 ESAF arrangement, only one review was completed. Similarly, the program supporting the August 2000 PRGF arrangement suffered major setbacks soon after it was initiated and only the first tranche of the arrangement was drawn. Three reviews of the November 2003 PRGF arrangement were completed, but with considerable delays; that arrangement expired in November 2007.

27. In discussions for the 1996 ESAF arrangement, the trade issue that received the most attention was the alleged dumping of subsidized cereal imports by neighboring countries. A sharp increase in cereal imports in 1995 had led the authorities to impose temporary import bans on maize, rice, wheat, and sugar. These prohibitions were subsequently converted into suspended (i.e., supplementary) duties, but IMF staff were concerned that Kenya would revert to the use of quantitative restrictions on agricultural imports, and a continuous structural performance criterion committed the authorities to avoid direct controls on prices and external trade. Staff also sought to clarify the authorities' charges of dumping by referring the authorities to the WTO, which subsequently provided technical assistance to Kenya in the preparation of antidumping legislation. The plan was to replace the suspended duties on cereal imports with WTO-consistent antidumping duties by the end of 1996. The authorities also agreed to eliminate discriminatory elements of a supplementary levy on sugar by the end of that year (IMF, 1996f) (Annex Table 3).

28. When the ESAF-supported program went off-track, Kenya's trade system became increasingly complex. Tariff reform was not a major focus of the ESAF-supported program, but Kenya's ongoing commitments to lower tariffs under the CBI were included in the authorities' memorandum of economic policies (IMF, 1996f).[15] Immediately after the program went off-track, the authorities followed the CBI plan for tariff reduction as envisaged under the program. But they also raised the suspended duties on basic food imports to very high levels in an effort to increase domestic food supply capacity (IMF, 1998c). Then, in the 1998/99 and 1999/00 budgets, nominal tariffs were raised and the scope of the suspended duties was widened to cover a range of manufactured goods with rates (5–20 percent) set at the discretion of the Minister of Finance. During the 1999 Article IV consultation, staff strongly recommended reversal of the tariff increases and called for the suspended duties to be phased out. Staff argued that the proliferation of suspended duties had made Kenya's trade regime more distortionary and less predictable and transparent, created opportunities for rent seeking, and contravened the "standstill" provisions of the COMESA treaty (IMF, 1999l).

29. Conditionality for the 2000 PRGF arrangement included the formulation of a tariff reform plan based on Kenya's commitments under the CBI. In discussions for the arrangement (in July 2000), staff stressed the need to address issues in the trade system, which they believed had become "opaque and unpredictable" (IMF, 2000d). The WTO's 2000 trade policy review for Kenya, released earlier that year, also criticized the use of suspended duties (WTO, 2000a). The authorities agreed to work with Fund and World Bank staff to develop a plan by March 2001 that would rationalize import duties in line with Kenya's commitments under the CBI (structural performance criterion (Annex Table 4)). The aim of the plan was, over a four-year period, to lower the maximum tariff (except on sugar) from 40 to 25 percent and to reduce the number of tariff bands from nine to four. Staff reported that Kenya was rated 6 on the Fund's TRI but did not indicate if and how the rating would change after the tariff reform. The authorities initially welcomed the agreement because it gave reasonable time for implementation and was designed to pave the way for Kenya's adoption of a regional common external tariff, either within COMESA or in the new EAC, which was formed in November 1999 (IMF, 2000d).

30. The 2000 PRGF-supported program also went off-track. The 2002/03 budget included several trade measures that staff saw as policy reversals. These included the exemption from duties of all capital equipment, increased tariff protection for certain local industries (the most important being steel), and continued discriminatory tariffs on wheat and sugar imports from Kenya's COMESA partners to counter allegedly "unfair trading practices" (IMF, 2003a).

31. Kenya's trade policy became increasingly oriented toward regional integration. Staff noted that Kenya's membership in two overlapping PTAs—COMESA and the EAC—could be problematic. In October 2000, Kenya joined eight other COMESA

[15] The commitments were to reduce the number of tariff bands to four and the maximum tariff to 30 percent by July 1997.

members to form a free trade area which granted a 60–90 percent preferential tariff to other COMESA members on a reciprocal basis.[16] Both COMESA and the EAC planned to establish customs unions by 2004. The authorities saw no inconsistency—they described the EAC as an "inner grouping" of COMESA that would go on a "fast track" to achieve the COMESA customs union. Staff, however, pointed to potential complications insofar as other EAC members had different arrangements: Tanzania was no longer a member of COMESA and Uganda was a member of COMESA but not the free trade area (Kozack, 2002).

32. In the 2003 PRGF arrangement, no trade conditionality was stipulated for the first year of the arrangement. The authorities indicated that they had agreed with EAC members to establish a common external tariff, and that as a step toward this goal they intended to reduce the maximum tariff rate from 35 to 25 percent in the next budget. Staff reported that Kenya was (still) rated 6 on the Fund's TRI. Staff and the authorities recognized at this time that the need for trade liberalization had also to be balanced against concerns about the revenue impact of possible tariff changes. To support the budget, modernization of the customs administration and reform of the duty drawback system were viewed as essential elements of fiscal adjustment. It was partly for this reason that structural conditionality on trade reforms was not specified upfront, but was expected to be negotiated in the context of the first program review.

33. By the time of the first review (in December 2004), Kenya had moved forward and ratified the EAC customs union protocol. The introduction in January 2005 of a common external tariff for Kenya, Tanzania, and Uganda with three rate bands (0 percent, 10 percent, and 25 percent) was very difficult for Kenya, which had previously maintained the highest rate of protection among the member countries.[17] However, a five-year transitional period was agreed under which the EAC countries could charge supplementary duties in excess of 25 percent on a list of "sensitive" products. The transitional period was expected to pave the way for the abolition of supplementary duties and for the complete elimination of tariffs on intraregional trade. The tariff reforms under the EAC customs union protocol were projected to result in revenue losses of 0.3 percent of GDP (IMF, 2004f). Trade-related attention in the program thus turned to revenue mobilization (including through the improvement of customs administration) to make up for the anticipated losses. The introduction, by end-March 2005, of simplified customs processing procedures for import and export, supported by verifiable performance indicators in a pilot office, was a structural benchmark for the second review (IMF, 2004f).

34. In subsequent missions, staff urged the authorities to work with their EAC partners to lower the common external tariff and to rationalize their overlapping PTAs. Staff considered the introduction of the EAC three-band tariff structure a "step in the right direction" for Kenya (IMF, 2004f); an SIP for the 2004 Article IV consultation (McIntyre, 2004) presented results from a trade simulation model suggesting that the EAC customs union would bring positive trade benefits for Kenya through increased flows of cheaper extraregional imports.[18] The 2006 Article IV mission urged the authorities to lower the top tariffs and bring "sensitive" products within the common external tariff.[19] The mission drew on a joint SIP prepared for the EAC countries (Everaert, Palmason, and Sobolev, 2006) that used the same trade simulation model; this paper showed that lowering the top common external tariff rate would lead to trade creation, improved efficiency of resource allocation, and welfare gains.[20] The authorities agreed that tariffs should be lowered but not immediately, noting the scheduled review of the common external tariff in 2010 (IMF, 2007b). Based on the arguments in Everaert, Palmason, and Sobolev (2006), the mission also advocated the rationalization of Kenya's PTAs which, it argued, gave rise to potentially conflicting commitments and hindered tariff reduction.

Assessment

35. Trade policy formed only a small part of the Fund's program discussions with Kenya, which were dominated by concerns about governance and other structural reforms. Staff (justifiably) viewed trade

[16] The other members of the COMESA free trade area were Djibouti, Egypt, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe.

[17] The tariff structures in the three EAC members were very different. Kenya had eight tariff bands ranging from zero percent to 35 percent; Tanzania had four bands ranging from zero percent to 25 percent; and Uganda had three bands ranging from zero percent to 15 percent (IMF, 2003a).

[18] The simulation was based on a static, partial equilibrium model—SMART—developed jointly by the UN Conference on Trade and Development and the World Bank and widely used by negotiators of bilateral and multilateral trade agreements.

[19] The same concerns were echoed in the WTO's 2006 joint trade policy review of Kenya, Tanzania, and Uganda (WTO, 2006b).

[20] Everaert, Palmason, and Sobolev (2006) argue that the level of trade protection and tariff dispersion associated with the EAC common external tariff gave significant potential for trade diversion. In contrast, McIntyre's (2004) simulations showed "negligible" trade diversion from the EAC common external tariff. However, McIntyre (2004) noted that his results could be affected by the lack of data on informal cross-border trade within the EAC. Everaert, Palmason, and Sobolev (2006) noted that robust evidence of trade diversion would be hard to obtain given the short time since the introduction of the common external tariff.

liberalization as critical for future sustained growth (IMF, 1996f; IMF, 2003f), and most of the relevant trade issues—e.g., the relatively high level and dispersion of tariffs, overlapping PTAs, and protection of selected sectors—were raised by staff in surveillance discussions. Yet in the staff's own assessment, "[t]rade policy advice and regional issues were not prominent under Fund arrangements" (IMF, 2008c). In designing the 2000 and 2003 PRGF-supported programs, staff reported Kenya's TRI rating at 6 ("moderately restrictive") but did not indicate whether or not, or explain why, a reduction under the program would be necessary or desirable.

36. There was minimal analysis by staff of the authorities' stated objectives in selectively increasing levels of protection. Kozack (2002) observed that support for trade liberalization in Kenya was being hampered by perceptions of unfair competition (i.e., dumping by neighboring countries) and the adverse impact on some local industries. However, no sector-specific study was done of the industries where protection was being increased, nor any analysis of the food security arguments that the authorities used to justify the continued high protection of cereal production and sugar processing. Further attention particularly to this latter topic might have helped staff build greater support for reducing protection levels. The staff's approach was very much from a macroeconomic perspective, wherein the benefits of trade liberalization derived from reducing distortions: specific costs and benefits from removal of supplementary duties, for example, were not explored in any depth.

37. The postponement of trade reforms from the first year of the 2003 PRGF arrangement represented a missed opportunity to place the staff's surveillance recommendations in a program context. In line with Board guidance, staff needed to be selective in determining the coverage of structural conditionality, given that many competing and important structural reforms and governance measures were candidates for inclusion in the program. However, given Kenya's poor record in completing reviews on time, staff could perhaps have given more consideration to including some key trade measures at the beginning of the program. The deferral of trade conditionality until the first review may have helped in securing agreement with the authorities. But by the time the review went to the IMF Executive Board, a common external tariff was virtually in place, and trade policy had been effectively removed from the list of issues that could be dealt with in a program context.

38. The authorities and staff interpreted the agreement to adopt the EAC common external tariff as effectively placing the tariff regime beyond program conditionality. With an agreement in place on a customs union, it would have been unrealistic to expect a commitment from any one member on the common external tariff, which required agreement from all members of the customs union. Discretionary elements of Kenya's tariff structure, such as the supplementary duties, were still legitimate policy issues for bilateral discussion and unilateral action. Yet it seems that the elimination of supplementary duties, as urged by Fund staff during the 2006 Article IV consultation/second review of the 2003 PRGF-supported program, was not considered for inclusion in the program. The stance taken appears to reflect a view even by staff that, with the increasing importance of PTAs, Kenya's trade policy had moved beyond the IMF's immediate concern.

39. Indeed, even the limited trade policy conditionality in IMF-supported programs in Kenya did not produce much lasting result. For the most part trade conditionality during the period under review was either not met fully or was later reversed**.** The reversals occurred especially when the Fund-supported programs were off-track. For example, staff succeeded in convincing the authorities to avoid direct controls on food imports in the 1996 ESAF arrangement. However, the authorities replaced the import prohibitions with very high supplementary duties which continued to be levied throughout the period, including under the special arrangements of the EAC customs union. The four-year tariff reform program, formulated in 2001 with help from World Bank and IMF staff, was only partly implemented. The measures to simplify customs processing procedures (a structural benchmark for the second review of the 2003 PRGF-supported program) were not implemented.[21]

D. Mozambique

Background

40. During the 1990s, the Mozambican government was largely sympathetic to arguments for trade liberalization. In particular, it viewed an open trade system as critical for attracting badly needed foreign investment to rebuild the war-ravaged economy. In 1991, emerging from many years of civil conflict, Mozambique implemented a comprehensive trade reform with IMF technical assistance, eliminating most nontariff barriers and simplifying the tariff schedule from 34 to 5 bands (ranging from 5 percent to 35 percent). Subsequent policy changes during 1991–96 resulted in a somewhat more complex tariff regime—with widespread use of import duty exemp-

[21] The measures were later incorporated in a customs modernization project that began in 2007.

tions, for new and existing investments, as well as for political parties and nongovernmental organizations (NGOs), and a classification of imports within the tariff structure that was subject to ad hoc adjustments—but the trade system in general was considered relatively open (IMF, 1996k).[22]

41. Customs administration was a weak point. At the beginning of the evaluation period, Mozambique's tax ratio was very low (about 10 percent of GDP), with trade taxes accounting for about 2 percent of GDP. The customs administration was generally viewed as highly inefficient and corrupt, and prolonged discussions had been held on the merits of privatizing the customs service. The World Bank had recommended improvements in customs procedures, and an FAD technical assistance mission in February 1995 had drawn up a work program to help improve customs administration (IMF, 1995a).

42. In the mid-1990s, Mozambique, like Tanzania, belonged to SADC and COMESA but planned to withdraw from the latter. Mozambique signed the COMESA treaty in 1993 but never ratified it; it suspended its participation in COMESA in 1996 and formally withdrew at the end of 1997. Unlike its neighboring countries, Mozambique was not a signatory of the CBI.

Policy dialogue and conditionality

43. During 1996–2007, Mozambique had three financial arrangements with the Fund: two back-to-back ESAF-supported arrangements—the first from 1996 to 1999 and the second from 1999 to 2003—followed by a three-year PRGF-supported arrangement starting in 2004. All three programs were completed. A three-year PSI arrangement was put in place in June 2007.

44. The 1996 program targeted customs reform as a key element in the structural policy agenda. In the first-year program (May 1996) a structural benchmark was placed on signing a contract for a private company to take over the management of customs. (This led, in August 1996, to the signing of a three-year agreement with Crown Agents of the United Kingdom (IMF, 1996g)). FAD fielded two technical assistance missions on customs administration and provided a long-term consultant to assist with the implementation of customs reform during the program period. Several technical assistance recommendations from FAD were incorporated in subsequent program conditionality throughout the 1996 and 1999 ESAF arrangements (Annex Table 5 and Annex Table 6). FAD technical assistance continued to ensure the effective operation of the customs administration after management support from the Crown Agents expired in mid-2003.

45. Tariff reforms were initially designed to simplify and enhance customs revenue collection. From the outset of the 1996 program, staff identified tariff exemptions as a serious problem; completion of a study on tariff exemptions and taking measures to curtail them was a prior action for the first-year program. Difficulties in addressing this issue made it a recurring theme throughout the evaluation period. After studying the revenue impact of alternative tariff structures, the authorities modified the tariff structure in November 1996, lowering the unweighted average tariff rate from 18 percent to 11 percent. However, staff were concerned that the tariff reform—by lowering tariffs on imported inputs while raising the average tariff on consumer goods—may have increased the effective rate of protection (IMF, 1997b). Staff pressed the authorities to lower "excessively high" tariffs, narrow the range of tariffs, and curtail tariff exemptions, particularly those that were discretionary. The government agreed to lower the top import tariff rate from 35 percent to 30 percent by end-April 1999 (a structural benchmark for the third-year program, August 1998) but would not countenance further immediate reductions, citing, the continued weakness of government revenue (IMF, 1998e). Staff expected that the reduction in the maximum import tariff rate would lower Mozambique's TRI from 2 (in 1998) to 1 (IMF, 1999b).

46. In the 1999 ESAF/PRGF-supported program, Fund (and Bank) staff pushed harder for tariff reforms as the authorities began to express some reservations about the pace and content of their trade liberalization program. After lowering the top import tariff rate to 30 percent in April 1999, the authorities were reluctant to make further cuts under the new ESAF/PRGF-supported program. They also noted that future tariff reduction would need to be considered in the context of their membership in the SADC, which was preparing a trade protocol that envisaged progress toward a free trade area and a customs union. But under pressure from Fund and Bank staff, the government committed to cut the top tariff rate to 25 percent by January 2002, toward the end of the program period. The government also agreed to reassess the justification for existing surcharges on imports of cement, steel plates and tubes, and sugar (a structural benchmark for the first-year program) and—in response to IMF and World Bank staff concerns about the possible reinstatement of the ban on raw cashew nut exports—promised not to introduce (new) or increase (existing) import surcharges or export restrictions (IMF, 1999g) (Annex Table 6).

[22] In 1997, Mozambique's aggregate score on the Fund's TRI was 3 ("liberal"), based on a tariff rating of 3 ("moderate") and a nontariff barrier rating of 1 ("open").

(Box 1 describes the evolution of Mozambique's cashew nut export policy from 1992 to 1999.)

47. Toward the end of 1999, the authorities reversed their policy of trade liberalization in the cashew and sugar sectors. In the cashew sector, the export ban on raw cashew nuts was not reinstated but instead, parliament passed a bill in September 1999 raising the export tax on raw cashew nuts from 14 percent to 18–22 percent (the exact rate to be set by the government each year) and offering domestic processors priority in the purchase of raw nuts. Concerned about the efficiency costs of these measures and their adverse impact on the many poor rural households who depended on cashew nuts for cash income, IMF staff proposed, and the authorities agreed to carry out, a study evaluating and rationalizing policies for the sector. In the sugar sector, in September 1999 the government raised the variable import surcharge to 25 percent—a level representing a 60 percent nominal level of protection for the industry—in an attempt to foster the rehabilitation of the local sugar industry. The heightened protection was strongly opposed by Fund staff, who considered the policy unwise (given the presence of more efficient sugar producers in the region and distortions in the world market), costly for domestic consumers, and likely to encourage smuggling. The authorities, however, were not convinced. Staff therefore suggested that a comprehensive review of the sugar policy be undertaken and that, if the review justified the granting of temporary support to the sector, the government provide such support in the form of direct budget subsidies to the producers while phasing out protection via import surcharges. The authorities agreed to undertake the review in collaboration with the World Bank (IMF, 2000b).

48. Following intervention by the Managing Director in 2000, staff backed down from their stance on sugar sector protection. Their call to remove protection for the sugar sector had been seen by the authorities, the local public, and some NGOs as a repeat of the World Bank's unpopular—and what many considered to be discredited—policy

Box 1. Mozambique: Cashew Sector Policy

Following the long civil war in Mozambique, which ended in 1992, the cashew growing and processing industries were in total disrepair. Exports of raw cashew nuts were initially banned, then heavily restricted, in an effort to ensure cheap supplies to local processing factories. In 1994, the state-owned processing plants were sold to the private sector which began rehabilitation. In the following year, however, the World Bank, which was supporting Mozambique's economic reforms through its concessional loan window, recommended liberalizing raw cashew exports. The Bank's recommendation was based on an in-house study which concluded that Mozambique would be better off exporting raw nuts to India for processing as its own processing factories were not efficient (McMillan, Rodrik, and Welch, 2004). On the Bank's advice, the government replaced the export restriction on raw cashew nuts with an export tax of 26 percent, subsequently lowered to 20 percent in 1996 and 14 percent in 1997, with the expectation of elimination by 2000.[1]

The planned phase-out of the export tax touched off protests from the cashew processors, who claimed that they had been guaranteed a longer period of protection when they purchased the factories from the state. Furthermore, the Mozambican processors claimed that India's processing industry was subsidized. The export tax phase-out led to some processing plant closures and the unemployment of thousands of cashew factory workers. In the face of sustained criticism, the World Bank agreed to leave the export tax at 14 percent while a new study was prepared on the impact of liberalization on the cashew sector (McMillan, Rodrik, and Welch, 2004).

The new study, conducted by Deloitte and Touche and funded by the World Bank, was released in September 1997. It cast doubt on the evidence that the liberalization policy had raised farmgate prices, acknowledged that Indian subsidies tilted the playing field, and concluded that foreign exchange earnings could be higher if cashew nuts were exported in processed form rather than raw. The report recommended keeping the 14 percent export tax for three or four years to give the industry time to adjust.[2] In light of the recommendation, no further reductions were made to the export tax. However, the widespread view was that the Mozambican cashew nut industry had already been seriously, and possibly irreparably, damaged. In September 1999, a draft bill was sent to the parliament proposing that the export ban on raw cashew nuts be reinstated for 10 years.[3]

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[1] "Mozambican bosses and workers united on cashews," *Reuters*, August 7, 1997.

[2] "Study finds World Bank wrong on Mozambique's cashew industry," *Pan-African News Agency*, September 5, 1997.

[3] "Liberalization of cashew exports to be reversed," *BBC*, September 21, 1999.

Box 2. Mozambique: The Sugar Surcharge Controversy

Like the cashew industry, the sugar industry was all but destroyed during Mozambique's civil war. In the early 1990s, the government invited private investors to take over sabotaged or moribund sugar mills, with the assurance that the industry would be protected against cheaper imports until it was able to regain international competitiveness. The protection took the form of a minimum reference price for imported sugar: imports of sugar below the reference price were subject to a surcharge equal to the price difference. The infant industry protection (and an export quota for the U.S. market at a guaranteed price) proved attractive to private, mainly foreign, investors. Prominent investors included the Sena Company, a Mauritian consortium planning a US$100 million rehabilitation of the Marromeu sugar mill and Ilovo, a South African company planning a US$240 million investment in the Maragra sugar plantation with financing from the International Finance Corporation (IFC). When the IMF urged that the surcharge should be phased out, the investors protested that they would be unable to recoup their investments and threatened to pull out if the government followed the Fund's recommendation.

Fund staff presented the standard arguments against infant industry protection: "If the viability of the enterprises can only be assured at the present with very high protection levels, with no prospect of future reductions, then perhaps they're not very good projects."[1] The government disagreed, painting the Fund as dogmatic and arguing that historically "all governments have done this."[2] IFC staff noted that sugar was one of the few agricultural industries that had been able to attract foreign investment and supported the government's policy. The controversy was sharpened by the perception that the Fund was not even-handed in its advice. NGOs such as Oxfam pointed out that other countries subsidized or protected their sugar producers hence it was "dogmatic and ideological" for the Fund to advise Mozambique not to protect its "low-cost sugar producers" if did nothing about the United States and European Union protecting "high-cost sugar producers."[3]

The Fund surprised observers by backing down on the sugar protection issue. The decision came at a time when the Fund was streamlining conditionality and reshaping its approach to low-income countries. The Managing Director was credited with the decision—"his reasoning was simple: given that removing sugar tariffs was not essential to promoting economic stability, there was no need to insist on it"—and Oxfam cheered, "This time, the IMF listened to reason."[4]

[1] "Mozambique faces sugar-industry debate—World Bank invests in commodity, while IMF would see it shrink," *Wall Street Journal*, June 20, 2000.
[2] "Mozambique to urge U.S. backing in IMF, World Bank," *All Africa*, June 16, 2000.
[3] "Mozambique faces sugar-industry debate—World Bank invests in commodity, while IMF would see it shrink," *Wall Street Journal*, June 20, 2000.
[4] "The listening approach to development," *Financial Times*, January 12, 2001.

for the cashew sector.[23] The then-newly appointed IMF Managing Director, on a tour of Africa in July 2000, assured the authorities that the IMF would not impose conditions and policies on countries against their interests.[24] The study of the sugar sector (a structural benchmark under the 1999 ESAF/PRGF arrangement) was undertaken by the UN Food and Agriculture Organization (FAO) and released in October 2000. It came out in support of the government's position. Staff, with little alternative but to accept its conclusions, expressed the opinion that the import surcharge should at least have a sunset clause and be rolled back over time. The authorities, however, stated only that they would review the surcharge on an annual basis (IMF, 2000h). The Fund received some favorable press for being flexible on this issue. (Box 2 provides further detail on the sugar controversy.)[25]

49. Subsequent programs (the 2004 PRGF-supported program and the 2007 PSI-supported program) touched on trade policy only briefly, mainly in the context of Mozambique's PTAs. In line with the SADC trade protocol (which Mozambique ratified in December 1999), the authorities lowered the maximum tariff rate to 25 percent in January 2003 and committed to lower it further to 20 percent in 2006 for SADC members and subsequently on an MFN basis. In Article IV discussions, staff continued to urge the authorities to liberalize trade on a multilateral (MFN) basis and to limit infant industry

[23] "IMF targets Mozambican sugar," *Pan-African News Agency*, November 24, 1999; "IMF pressure may force investors to pull out of Mozambique," *Pan-African News Agency*, May 26, 2000; "Mozambique to urge U.S. backing in IMF, World Bank," *All Africa*, June 16, 2000.

[24] "IMF will not impose conditions on African governments: Koehler," *Agence France Presse*, July 7, 2000; "IMF head says government 'free' to adopt protectionist policy," *BBC*, July 22, 2000; "Kohler demonstrates a reformist zeal," *Financial Times*, September 14, 2000.

[25] "IMF eases economic reform pressure," *All Africa*, December 6, 2000; "The listening approach to development," *Financial Times*, January 12, 2001; "IMF, World Bank, on listening tour," *All Africa*, February 8, 2001.

protection. Mozambique also received substantial trade policy advice and technical assistance from the World Bank and from other donors under the IF.[26] A DTIS prepared by the United States Agency for International Development was released in late 2004; that study incorporated work on transport and trade facilitation by the World Bank but no substantive input from the Fund (USAID, 2004). IMF staff broadly endorsed the recommendations in the DTIS except in the area of PTAs where they urged the authorities to rethink the strategy of pursuing more bilateral/regional agreements (Kvintradze, 2007). Within the IF, the World Bank provided advice and assistance on PTA issues such as membership in the Southern African Customs Union (SACU) and the EPAs that were evolving with the European Union.

Assessment

50. The focus on customs reform at the outset of the 1996 ESAF arrangement was appropriate. Given that Mozambique's trade regime was already relatively open, staff were right to concentrate on customs reform which was a pressing concern. The approach of using a private firm to take full management control during a three-year period, followed by use of the same firm in an advisory capacity for a further three years, appears to have been well thought-out and staff reported that sufficient progress had been made for the authorities to resume full control from 2003 onward. The technical assistance provided by FAD contributed substantially to this outcome and there was good use of program conditionality to ensure that key steps were implemented on time. Almost all customs reform conditionality was met on time.

51. The focus shifted justifiably to tariff policy when staff detected an increase in trade protection. Staff developed reservations about the impact of the 1996 tariff reform and called attention to their concerns. A general problem with the description of tariff reforms in Fund reports has been the tendency to focus only on maximum and/or average tariff rates; in this case, however, staff went beyond the basics and looked more deeply into the tariff structure, concluding that the tariff changes may have implied higher effective protection rates for certain industries. On that basis, they urged the authorities to review and simplify the tariff structure. Similarly in 1999, staff were alert to the protectionist swing that was implied by increases in the export tax on raw cashew nuts and the import surcharge on sugar, and discouraged the moves. In that regard, staff's actions were in line with the objectives of Fund trade policy advice as set out in the internal guidelines (IMF, 1999j).

52. The sugar controversy, however, underscored the need for technical analysis in evaluating and arbitrating on sector-specific tariff issues. The staff's general arguments against infant industry protection were supported by a substantial amount of research and evidence in the existing literature.[27] But without sector-specific knowledge, staff could not put context and specificity in their arguments and thus could not persuade the authorities to their view. The call for an independent technical study to resolve the issue was an appropriate compromise, but lacking sector-specific knowledge, staff were unable to challenge the conclusions of the FAO report. Writing much later, Kvintradze (2007) indicates that the protection did facilitate large-scale foreign investment in sugar estates located in remote areas with few other income opportunities, and that the production capacity and output of sugar mills has increased significantly in recent years. But the efficiency of Mozambican sugar production, and the question of whether the industry will eventually be able to operate profitably in the absence of the surcharge are still open issues.

53. The introduction of the Fund's streamlining initiative defused the sugar controversy.[28] After the high-profile disagreement with the World Bank over cashew sector policy, the authorities had hardened their position on infant industry protection, and the Fund needed to tread carefully in going over the same area. The Fund's acceptance of the government's position was consistent with the macro-criticality criterion for structural conditionality. Indeed, the Mozambican sugar surcharge became the standard illustration of the concept: a senior PDR staff member explained to the media that while the Fund did not consider Mozambique's sugar strategy "efficient or proper," the Fund would not press the issue because the economic cost was not so large as to cause macroeconomic imbalances.[29]

54. Fund and World Bank staff saw eye-to-eye on cashew sector policy, but less so on sugar sector policy. In the cashew debate, IMF staff supported the Bank's view and strongly opposed the increase in the export tax on raw cashew nuts. IMF staff expressed concern about the efficiency costs of the increased protection and the adverse impact on cashew farmers. But, as in the sugar case, the lack of sector-

[26] Bilateral donors included the European Union, Switzerland, the Netherlands, the United States, and Canada.

[27] See Krueger (1997) for an overview and references.

[28] The IMF's streamlining initiative, reflected in its 2002 Conditionality Guidelines, aimed at reducing the volume and scope of the Fund's structural conditionality by requiring "parsimony" in the use of conditions, and stipulated that conditions must be "critical" to the achievement of the program goals.

[29] "IMF aiming for new loan guidelines in second half of 2001," *Dow Jones*, March 21, 2002; "The softer side of the IMF," *Business Week*, November 19, 2001.

specific knowledge limited their effectiveness and led them to suggest an independent study to evaluate and help rationalize policies for the sector. The completed study recommended the liquidation of several nonviable processing plants, but it also found that newer factories, using more labor-intensive technology, needed no special assistance. In the event, the government decided to retain the 18 percent export tax, and the country's cashew industry did not subsequently perform well enough to re-establish itself as a significant player in world markets. In the sugar debate, the Fund was largely alone in arguing against infant industry protection; the World Bank Group had by then apparently changed its stance and was even financing the rehabilitation of one sugar mill through the IFC.

55. The Fund's retreat from trade policy issues after the mid-2000s was understandable but may have gone too far. There has been no shortage of trade-related advice and technical assistance available to Mozambique from other sources, particularly under the IF umbrella. While trade policy issues no longer featured in Fund-supported programs in Mozambique after 2003, staff continued to discuss trade issues in their biennial Article IV consultations during this period. Regional and bilateral trade agreements, including the EPA with the European Union, have become increasingly important; while Mozambique is not yet caught in the problems of overlapping PTAs, this could be a major issue for the period ahead, especially in light of some of the DTIS's recommendations. Kvintradze (2007) outlines some of the complexities of regional integration options for Mozambique, but further analytical and empirical work on the macroeconomic implications of various trade policy choices facing Mozambique could have been useful ahead of upcoming decisions.

56. The tax and customs reforms took time to have an effect. Through 2005, the tax-to-GDP ratio stagnated in the range of 10–12 percent, despite the substantial FAD technical assistance provided and the fact that the conditionality associated with the customs improvement project was generally observed with only a few delays in certain measures.[30] The review of duty exemptions (a structural benchmark in the 1999 ESAF/PRGF program) was eventually completed in August 2000. Based on the results, the government took some actions to limit exemptions.[31] Since 2005, as a result of the earlier fiscal revenue reforms and some discretionary tax measures, Mozambique has made progress in raising the tax ratio, and this facilitated the further reduction of the maximum tariff rate in 2007.

E. Ghana

Background

57. In 1996, Ghana was generally regarded as ahead of its neighbors in trade liberalization. Following several reforms of the trade system since the early 1980s, 1994 saw a new effort to simplify the tariff regime. This resulted in a relatively simple three-tier system, with rates of 0 percent, 10 percent, and 25 percent. The unweighted average tariff rate stood at below 15 percent. Cocoa, historically Ghana's key economic sector, was subject to relatively high export taxation and a state export monopoly.[32]

58. Ghana is a member of the Economic Community of West African States (ECOWAS), a regional group of 15 West African countries.[33] ECOWAS was founded in 1975 with the aim of establishing an economic union in West Africa, but progress toward this goal was very slow. In 1994, eight ECOWAS members—not including Ghana—formed the West African Economic and Monetary Union (WAEMU), a customs and monetary union.

Policy dialogue and trade conditionality

59. Ghana had three back-to-back ESAF/PRGF arrangements during the period under review. Structural conditionality in the first program (1995–99) focused on cocoa sector reform, energy sector reform, and divestiture from the public sector. The later programs (1999–2002 and 2003–06) focused on fiscal issues and financial sector reform as macro-critical areas for structural conditionality (IMF, 2007c). The third PRGF-supported program paid very limited attention to trade policy.

60. The IMF and the World Bank advised Ghana to liberalize its cocoa sector. Under the 1995 ESAF-supported program, the government had indicated its desire to remove the Cocoa Marketing Company's monopoly over the export of cocoa. But an independent study by a U.K.-based consultancy that had been commissioned by the government and financed under

[30] This observation has been partly attributed to inaccurate GDP data.

[31] Some of the reductions in duty exemptions were reversed in recent years.

[32] The Cocoa Board paid farmers a pre-set price in domestic currency and retained the export proceeds; the difference between the international price and the price paid to farmers, less administrative and other costs, thus formed an implicit (and variable) export tax on cocoa (Bulir, 1996). The Cocoa Marketing Company, a subsidiary of the Cocoa Board, negotiated and sold all exports of cocoa (Kanai, Pellechio, and Leite, 1998).

[33] The other ECOWAS members are Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

a World Bank credit recommended the continuation of the state monopoly of cocoa exports to ensure quality control and the reliability of deliveries while the rest of the cocoa sector was being deregulated and restructured (IMF, 1996h). Fund staff also urged the authorities to reduce, if not eliminate, the export tax on cocoa as part of the restructuring/deregulation of the cocoa sector (IMF, 1996h). Their advice was backed by an SIP (Bulir, 1996) that evaluated various theoretical and practical arguments for cocoa taxation, estimated a model of cocoa supply, and concluded that a modest reduction in the export tax need not harm government revenue. The Fund (and the World Bank) continued to work with Ghana on reforming the cocoa sector through the 1995 ESAF-supported program and its successor program, using conditionality to establish benchmarks for various steps in the liberalization process.[34]

61. Fund surveillance during 1996–98 covered trade policy issues largely in relation to their revenue aspects. In the 1997 Article IV consultation, staff noted a steady decline in effective import duty rates resulting from an expanding range of nontransparent tariff exemptions and problems in customs administration (IMF, 1997d). An SIP (Arjona-Gracia, Pellechio, and Crego, 1998) prepared by IMF and World Bank staff for the 1998 Article IV consultation highlighted Ghana's widespread use of zero rates and exemptions and "the relatively high top rate of 25 percent" and examined the implications of various tariff reform options for the effective tariff rate and tariff revenues.

62. Tariff reform took a more prominent role in the 1999 program supported by the ESAF/PRGF-supported program. The authorities announced that in January 2000 they would reduce the maximum tariff from 25 percent to 20 percent which represented a target for the region set by the WAEMU customs union. The authorities presented this tariff reduction as a means of deterring smuggling; it was incorporated in the program as a structural benchmark. The expectation was that this move would reduce Ghana's TRI from 5 to 4. The program also included a structural benchmark on the completion of a comprehensive review of the tariff structure to assess the prospects for further tariff reductions (by September 1999) (Annex Table 7). The government's plan was to shift, over the medium term, from reliance on trade taxes—both import tariffs and cocoa export taxes—toward taxation of domestic consumption. An analysis by Fund staff of medium-term fiscal sustainability (Pellechio, 1999) provided the basis for discussion of this strategy—specifically, the measures needed to compensate for the revenue losses from tariff and cocoa tax reform.

63. The 1999 ESAF/PRGF-supported program also addressed the continuing problem of import exemptions and customs irregularities. Staff reported a serious breakdown in controls on bonded warehouses that led to significant revenue losses (IMF, 1999k). The government undertook to investigate these incidents and identify measures to strengthen customs as a prior action for the first review of the program in November 1999. FAD provided technical assistance in this area: two reports, on "Reform of Tariff and Exemption Policies" (March 2001) and "Revenue Administration and Tariff Policy Reform" (October 2001) set out an agenda, inter alia, to deal with exemptions and combat corruption in the bonded warehouses and free zone facility. Measures to curtail import tariff exemptions were included in a supplementary package of revenue measures that was sent to parliament in June 2001 as part of the government's plan to close the fiscal financing gap for 2001 (prior action for the third review).

64. IMF staff were critical of a special import tax that Ghana introduced in 2000 to protect local producers against alleged dumping by other countries. The 20 percent import tax was imposed on about 50 selected products at the same time as the maximum tariff was reduced to the WAEMU target of 20 percent. The tax effectively raised the maximum tariff to 40 percent and increased the average nominal tariff rate by about two percent. Staff argued strongly against this measure, which they considered to be "contrary to the spirit of the tariff reform" (IMF, 2000f).[35] In the second program review in June 2000, staff added a structural benchmark to the effect that the authorities would request parliament to eliminate the special import tax or "replace it with antidumping measures if justified according to existing domestic legislation" by end-March 2001 (IMF, 2000f).

65. Staff were also critical of import and export tax increases planned by the government in 2001, but they accepted these as necessary to close the budget shortfall. The fiscal situation had deteriorated during 2000 (an election year) and the incoming government had to devise revenue and expenditure measures to shore up the public finances. A number of trade tax measures were included among the revenue measures to be submitted to parliament in June 2001 (prior action for the third review), namely

[34] A 1998 SIP (Kanai, Pellechio, and Leite, 1998) continued the discussion on options for cocoa sector reform, including a comparison with the cocoa sector in Côte d'Ivoire, Ghana's neighbor and the world's leading producer of cocoa.

[35] The WTO agreed. In Ghana's 2001 trade policy review, the WTO noted that special import taxes had been a common feature of Ghana's tariff system and that the reintroduction of the tax in February 2000 contradicted the government's policy objective of tariff reduction, and urged the government to specify a time limit for the removal of the tax (WTO, 2001).

a 5 percent import duty on certain items; a 1 percent customs processing fee on tariff-exempt imports; and a 10 percent levy on exports of lumber. Staff advised against the export tax on lumber and urged the authorities to explore "alternative nondistortionary measures to raise revenue and promote environmental conservation" in the following year's budget. Staff were, however, reassured by the authorities' plan to formulate a broader agenda for tariff reform by end-2001 (IMF, 2001c).

66. The government announced further tariff increases in 2003, just as a new PRGF arrangement was due to be considered by the Executive Board.[36] Staff were not consulted about these measures, which were designed to protect certain local industries, notably, poultry. The Ghanaian authorities believed that higher tariffs on poultry were justified because the industry, which had taken many years to establish, was unable to compete with subsidized products from the European Union and the United States. Staff viewed the measures as damaging to the government's growth and poverty-reduction strategy, stressing the impact on the poor of raising prices for two staple foods, rice and chicken. Despite initial assurances to the contrary, the authorities reported that the tariff legislation had inadvertently been given presidential assent.

67. Staff moved quickly to avert the tariff increase. In order to allow the PRGF-supported program to go forward, the finance minister had to order a public retraction and commit not to implement the tariff measures. The retraction of the tariff measures gave rise to much negative public and press comment. Attention centered on the issue of poultry tariffs (Box 3) and sparked a debate on the theoretical/ideological underpinnings of the Fund's trade liberalization policies.[37]

68. After the poultry tariff episode, the Fund had little or no involvement in trade policy issues in the 2003 PRGF-supported program or in the following period of surveillance. Ghana's trade policy became increasingly geared toward regional integration and bilateral trade agreements. The government indicated that its medium-term plans for tariff reforms were firmly linked with those of its neighboring ECOWAS member countries. In December 2004, the government launched its National Trade Policy, aimed at expanding access to regional and global markets. Staff agreed with the main elements of the National Trade Policy and noted that the government had ruled out the use of high tariffs to protect domestic industries. There was little further mention of trade liberalization. In an interview for this evaluation, Ghanaian authorities said that most of their recent interactions on trade policy had been with the World Bank, bilateral donors, and the WTO, and that the discussions had usually covered sector-specific topics which were outside the Fund's core area of expertise. The authorities observed that the Fund had been silent on the evolving EU-Ghana EPA.

Assessment

69. The Fund's coverage of trade policy issues in the earlier part of the evaluation period was appropriate. Although Ghana's trade regime was considered to be only moderately restrictive in the mid-1990s, trade policies (e.g., tariff reform and reduction of the cocoa export tax) were integral to the medium-term strategies to reform the tax system and the cocoa sector, and hence clearly both relevant and critical to the overall macroeconomic outlook.

70. In the later part of the evaluation period, the Fund appears to have missed some opportunities to contribute constructively to Ghana's trade liberalization. On more than one occasion, the authorities justified (proposed or actual) tariff increases as being necessary to counter dumping by Ghana's trading partners. Staff firmly opposed the tariff increases but did not follow up when Ghana failed to implement WTO-consistent antidumping legislation. By pressing for unilateral trade liberalization but not acknowledging Ghana's possible difficulties in responding to alleged dumping in a manner consistent with WTO rules, the Fund came across as rigid and doctrinaire.[38] Moreover, the Fund may have missed an opportunity to improve its policy coherence with the WTO (and the World Bank). After 2003, the Fund moved significantly away from trade policy issues and passed up further opportunities to advise Ghana's authorities on trade liberalization. Staff had little to say about the authorities' National Trade Policy in late-2004, or about the EU-Ghana EPA. The latter, especially, was an important and highly debated trade policy issue in Ghana and an area where the authorities have indicated that some macroeconomic analysis by the Fund could have been helpful.

71. The Fund's views on tariff and cocoa sector reform were carefully thought out. Although the

[36] Tariffs were proposed to be increased for a range of finished products (from 10 percent to 15 percent) and for rice imports (from 20 percent to 25 percent). For poultry a supplementary duty of 20 percent was proposed.

[37] See "IMF bullying of Ghana over poultry and rice tariffs criticized," *Liquid Africa*, September 30, 2004; "IMF/World Bank overriding democracy in Africa," *All Africa*, January 31, 2005; "Playing Chicken: Ghana versus the IMF," Corpwatch, June 14, 2005 (http://www.corpwatch.org/article.php?id=12394).

[38] Hoekman (2002) points out that some WTO rules, including the antidumping agreement, have "significant direct implementation costs" and making them work in low-income countries could require "wholesale reform and strengthening of a variety of institutions."

Box 3. Ghana: The Poultry Tariff Controversy

Ghana's poultry industry, which had grown strongly behind tariff barriers since the 1950s, suffered after tariff protection was reduced in 1994. From meeting virtually all domestic consumption demand in the early 1990s, domestic poultry production slowed and then declined until it supplied less than half of the domestic market in 2003. The price of imported frozen poultry (which was subject to a 20 percent tariff) was reportedly about 30–40 percent lower than that of locally produced poultry.

The Ghanaian authorities and NGOs such as Corporate Watch and Christian Aid, argued that with the lowering of protection, the Ghanaian market was being flooded by cheap subsidized frozen chicken parts from the European Union and the United States. It was feared that prolonged "dumping" of this nature would soon lead to the dismantling of the domestic poultry industry and jeopardize Ghana's food security, leaving the country vulnerable to potential shortages of staple foodstuffs.

Staff's reaction to the proposed supplementary duty on poultry was driven in large part by the standard view that a lower level of protection would allow cheaper goods for domestic consumption and (where domestic industries had higher costs) a more efficient reallocation of resources. Staff argued that higher protection would increase the prices of staple foods and would be counterproductive to poverty reduction efforts. From available information about the sector, staff understood that poultry production had been rising hence they did not see a strong prima facie case for higher protection from a sectoral viewpoint. Furthermore, staff believed that about 50 percent of Ghana's domestic production capacity related to one privately-owned agro-business poised to dominate the entire West African market and that there had been strong lobbying with the President from the owners of this large firm. Staff thus reportedly characterized the poultry tariff controversy as "a storm in a teacup."[1]

NGOs strongly objected to the Fund's "bullying" of Ghana. They saw the Fund as being heavy-handed (the head of a local NGO asked: "What remains of the sovereignty of Ghana, if laws enacted by parliament can be suspended by a mere call from the IMF?") and unfair (by forcing Ghana to backtrack on a tariff increase that was well within its WTO bindings whilst allowing the European Union and the United States to continue subsidizing their agricultural sectors).[2] In April 2005, a coalition of local and international NGOs organized a series of activities in Accra and other cities around the world to draw international attention to the "obnoxious world trade regime" allegedly perpetrated in part by the IMF.[3]

[1] "A fine trade policy at last," *All Africa*, February 21, 2005.

[2] "IMF bullying of Ghana over poultry and rice tariffs criticized," *Liquid Africa*, September 30, 2004; "IMF/World Bank overriding democracy in Africa," *All Africa*, January 31, 2005.

[3] "Campaign against unfair trade gathers momentum," *All Africa*, February 28, 2005.

Fund was not the main initiator of the tariff reforms or the lead agency behind the cocoa sector reforms, staff were well informed about the issues. The Fund's discussion on tariff reform was supported by detailed knowledge of Ghana's tariff system and tariff exemptions, and by a quantitative analysis of the implications of different tariff reform options for average and effective tariff rates and revenue collection (Arjona-Gracia, Pellechio, and Crego, 1998). Similarly, the Fund's advice on cocoa taxation was based on a thorough understanding of the cocoa sector and policies in Ghana (and in competing exporting countries) and the international cocoa market (Bulir, 1996; Kanai, Pellechio, and Leite, 1998; Leite and others, 2000). When a sharp decline in international cocoa prices in 1999 accelerated the government's cocoa reform agenda, staff revised their medium-term fiscal sustainability analysis to quantify the measures needed to bring the economy back to its original medium-term course (Pellechio, 1999).

72. The poultry tariff incident was an unfortunate exception. Unlike with cocoa, staff did not have background knowledge of Ghana's poultry sector. They were caught unawares by the tariff increase and felt compelled to respond quickly as the (2005 PRGF-supported) program was about to be discussed at the Board. In internal discussions, staff took the position that the poultry sector appeared strong enough to compete against imports and that there was not a prima facie case for additional protection. In this judgment, staff seem to have had insufficient current information about the sector's finances to fully appraise the measure. With the benefit of hindsight, the poultry sector was at that time much more vulnerable to competition from imports than staff had believed. This is not to say that the decision to block the proposed tariff increase was necessarily incorrect—there was a wide gap between domestic costs of production and import prices, and this gap had widened over time—but the rationale that staff used to deny protection for the sector was not supported by the evidence.

73. The cocoa reforms received broad support, though their implementation was slower than the

Fund would have preferred. Following the recommendations of the 1996 independent study, the government began to formulate a medium-term cocoa development strategy through a participatory process of consultation with farmers, traders, foreign importers, civil society organizations, and the World Bank (Leite and others, 2000). The strategy, adopted in April 1999, proposed to reduce the cocoa export tax gradually by increasing the producer price to 60 percent of the f.o.b. price of cocoa for the 1999/2000 crop (a structural performance criterion for the 1999 ESAF/PRGF-supported program in April 1999), and thereafter by at least 2 percentage points in each of the next two years, and to allow qualified licensed buying companies to export at least 30 percent of their domestic purchases starting in 2000/01 (a prior action for the second review of the 1999 ESAF/PRGF-supported program in August 2000). The strategy was accelerated in June 1999 when the international cocoa price plummeted and the government chose to keep the producer price unchanged, raising the producer's share to 74 percent of the f.o.b. price. In the same month, the government abolished the Cocoa Marketing Company's monopoly over cocoa exports, introduced regulations to allow licensed buying companies to export cocoa and changed the cocoa tax from an implicit tax to an explicit ad valorem tax (IMF, 2000f).[39] In 2001, staff reported that the cocoa sector reform stalled after all the eligible licensed buying companies relinquished their right to export cocoa that year to the Cocoa Marketing Company, claiming that they lacked the necessary technical capacity (IMF, 2001c).

74. The Fund was able to check the use of tariff protection, but its approach could have been more constructive. The nominal average tariff rate remained at just below 15 percent and Ghana's TRI rating of 5 in 1999 remained basically unchanged. There were two instances where tariff increases were introduced without prior discussion with staff:

- When the government levied a 20 percent special import tax on various products in the 2000 budget, staff gave the authorities until end-2000 to "ask parliament to eliminate the special import tax or replace it with antidumping measures if justified according to existing domestic legislation" (IMF, 2000f). Those actions (a structural benchmark added during the second review of the 1999 ESAF/PRGF-supported program) were observed, but with a delay: the government lowered the top rate for this tax and reduced its coverage in the 2001 budget; the tax was eventually eliminated in July 2002. Staff did not look into the reason for the delay; the authorities had claimed that they needed more time to prepare WTO-consistent antidumping measures.
- In the second instance, staff reacted more immediately to the tariff increases announced in the 2003 budget. The authorities' retraction of the announced measures (particularly the increase in poultry tariffs) was effective but highly controversial. In August 2004, the National Poultry Farmers' Association went to court to compel the government's revenue agency to implement the new (40 percent) tariff. The high court ruled in favor of the farmers but the government had moved to repeal the act legitimizing the tariff increase before the court made its ruling and in the end, the tariff increase was not implemented.[40]

75. Lasting improvements in customs administration proved difficult to achieve. Only some of the recommendations of the FAD technical assistance reports were implemented. The same problems of growing revenue losses from import duty exemptions and weak customs administration reemerged in 2007. An SIP for the 2007 Article IV consultation (Akitoby, 2007) returned to many of the issues that were being considered in 1996–98, recommending that customs procedures be strengthened by remedying customs valuation procedures and minimizing abuses in the bonded warehouses and the free zone facility. In the authorities' fiscal package to correct for budget slippages in 2007, a reduction in import duty exemptions appeared once more as an important revenue measure (IMF, 2007d).

F. Guyana

Background

76. In the mid-1990s, Guyana's trade regime was thought to be substantially liberalized. An IMF review in 1996 of the history of the trade system (IMF, 1996i) described wide-ranging trade reforms since 1988 that had transformed the trade regime from a highly protectionist, complex, and opaque system into a simpler one where import licenses were automatically issued and no longer tied to the availability of foreign exchange (except for fuel imports), and import bans applied only to 20 items

[39] The producer price mechanism was retained for the 2000/01 cocoa season to cushion farmers during the transition to the new system. It was expected that the farmer's share of the f.o.b. export price of cocoa would increase by 1 percent every year, rising from 66 percent in 1999/2000 to 70 percent by 2004/05 (IMF, 2000f). In the event, the farmgate price fell below the target level in 2000 (IMF, 2001c).

[40] "Court orders CEPS to implement new tariffs on imported poultry," *All Africa*, April 18, 2005.

related to health, medicine and firearms. The state sugar import/export monopoly Guysuco was being restructured (Box 4). Concrete steps had been taken to lower import tariffs.

77. Guyana has been a member of the Caribbean Community (CARICOM) since the Community was founded in 1973. In 1991, Guyana passed legislation to bring its import duties in line with the common external tariff of CARICOM, and the following year, it agreed along with other CARICOM member states to a phased reduction in the common external tariff from the existing rates of 0–45 percent to 5–20 percent by January 1997 (IMF, 1996i).

Policy dialogue and trade conditionality

78. During the period under review, Guyana had ESAF arrangements beginning in 1994 and 1998 (later converted to a PRFG arrangement but not fully drawn) and a PRGF arrangement beginning in 2002. Though trade policy conditionality played no major role in any of these programs, three reasonably strong trade policy efforts pervaded the program: bringing Guyana's trade policies into conformity with CARICOM; improving customs administration; and reducing, removing, or making more transparent the exemptions from customs tax.

79. The CARICOM tariff reduction schedule was incorporated into Guyana's ESAF-supported program in 1994. Fund staff had understood that Guyana had carried out the first stage of the required reduction in the maximum common external tariff rate, from 45 percent to 30 percent, in January 1994. Implementation of the second stage of the tariff reduction by February 1995 was specified as a structural benchmark in the 1994 ESAF-supported program; the target date was subsequently pushed to June 1995 (IMF, 1995b) (Annex Table 8). In March 1996, staff reported that the maximum common external tariff rate had been reduced from 30 percent to 25 percent in September 1995 (IMF, 1996d). The final phase—reduction of the maximum common external tariff rate from 25 percent to 20 percent—was specified as a structural performance criterion in the third-year ESAF arrangement with a target date of June 1997. Staff reported that the condition was met (with a delay) in November 1997 and that Guyana had thus "completed the third and final phase of [common external] tariff reductions—as agreed under CARICOM" (IMF, 1997f).

80. But staff had misunderstood Guyana's trade policy and accordingly the structural performance criterion on tariff reduction for June 1997 had been misspecified. It turned out that the tariff reduction undertaken in November 1997 was, in fact, the penultimate step in the CARICOM schedule, that is, a lowering of the maximum common external tariff rate from 30 to 25 percent, and not from 25 percent to 20 percent as staff had reported to the Executive Board. The authorities explained that the CARICOM agreement had been revised to make the final step (the reduction of the maximum tariff to 20 percent) voluntary and thus they believed that they were still in compliance with the CARICOM agreement and with the performance criterion under the 1994 ESAF arrangement.

81. Following the misreporting, further investigation of the trade system revealed substantial new

Box 4. Guyana: Sugar Industry Restructuring Prior to the Evaluation Period

The sugar sector is Guyana's main export sector. It is dominated by the Guyana Sugar Corporation (Guysuco), which was created in 1976 when the government nationalized and merged the two large sugar estates. Guysuco is the only producer of sugar in Guyana; it operates sugar estates and factories, and exports all cane products other than rum. It is the largest employer in Guyana. Guyana is a high-cost sugar producer compared with other countries. As such, the industry has traditionally depended heavily on its preferential access to foreign markets, primarily the European Union, the United States, and CARICOM countries.

According to IMF (1996i), inappropriate government policies had hampered the development of Guysuco. Examples of such policies were foreign exchange restrictions; a relatively high and volatile "sugar levy" that was tied to the differential between the EU price and the world market price for sugar; and stringent wage guidelines. Starting in the late 1980s, the government attempted to rationalize, liberalize, and privatize the industry with the support of the World Bank and the IMF. In 1993, the government agreed to develop with the World Bank a new regulatory framework that would, inter alia, remove foreign exchange restrictions, implement a flat sugar levy, and eliminate Guysuco's monopoly in the importation and sale of sugar in Guyana. However, by mid-1996, there had been still no work on the new regulatory framework although the foreign exchange surrender requirement had been reduced.

information. While the focus had been on the maximum common external tariff rate, a number of goods were actually taxed at higher rates. For example, agricultural goods, including sugar, drew a tariff of 40 percent, motor vehicles were taxed at 45 percent, and luxury goods (principally alcohol) had a tariff of 100 percent. Export taxes were levied on a range of products including sugar, while export allowances—inconsistent with WTO rules—applied to nontraditional exports. A significant number of nontariff barriers existed, such as nonautomatic restrictive licensing of sugar and rice imports and restrictive quality standards. And while imports from CARICOM members were thought to be duty-free, there were several exceptions to this rule (IMF, 1999e). To reflect the new information, Guyana's TRI was revised from a rating of 2 ("liberal") to 5 ("moderately restrictive").

82. The 1998 ESAF-supported program included measures to address some of the trade distortions that had come to light. Revisions of the sugar levy (to make it more transparent) and the import regime for Guysuco's inputs (to align it with that for other enterprises) were prior actions for the approval of the program. Reduction of the maximum import duty rate from 25 percent to 20 percent was added as a prior action during the mid-term review of the first-year program in April 1999 (Annex Table 9).

83. Fund technical assistance was provided to bolster falling customs revenues. It was found in 1999 that Guyana's declining customs revenues reflected not only tariff reductions, but also the use of a nonmarket exchange rate for customs valuation and an expansion of nontransparent exemptions. On the basis of FAD technical assistance, a new market-based mechanism for the exchange rate used in customs valuation was introduced as a prior action for the second year of the ESAF/PRGF arrangement in November 2000. On exemptions, an FAD technical assistance mission in May 2002 found that discretionary tax and customs duty exemptions were extensive. The mission observed that there were no published guidelines or criteria for the granting of exemptions, and that the Minister of Finance was not required to notify parliament, the cabinet, or the public on exemptions granted.

84. The 2002 PRGF-supported program tried to tackle the problem of discretionary tax exemptions but ran into strong resistance (Annex Table 10). Amendments to the Customs Act to reduce exemptions were made a prior action for the first program review in August 2003. But the amendments were later found to have codified existing discretionary tax exemptions and to have expanded, rather than limited, the scope of exemptions (IMF, 2004a). The authorities held that eliminating tax exemptions would adversely affect employment (IMF, 2004a). Two subsequent technical reviews (both structural performance criteria) were not carried out satisfactorily. The (first) review of existing exemptions and their revenue impact—a structural performance criterion for November 2004, inserted during the second program review in July 2004—was submitted late and only partly met the condition (IMF, 2005a). The (second) study, of the economic cost of existing exemptions, to be undertaken with assistance from the Fund's Caribbean Regional Technical Assistance Center (CARTAC)—a structural performance criterion for June 2005, inserted during the third program review in January 2005—was completed with a lag. Based on the findings of that study, the mission again urged the authorities to reduce existing tax exemptions, but the authorities saw little scope for making incremental changes in the system (IMF, 2006a).

85. Following completion of the PRGF arrangements, staff shifted their trade-related attention to the erosion of preferences for Guyana's sugar exports. In 2005, the European Union announced a four-year, 36 percent, phased reduction of internal sugar prices, implying a cut of a similar magnitude for import prices from African, Caribbean, and Pacific (ACP) countries with preferential access to the EU sugar market.[41] Staff reckoned that Guyana would be the most significantly affected among the sugar-exporting Caribbean ACP countries. According to their calculations, Guyana's implicit assistance from the sugar regime had averaged nearly 10 percent of both GDP and export receipts. The decline in EU sugar prices was estimated to lead to a cumulative output decline of up to 6.5 percent of GDP for Guyana by 2010, with attendant implications for the fiscal and external balances (Dyczewski, 2007; Cashin, Gold, and Mlachila, 2007). In the 2006 Article IV consultation, staff analyzed Guysuco's restructuring plan which was developed with the help of the World Bank and featured the construction of a new modern large-scale factory (Dyczewski, 2007).[42] Staff urged greater private sector participation in the sugar sector to mitigate risk and cautioned that the viability of the new factory depended on the maintenance of the 40 percent CARICOM common external tariff on sugar imports (IMF, 2007a). In the 2007 Article IV consultation, however, staff noted that the just-concluded EPA between Caribbean countries and the European Union would not deepen the sugar

[41] Under the EU's Sugar Protocol, ACP countries—including Guyana—were granted an individual country-specific quota to export sugar duty-free at EU internal prices, and an additional special preferential sugar quota to export sugar to the European Union at preferential tariff rates.

[42] The Guysuco restructuring was part of Guyana's National Action Plan for coping with preference erosion in the sugar industry, which was prepared through a consultative process with a broad range of stakeholders. The plan was partially financed by the European Union.

preference erosion and described the plan to build a new sugar factory with private sector financing as a positive step (IMF, 2008a).

Assessment

86. The Guyana case study illustrates the problems that can be encountered in obtaining up-to-date and reliable information for formulating trade policy conditionality. The country's trade regime was initially believed to be liberal and open. But as additional information became available, staff came to realize that it was actually nontransparent and moderately restrictive. In 1997, lack of accurate information on trade policy changes led to the misspecification of a structural performance criterion. While these deficiencies may have been due to lack of cooperation, or even misreporting, on the part of the authorities, problems may also have reflected staff resource constraints. Gathering data on trade policy changes is a resource-intensive activity and the task has often fallen upon a mission member (usually from PDR) who faces many other demands during mission. Data issues have, therefore, mostly surfaced through the review process or from PDR presence on a mission. While closer interagency cooperation, e.g., drawing on the WTO's trade policy reviews, could help in such resource-constrained situations, in Guyana's case no trade policy review existed before 2003.

87. Data problems aside, Fund staff made a valuable contribution on the issue of preference erosion in sugar. They helped to frame the problem in macroeconomic terms by quantifying the amount of implicit assistance that Guyana had been receiving under the EU sugar protocol and estimating the impact of preference erosion (modeled as various possible shocks to implicit assistance) on the trade balance, output growth, and the overall fiscal balance. The research made a unique contribution to the debate and effectively showcased the staff's ability to undertake macro-relevant trade-related work. Beyond that, the Fund was unable to offer much by way of adjustment assistance or advice as the authorities were not interested in the Trade Integration Mechanism (TIM), and the details of sugar sector reform were being handled by the World Bank and other developmental agencies.

88. In the area of tariff protection, it is unfortunate that Guyana's membership in CARICOM was viewed, inappropriately, as effectively circumscribing the Fund's ability to press for tariff reform. Guyana is a highly trade-dependent economy yet minimal dialogue took place between the Fund and the authorities on trade policies. This was largely the result of Guyana's membership in CARICOM—which staff interpreted as making important aspects of trade policy off-limits even for substantive advice. In 1998, while allowing (erroneously) that Guyana's average tariff was low and nontariff barriers were few, the Fund mission noted that Guyana could have benefited from further efforts to liberalize its trade, particularly by reducing tariff dispersion. This would have been possible given the relatively wide scope of exceptions under the CARICOM common external tariff (WTO, 2003). However, "recognizing the limitations for further trade liberalization deriving from Guyana's membership in CARICOM," the mission did not pursue the issue (IMF, 1998d). Guyana's reduction of its maximum common external tariff in line with the CARICOM plan had little impact on its unweighted average tariff rate which in fact rose slightly during 1997–2007.

89. The CARICOM filter through which the IMF's trade policy advice implicitly passed constrained other aspects of IMF advice as well. For example, a major focus of Fund– and World Bank–supported programs was the restructuring of Guysuco, which was sheltered by a 40 percent CARICOM tariff on imports of raw sugar, and benefited from preferential arrangements in the EU and U.S. and markets. Starting in the early 2000s, the restructuring of Guysuco was reinvigorated and given priority to help Guyana prepare for the reduction of preferential access to the EU market. Yet to try to improve Guysuco's efficiency by reducing its tariff protection and exposing it to foreign competition was basically out of the question, because this would have involved changes in the CARICOM tariff schedule.

90. The Fund made little headway in reducing discretionary tariff exemptions. Staff eventually realized that the issue of tax incentives was best addressed at the regional level, because Guyana was not alone in offering such incentives.[43] In a 2007 informal Board seminar on selected Caribbean regional issues, staff explained that the perception of increased global capital mobility had prevented Caribbean governments from unilaterally reducing existing incentive schemes, out of fear that other regional and extraregional competitors would attract away much-needed foreign direct investment. At the close of the seminar, Directors encouraged governments in the region to "weigh carefully the costs and benefits of tax exemptions and consider reducing them if possible"; they noted that "regional cooperation and coordination could play a particularly useful role" in this regard but acknowledged that regional tax harmonization treaty could be difficult to negotiate and enforce (IMF, 2007h).

[43] Bauer and others (2007) observed that special investment incentives had proliferated throughout the Caribbean region, typically in the form of generous tax holidays that provided exemptions from corporate income taxes and import duties.

G. Vietnam

Background

91. Vietnam had a highly restrictive trade system in the mid-1990s. Although market-oriented reforms had begun in the late 1980s, import and export quotas continued to be used and import permits were still required for many commodities; import shipment licensing was still universal; import certification procedures were still used as nontariff barriers; and some export licensing requirements and export duties still remained. Trade barriers protected an inefficient state-owned enterprise sector through which the authorities still used direct levers to affect economic activities. Private sector involvement in international trade was strictly limited. By 1995, little progress had been made in tariff rationalization, with tariff rates reaching 120 percent for some luxury goods.

92. Trade in financial services featured prominently in Vietnam's trade policy agenda. Since 1988, a two-tier banking system had been established, with a central banking role for the State Bank of Vietnam; state-owned banks had been transformed into multipurpose commercial banks; and a large number of nonstate banks—including representative offices and branches of foreign banks—had been licensed (IMF, 1994a). Foreign banks, however, faced restrictions: the State Bank of Vietnam was selective in allowing foreign banks to conduct full banking operations, and branches of foreign banks were restricted to accepting no more than 20 percent of their capital in local currency (dong) deposits from Vietnamese individuals and firms who did not also borrow from them. In practice, however, foreign banks tended to operate mainly in foreign currencies and concentrated on trade finance and lending that carried an explicit or implied government guarantee (IMF, 1996m).

93. In the mid-1990s, Vietnam began a process of opening to foreign trade, seeking membership in the WTO and regional trade arrangements. As part of the WTO accession process, Vietnam was expected to negotiate bilateral market access deals with all interested WTO members. At the same time, Vietnam joined the Association of South East Asian Nations (ASEAN) and signed on to the ASEAN Free Trade Area (AFTA) agreement. The AFTA agreement laid out a comprehensive schedule for the elimination of intraregional tariffs and nontariff barriers. The goal of the scheme was to reduce tariffs on all manufactured goods to 0–5 percent by 2003 (originally 2008); as a new member, Vietnam was given a longer transition period, up to 2006.

Policy dialogue and trade conditionality

94. During the evaluation period, Vietnam had two widely-spaced Fund-supported programs that incorporated different approaches to trade liberalization. The 1994 ESAF-supported program included a substantial role for unilateral trade liberalization in the package of structural reforms to transform the economy into a market economy. The 2001 PRGF-supported program included a more modest role for trade liberalization based on Vietnam's PTA commitments. Neither program was completed.

95. The 1994 ESAF-supported program aimed to move away from import substitution by lowering tariff and nontariff barriers. Staff recognized that, to avoid any adverse social or political impact, removing trade restrictions and lowering tariffs would need to go hand-in-hand with reforms of the state enterprise sector. In the first annual arrangement (October 1994) three of the seven structural conditions were in the area of trade liberalization: these were the replacement of tariffs on luxury goods and petroleum products by excise duties and a reduction in the maximum import tariff rate to 60 percent (a performance criterion); elimination of import permits for at least five commodities (a performance criterion); and a reduction in the number of commodities requiring an import shipment license (a structural benchmark) (IMF, 1994c) (Annex Table 11).

96. Two years into the ESAF arrangement, the authorities' enthusiasm for unilateral trade liberalization dimmed, and the program soon went off-track. Entering the second year of the arrangement, the authorities indicated that further trade measures would be considered in October 1996 for discussion during the midterm review in November 1996. By the time of that review, however, the authorities clearly and forcefully made known their reluctance to move ahead immediately with another round of tariff reform, citing concerns over domestic industry and employment. Staff argued that postponing the anticipated reduction in the maximum tariff would send misleading signals to foreign investors, and that once investments had been made and industries established the high tariffs would become increasingly difficult to remove (IMF, 1996m). The authorities emphasized their longer-term plans to reduce and eventually eliminate intra-ASEAN tariffs under AFTA. After the midterm review, structural reforms slowed, agreement could not be reached on a third-year program, and the ESAF-supported arrangement was allowed to lapse in 1997.

97. As Vietnam's economic performance deteriorated during the Asian crisis, the authorities intensified

trade and exchange controls. Output growth slowed markedly and, from early 1998, foreign direct investment flows and exports fell substantially, in part because of Vietnam's extensive trade and investment links with the region but also because of emerging domestic weaknesses, notably the poor performance of the state enterprise sector and stresses in the banking system. As the real effective exchange rate appreciated, the authorities responded by imposing "temporary" import bans on selected products and a foreign exchange surrender requirement. Staff expressed disapproval over the additional import controls, arguing that the Asian crisis instead lent greater urgency to trade liberalization. In the short run, staff argued, converting quotas to tariffs would help offset the potentially substantial revenue shortfall that was expected from lower import duty collections and lower profits and turnover tax receipts. In the medium term, Vietnam risked a lasting loss of export competitiveness if it could not keep pace with other countries in the region—including those most affected by the crisis, such as Thailand, Korea, and Indonesia. These countries, according to staff, were undertaking deep and comprehensive reforms to enhance the flexibility and competitiveness of their economies (IMF, 1998a).

98. Staff continued to press for unilateral trade liberalization but at the same time became more open to alternative approaches. In the 1999 Article IV consultation, they again urged the authorities to eliminate nontariff barriers and phase down tariffs, pointing to Vietnam's ("restrictive") TRI rating of 9 and highlighting the various costs of protection that were manifested in the industrial, agricultural, and services sectors (IMF, 1999f; Winglee, 1999). The authorities reiterated their preference for the more gradual pace of trade liberalization embodied in their AFTA commitments in order to ease the transition for state enterprises (IMF, 1999f). In the 2000 Article IV consultation, staff advanced the argument that since AFTA members were relatively efficient producers of manufactured goods, "liberalization under AFTA rules would strengthen Vietnam's external competitiveness." At the same time, staff argued that because Vietnam's manufacturing and agro-based industries were similar to those of other AFTA members, Vietnam's main export potential was likely to be outside AFTA. Hence, they argued, a bilateral trade agreement with the United States was "essential for a more competitive economy and for eventual WTO accession." Staff also recommended that the elimination of quantitative restrictions "be applied on a multilateral basis" (IMF, 2000c).

99. Fund staff saw the liberalization of trade in financial services as a key to reforming banks. The banking sector was dominated by four large state-owned banks, which had developed a large stock of nonperforming loans—mainly to state enterprises. In an early effort to enhance competition in the banking sector, the 1994 ESAF program had required the authorities to relax the limit on local currency lending by foreign bank branches as a prior action for the midterm review of the second-year program (in November 1996). To address long-standing problems in the state-owned commercial banks (which had worsened during the Asian crisis), staff urged the authorities to consider twinning arrangements with reputable foreign banks and to allow domestic and foreign private investment in the banks. The authorities were not keen on twinning arrangements, but were prepared to consider foreign equity participation in one small regional state-owned bank as a pilot case (IMF, 1999f).

100. In July 2000, after nearly five years of negotiations, Vietnam signed a bilateral trade agreement with the United States (USBTA).[44] The USBTA, which came into effect in December 2001, was a major step toward fully normalizing U.S.-Vietnam commercial relations. It restored reciprocal (temporary) MFN treatment between the two countries and committed Vietnam to undertake a wide range of market-oriented economic reforms such as eliminating a range of nontariff barriers to U.S. exports, significantly cutting tariffs on many U.S. exports, especially agricultural items, and opening Vietnam's market to U.S. financial and other services providers (Thacker, 2001) (Box 5).

101. In March 2001, after prolonged discussions, the Fund approved a PRGF arrangement with a trade agenda that was based on Vietnam's commitments under AFTA and the USBTA. The timing of the program was significant. In a briefing memorandum for the program negotiations, staff noted that Vietnam was still feeling the impact of the Asian crisis and that the political environment for reform was fragile, but they pointed to the conclusion of the USBTA in July 2000 as a positive sign that had resulted in a renewed focus on concluding discussions for the PRGF-supported program.[45] The tariff reforms that were envisaged under the program comprised the AFTA commitment to reduce intra-ASEAN trade tariffs to 5 percent or less (except for some sensi-

[44] Vietnam officially exchanged MFN treatment with the European Union in 1995, and with Japan in 1999.

[45] At the same time, the World Bank launched a program of advisory and technical assistance in various areas of structural reform including trade, banking, and state enterprise reform under its Poverty Reduction and Support Credit.

Box 5. Vietnam: Key Financial Services Provisions in the USBTA

Banking services
- Allow U.S. equity in joint ventures (up to 49 percent stake). After nine years, allow 100 percent U.S.-owned subsidiary banks.
- Allow U.S. equity in privatized Vietnamese banks at the same levels as Vietnamese investors.
- Phase in the right of U.S. banks to accept local currency deposits on the same basis as domestic banks over eight years for business clientele and ten years for retail depositors.

Nonbank financial services
- Allow 100 percent U.S. equity in financial and other leasing services after three years.

Insurance
- Allow U.S. joint ventures in three years and 100 percent U.S. equity in five to six years.

tive products) by 2006, and the reduction of tariffs on agricultural imports from the United States under the USBTA (Annex Table 12). Staff noted that with full implementation of the schedule of quota removal and the elimination of state monopolies on trading, only two items (petroleum products and sugar) would remain subject to quantitative restrictions. Vietnam's TRI rating would fall from 9 to 6 by 2003 (IMF, 2001e). Staff further noted that trade policies relating to petroleum products and sugar had "medium-term macroeconomic implications" but were omitted from the program because staff lacked expertise in those areas (IMF, 2001e). Drawing on World Bank research and their own calculations, staff argued that Vietnam's AFTA and USBTA commitments would enhance trade and investment flows, improve state-enterprise efficiency, and lower domestic costs (IMF, 2001b). The trade component of the program proved to be uncontroversial.

102. The PRGF-supported program ended after the second review (in July 2002) but the Fund continued to support Vietnam's trade liberalization efforts, which focused increasingly on WTO accession. No further mention was made of unilateral trade liberalization except in 2006 when staff noted that the average tariff rate was still high and urged the authorities to "continue to liberalize trade on an MFN basis" (IMF, 2006d). Rather, in successive Article IV consultations, the Fund strongly supported Vietnam's objective of securing WTO accession and urged the authorities to take all necessary steps, including putting in place needed legislation, to meet that goal. When Vietnam acceded to the WTO in January 2007, staff estimated that consumer surplus gains of 1.5–1.7 percent of GDP annually could be expected in the short and medium term and reckoned that dynamic gains arising from higher productivity and more foreign direct investment could be expected over the long run. At the same time (but in less detail), staff identified a number of challenges that could arise from WTO membership including the need to compensate for revenue losses from tariff reduction, the need to expedite reforms in state-dominated sectors and institute appropriate safety nets as the economy adjusted to freer trade, and the potential risks to macroeconomic stability with increasing financial integration (IMF, 2007g; Tumbarello, 2007).

103. Mindful that WTO accession would involve commitments to open the financial sector, IMF staff pressed with greater urgency for bank reform. Staff reiterated calls to speed up the equitization of the large state-owned banks and to provide greater scope for participation by foreign strategic investors (IMF, 2003e, 2004d, 2005d, 2006d). They drew on experiences of other transition countries to assert that opening the banking sector to foreign private investors was key to successful banking reform (Unteroberdoerster, 2003; Aitken, 2004; Unteroberdoerster, 2004). During 2001–06, the then Monetary and Finance Department fielded more than 10 technical assistance missions to Vietnam on state-owned bank restructuring and bank supervision.

Assessment

104. The Fund's coverage of trade liberalization was extensive, extended, and entirely appropriate given Vietnam's highly restrictive starting point. From 1993, when the Fund restored its lending to Vietnam, the policy dialogue with Vietnam focused on removing the remaining impediments to a market-oriented system and developing policies for growth. Trade liberalization was one of the key systemic reforms that were required and it was clear from Vietnam's highly restrictive trade regime in the early 1990s that there was much work to be done. Staff paid close attention to trade policy developments and issues in Vietnam: almost every Article IV consultation from 1996 onward included a background paper on trade policy issues. Staff advice on unilateral trade reform—to target the least transparent and most restrictive elements (e.g., quantitative restrictions and import licensing) first; aim for low and relatively uniform tariffs; and use tariff quotas or

auction licenses to obtain revenue during the transition—was in line with best practice.[46]

105. The Fund and the authorities diverged on the optimal pace of trade liberalization; this helped to derail the 1994 ESAF-supported program. The Fund (and the World Bank) pushed for a relatively speedy phase-out of nontariff barriers and reduction of tariff rates, but the authorities were not ready to remove trade protection so rapidly. In their view, the dismantling of trade barriers should only be completed gradually, in conjunction with improved retraining facilities and a more comprehensive social safety net (Shishido, 1998). In the ex post program review discussion with staff, the authorities argued that "Fund conditionality should have better reflected actual conditions in Vietnam and been more flexible in adjusting to implementation challenges." They regarded the Fund's call for a combination of rapid quota elimination and tariff reduction during the ESAF-supported program as "in conflict with WTO principles and an impediment to their negotiations on multilateral and bilateral trade agreements." In this context they saw it as a driving factor behind the suspension of the arrangement (IMF, 2004d).

106. After the breakdown of the ESAF arrangement, the IMF adjusted its approach to trade liberalization, prompting greater program ownership and compliance. The trade component of Vietnam's 2001 PRGF program differed from that in the 1994 ESAF-supported program (and from those in other case study countries) in that it largely focused on preferential rather than MFN tariff reductions. By the time of the first review of the PRGF program, staff reported that progress had been made in implementing the AFTA agreement. Outside of the AFTA framework, the removal of quantitative restrictions proceeded faster than anticipated. Although the PRGF arrangement was de facto suspended in late 2002 (due to noncompliance with the Fund's safeguards policy), the authorities pushed ahead with quota tariffication and the anticipated trade liberalization measures were realized under the AFTA agreement and other preferential arrangements. In the ex post assessment, staff characterized the progress made in trade liberalization as impressive: "program targets were exceeded; import quantitative restrictions (QRs) were reduced more rapidly than programmed, most export QRs were eliminated, commitments under USBTA and AFTA were implemented as scheduled, and active preparations began for WTO entry" (IMF, 2004e).

107. But staff support of preferential trade liberalization under the AFTA was based on expedience rather than analysis. The staff's main argument—that the AFTA partners were efficient producers of manufactured goods and thus that the promised preferential liberalization was unlikely to result in trade diversion—was not formulated in any rigorous way. In fact, a 2005 SIP (Tumbarello, 2005) noted two important aspects that cast doubt on the staff's assumption about limited trade diversion under AFTA: (i) ASEAN's MFN tariffs were higher than those in other regional groupings; and (ii) intra-AFTA trade was not always carried out at preferential rates because of complicated rules of origin regulations and bureaucratic procedures. The case for preferential liberalization in Vietnam was thus not strongly presented. Rather, it would seem, and staff involved concur, that in 2001, it was the authorities' refusal to reduce MFN tariffs, combined with political pressure to establish an arrangement with Vietnam after the conclusion of the USBTA, that led staff to move ahead opportunistically on the basis of preferential rather than multilateral tariff reduction.

108. Resource constraints prevented staff from covering all potentially important trade policy issues. Staff noted that trade policies for petroleum and sugar may have had medium-term macroeconomic implications but were not addressed in the PRGF-supported program for lack of expertise (IMF, 2001e). There was no further elaboration on what the macroeconomic implications could have been or how they could have come about, and no indication of whether the World Bank or other institution was/would be looking into the issue in the Fund's stead.[47]

109. Notwithstanding the steps taken in the PRGF arrangement, Vietnam's trade system remained highly restrictive. Trade was liberalized compared with the regime in 1996, through the conversion of many (but not all) quantitative restrictions into tariffs, the widening of private sector access to international trade, and the lowering of preferential tariffs within AFTA and other PTAs. Yet Vietnam's rating on the Fund's TRI did not budge from 9. The (unweighted) average tariff rate rose from 16.3 percent at the start of the PRGF-supported program to 18.5 percent by the time of WTO accession.[48] Important nontariff barriers remained: according to the WTO, many products that were subject to state trading were also subject to additional measures such as quantitative restrictions, surcharges and import licensing (WTO, 2006c). Vietnam became a WTO member in January 2007 with

[46] See, for example, Thomas and Nash (1991) and IMF (1999j).

[47] Winglee (1999) provided some background information on Vietnam's sugar policy, and Peiris (2003) noted that the sugar sector was experiencing financial distress with state enterprises accumulating large debts, but neither paper was referred to when the statement was made.

[48] Part of this was due to the tariffication of quantitative restrictions.

an agreement, inter alia, to lower binding tariff rates over a twelve-year transitional period.

110. The Fund's advice to open the banking sector to foreign participation emphasized only the benefits of that strategy. According to staff, cross-country experience showed that foreign ownership by a reputable bank was associated with greater performance improvement because foreign owners had more expertise and tended to be bound by regulations in their home country to make more prudent lending decisions (IMF, 2004d; Aitken, 2004). Staff highlighted the cases of Hungary, Mexico, Pakistan, and Poland, where foreign ownership was seen to have played a key role in improving bank performance (Aitken, 2004). Vietnam's banking reform situation was likened to that of China's, and even China, staff pointed out, was giving thought to privatizing a large state-owned bank by seeking a strategic foreign equity partner (Unteroberdoerster, 2004). The staff's position represented well the potential positive effects, but did not convey the balance of risks laid out, for example in Mathieson and Schinasi (2000) and more recent research (Moreno and Villar, 2005; Cull and Martínez Peria, 2007). In interviews for this evaluation, staff indicated that the authorities' cautious approach reflected their full understanding of the potential risks involved in opening the banking system, and thus no further caveats were warranted.

111. Vietnam eventually went along with the Fund's (and World Bank's) advice to liberalize trade in financial services though at least with the benefit of hindsight it is not clear that the authorities were properly prepared. The authorities initially insisted on retaining full ownership and control of the state-owned commercial banks and not relying on any outside agents of change, such as strategic foreign investors (Unteroberdoerster, 2004). Their position evolved, however, as they came to recognize that competition would intensify in response to the market-opening measures under the terms of the USBTA and, subsequently, WTO accession. In 2003, under a World Bank-sponsored project, two of Vietnam's four large state-owned banks entered into twinning agreements with foreign banks; one more state-owned bank followed suit in 2005.[49] In September 2007, a long-awaited equitization plan for Vietcombank (one of the four large state-owned banks) was approved with up to 20 percent to be allocated initially to foreign strategic investors (IMF, 2007g). The liberalization of foreign entry into the banking sector in 2007 and anticipation of intensified competition brought a flood of domestic and foreign applications for banking licenses. Concerned about the possible impact on banking soundness, the central bank tightened the criteria for granting new domestic licenses in August 2008. In the 2008 Article IV consultation, staff reported "significant shortcomings in financial transparency and banking supervision" and "gaps in the Vietnamese accounting standards with regard to valuation of financial instruments and fixed assets." Staff again warned about the risks to asset quality of Vietnamese banks (IMF, 2009).

[49] "Twinning to reform," *Far Eastern Economic Review*, September 25, 2003; "ING wins second advisory mandate in Vietnam," *The Asian Banker*, October 15, 2005.

H. Bangladesh

Background

112. Bangladesh's trade regime in the mid-1990s was restrictive, complex, and nontransparent. A wide range of trade reforms had been implemented beginning in 1990, including the relaxation of numerous quantitative restrictions and a reduction in the level and dispersion of tariffs. But by the mid-1990s, the pace of trade liberalization had practically halted, as the authorities began to feel that they might have been "too hasty" and, as a result, caused "undue damage" to some industrial sectors (IMF, 1997c). Quantitative restrictions (including outright bans) still applied to more than 100 items and tariffs were still relatively high and dispersed: there were seven tariff rates ranging from zero to 50 percent. Imports with values above a relatively low threshold were subject to a license fee of 2.5 percent on top of the applicable tariffs. Several of the trade restrictions were maintained under GATT Article XVIII and Bangladesh was required to consult with the WTO Committee on Balance of Payments Restrictions (CBR) every other year. Export restrictions (including outright bans) existed for about 20 product categories, some of them—such as flour products and wet blue leather—in order to ensure the supply of the domestic market. Garment exports were subject to Multi-Fiber Arrangement (MFA) quotas, which were set to expire on January 1, 2005, under the terms of WTO's Agreement on Textiles and Clothing (ATC) (IMF, 1996e).

113. Bangladesh's commitments under the Uruguay Round were minimal. Bangladesh agreed to bind only 0.7 percent of all six-digit Harmonized System tariff lines for industrial products—there were no bound tariffs prior to the Round—and almost all tariff bindings were set well above applied rates. Almost all agricultural tariffs had a ceiling binding of 200 percent plus other duties and charges. Most of the bindings came into effect on January 1, 1996. On trade in services, Bangladesh's specific commitment was limited to allowing foreign direct investment in the five-star hotel and lodging service subsector and the employment (in connection with this investment)

of foreigners in higher management and specialized jobs (Ibrahim, 1996).

Policy dialogue and trade conditionality

114. Trade liberalization has a long and highly controversial history in Bangladesh. Against a background of a very restrictive trade system, import substitution, and high dependence on trade taxes, the IMF and World Bank have continuously advocated liberalization. Equally, there has been determined opposition to liberalization from business interests and politicians. Over the evaluation period, the Fund was involved from a surveillance-only perspective during 1996–2002 and in the context of a PRGF arrangement approved in 2003.

115. During the surveillance period (1996–2002), the Fund emphasized that Bangladesh's growth prospects hinged on removal of the anti-export bias of the trade system (Box 6).[50] The policy advice was to reduce the restrictiveness of the system in stages, focusing on substituting tariffs for quantitative restrictions, reducing the level and dispersion of tariff rates, phasing out export subsidies, and streamlining customs procedures. Trade issues were covered quite regularly in background papers for the Article IV consultations, mainly descriptively (Lee, 1998; Dalsgaard, 2000) but sometimes analytically (Ibrahim, 1996). The authorities were loath to liberalize unilaterally as they did not consider the trade system to be restrictive compared with those of other South Asian economies. Staff responded that even if Bangladesh's trade system was broadly in line with those of neighboring countries, it was still restrictive relative to those of faster-growing economies such as Indonesia, Korea, Malaysia, and Thailand, and that cross-country experience showed that import-substituting protectionist policies tended to be associated with an overvalued exchange rate and an anti-export bias (IMF, 1997c, 1999m). Staff also noted that Bangladesh's exports were too narrowly based (with a concentration in textiles and clothing) and

[50] In 1999/2000, Fund staff reported that Bangladesh had a TRI score of 6 ("moderately restrictive"), down from 7 during 1995/96–1998/99 (Dalsgaard, 2000). In 2001, the TRI score was revised upward to 8 ("restrictive") (IMF, 2002b).

Box 6. Bangladesh: IMF Advice on Trade Policy in the Context of Surveillance (1996–2002)

1995/96 Article IV consultation (IMF, 1996b)

- Eliminate the remaining trade-related quantitative restrictions (mainly in the textile sector).
- Announce an ambitious timetable for further reduction in the level and dispersion of tariffs, including a reduction in the maximum tariff rate to 30 percent in 1996/97 with further reductions thereafter, a reduction in the number of tariff bands, and a move away from the system of official assessment of tariff values.
- Disavow import controls and exchange restrictions—even temporary—to protect the balance of payments.

1997 Article IV consultation (IMF, 1997c)

- Formulate a clear and ambitious program of medium-term trade liberalization, including the removal of remaining quantitative restrictions and a reduction in the level and dispersion of tariffs.
- Find ways to prevent the misuse, and enhance the effectiveness, of the pre-shipment inspection so as to help streamline customs procedures.

1998 Article IV consultation (IMF, 1998f)

- Adopt a program of action, including removal of the remaining quantitative restrictions early in the reform process and a phased reduction in the level and dispersion of tariffs aimed at reducing the number of tariff bands to four, and at bringing the current maximum and average tariff rates to about 25 percent and 15 percent, respectively, over a four-year period.
- Take measures to reduce corruption in the customs administration such as publishing a single tariff book, speedy clearance of imports, strengthening of post audits, and setting up a special customs surveillance unit.

1999 Article IV consultation (IMF, 1999m)

- Design and announce a medium-term trade reform strategy including plans for tariff reduction and compression, tariffication of quantitative restrictions, and phasing out of export subsidies.
- Make the preshipment inspection system fully operational.

2001 Article IV consultation (IMF, 2002b)

- Develop a plan for moving expeditiously toward a more simplified tariff structure, with a much lower average import tariff and minimal reliance on nontariff barriers.

were overly dependent on preferential access to the European Union (IMF, 1997c, 2002b).

116. The World Bank was also involved in trade issues in Bangladesh during the period and provided substantial support to the government**.** In 1999, the Bank launched an export diversification technical assistance project aimed, inter alia, at building analytical capacity within the Tariff Commission and at modernizing and automating the customs administration. During 1998–99, FAD also fielded technical assistance missions on revenue reform and tax/customs administration. To address the criticism that trade reforms had moved too fast during the early 1990s, the Bank published a detailed study of the pace and impact of trade liberalization in Bangladesh based on an analysis of formal and informal trade patterns and survey data collected from a large sample of domestic firms (World Bank, 1999). This found that the pace of Bangladesh's trade liberalization was comparable to that of many Asian and Latin American countries, and that trade liberalization had positively affected the manufacturing sector. However, it noted that there still remained a considerable anti-export bias in the economy, and that the ideal trade liberalization agenda was far from complete. The study was discussed at a high-level seminar in Dhaka in September 1999.

117. In June 2003, a PRGF arrangement was approved at the same time as a World Bank Development Support Credit (DSC). It was agreed that the Bank would take the lead in trade reform, while the Fund would focus on providing fiscal advice to create room for further trade liberalization. In contrast to the advice they had given during previous Article IV consultations, Fund staff recommended a "cautious approach to trade reform" in the program and made it clear that the heavy dependence on trade taxes (about 37 percent of revenue) and the need to develop alternative sources of revenue necessitated a "moderate pace" of tariff reduction (IMF, 2003b). Within the PRGF-supported program and the DSC, therefore, the extent of planned trade liberalization was directly tied to prospects for revenue mobilization. During the three-year program period—beyond compensating for tariff-related losses—the program targeted an increase of 1.5 percentage points in the revenue-to-GDP ratio.

118. In line with the division of responsibilities agreed with the World Bank, the PRGF-supported program included very little trade conditionality. Nevertheless, the envisaged trade reforms (which were closely coordinated with the DSC) were included in the memorandum of economic and financial policies and could thus be considered an integral part of the program the IMF was supporting. The trade reforms in the first year of the program involved a rationalization of the tariff structure to a four-tier system with a maximum rate of 30 percent. The number of items subject to quantitative restrictions was almost halved and confined to products that were covered by WTO waivers.[51] It was thought that the reforms would reduce Bangladesh's TRI rating from 8 to 7. With advice from the World Bank (in consultation with the IMF mission and an FAD technical assistance mission on tax and customs administration), the authorities introduced further tariff reforms before the second program review (in July 2004) (Annex Table 13).

119. In July 2004, the PRGF arrangement was augmented through the Fund's newly created TIM. The expiration of MFA textile quotas by January 2005 was expected to lead to a decline in foreign exchange earnings as Bangladesh's exports of ready-made garments met increased competition from countries such as India and China. Bangladesh was the first recipient of funding from the TIM, which the Fund created in April 2004 to help member countries meet balance of payments shortfalls that could result from multilateral trade liberalization such as the elimination of quotas under the ATC. To justify the use of the TIM, staff estimated the magnitude of the anticipated shock, concluding that Bangladesh would likely face significant pressures on the balance of payments, output and employment, though there were scenarios under which Bangladesh would likely be able to hold its market share (IMF, 2004b). The Fund team drew on an in-house study (Mlachila and Yang, 2004) which used the Global Trade Analysis Project (GTAP) model to simulate the effects of the quota phase-out.

120. Banking sector reform was a major structural component of the PRGF-supported program but liberalization of trade in financial services was not the focus. According to Abdelati (2007), foreign banks have been generally welcomed in Bangladesh since the 1990s.[52] However, Bangladesh was not considered an attractive market for foreign banks; a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in 2003 characterized the banking sector as having "one of the highest levels of corruption in the world" (IMF, 2003c). Foreign banks in Bangladesh held a small market share (less

[51] Four items (eggs, chicks, salt, and carton packaging/paper bags) remained subject to quantitative restrictions for balance of payments reasons. In a November 2004 meeting (at which the Fund was represented), the WTO CBR granted Bangladesh until 2007 to submit a timetable for removal of the remaining restrictions (WTO, 2004).

[52] According to WTO (2006a), foreign banks are allowed to open branches (with permission from the central bank); there is no minimum domestic equity requirement; they are free to take deposits from and grant loans to domestic companies and residents and are generally allowed to conduct the same business as local banks; and they have full access to credit from the central bank, local financial markets, deposit insurance, and clearing facilities.

than 5 percent of banking system assets in 2004) and concentrated principally in trade finance (Berezin, 2005; WTO, 2006a). The banking system was dominated by four state-owned ("nationalized") commercial banks that were poorly managed, subjected to directed lending and continued political interference, and basically insolvent. The PRGF-supported program included steps to develop detailed resolution strategies for each state-owned bank (a structural performance criterion) with the eventual goal of their partial or complete privatization.[53] In the second review of the PRGF-supported program (July 2004), the authorities agreed to allow qualified foreign investors to own shares in a privatized bank in excess of the statutory ceiling of 10 percent, on a case-by-case basis (IMF, 2004b).

Assessment

121. The IMF's trade policy advice to Bangladesh during the 1996–2002 surveillance period was in line with the prevailing wisdom. Advice on unilateral trade reform followed the best-practice recommendations of targeting quantitative restrictions as a first priority and aiming for low and relatively uniform tariffs. Staff identified potential weak points (e.g., the concentration of exports, the dependence on preferential access to foreign markets, and the low tax effort) early on and urged the authorities to address them through trade liberalization, export diversification, and tax and customs administration reforms. Staff at times had difficulty obtaining a clear picture of whether and how the restrictiveness of the trade regime had evolved prior to the PRGF-supported program (various staff reports put the TRI at 7, 6, and 8 during 1996–2002, while PDR data had the rating at 8 through the period), but their efforts were backstopped by solid analytical and empirical work from the World Bank.

122. At the operational level, Fund-Bank cooperation during the 2003 PRGF-supported program was highly effective. The conditionality of the PRGF-supported program was closely coordinated with that of the DSC. The division of labor was appropriately clear—the Bank took the lead in trade reform, while the Fund focused on fiscal revenue mobilization—and there was no perceived conflict between the objectives of the two institutions. At both the local level and at headquarters, IMF and World Bank staff reported that cooperation on trade issues in Bangladesh was close and mutually supportive.

123. Substantively, however, tensions between trade reform and revenue mobilization and restructuring came to the fore. By the second program review (July 2004), the tariff structure had been streamlined to three rates, with a top rate of 25 percent, with accompanying reductions in the level and dispersion of supplementary duties and in the number of products subject to quantitative restrictions (IMF, 2004b). According to PDR, Bangladesh's TRI dropped from 7 in 2003 to 6 by the end of the PRGF program.[54] The 2006 WTO trade policy review reported "[s]ignificant progress" in shortening the list of items subject to quantitative restrictions (WTO, 2006a). In its most recent WTO CBR consultation (May 2007), at which the Fund was represented, Bangladesh committed to remove its remaining three import restrictions maintained for balance of payments reasons (quantitative restrictions on salt, chicks, and eggs) by December 2008 (WTO, 2007). On the fiscal revenue side, however, staff regarded the overall increase in the revenue-to-GDP ratio over the PRGF-supported program period—less than half a percentage point—as disappointing. This poor showing was attributed to deficiencies in overall tax design and a slower-than-anticipated pace of administrative reforms—including customs administration improvements to limit revenue losses associated with trade liberalization—that reflected institutional rigidities. In the 2007 Article IV consultation, staff noted that Bangladesh's revenue collection was still "among the lowest in the world" and insufficient to support desired further reductions in tariffs and supplementary duties (IMF, 2007e).

124. The IMF's work on preference erosion in connection with the use of the TIM, though it did not fully assuage fears of a painful post-MFA adjustment, was well done. This episode gave an opportunity to increase understanding of the impact of global trade policy developments. Mlachila and Yang's (2004) results were widely cited in the local and international press.[55] The augmentation of the PRGF under the TIM in July 2004 also received media coverage.[56] Yet shortly after the TIM was approved, in October 2004 Bangladesh joined six other develop-

[53] The reform strategy drew on the recommendations of the FSAP mission, with technical assistance and funding from the World Bank's Enterprise Growth and Bank Modernization Project.

[54] On the World Bank's trade restrictiveness index, Bangladesh ranks 113 out of 125 countries (Davies and Dunn, 2008).

[55] "Bangladesh faces shock when textile quotas end—IMF," *Reuters*, July 15, 2004; "IMF warns of impact on Bangladesh of quota removal," *Global Insight*, July 16, 2004; "Post-MFA tidings for Bangladesh," *Financial Express*, July 19, 2004; "Social upheaval feared when end of import quotas hits Bangladesh," *Financial Times*, July 24, 2004; "The looming revolution," *The Economist*, November 21, 2004; "Fear surrounds end to textile quotas," *South China Morning Post*, December 14, 2004; "The end is nigh," *Economist Intelligence Unit*, December 23, 2004.

[56] "IMF approves $72 million loan disbursement to Bangladesh," *Dow Jones*, July 29, 2004; "IMF approves $72 mln payment to Bangladesh," *Reuters*, July 29, 2004; "World Bank, IMF only ready for case-by-case help to poor textile exporters," *Agence France Presse*, October 22, 2004.

ing countries in an appeal to the WTO. The group of countries sought—unsuccessfully—to delay the ATC deadline until the WTO Secretariat had studied the (country-level) adjustment-related issues and costs resulting from the expiration of MFA quotas and had identified trade-related solutions and adjustment measures that would mitigate the impact of the quota phase-out (WTO, 2005).[57]

125. Although the TIM was well received, it did not contribute substantively to adjustment in Bangladesh's textile and clothing sector. The TIM involved no conditionality beyond that already contained in the PRGF arrangement nor did it include adjustment measures specifically linked to the external trade liberalization shock. In the event, the immediate impact of the ATC quota expiration was minimal and Bangladesh's garment exports grew in the subsequent period. This growth was partly due to the imposition of safeguard quotas on China through 2008 by the United States and the European Union, which provided some temporary breathing space for Bangladesh's garment sector (Moers, 2005; Dunn, 2007). In addition, Bangladesh still benefits from preferential access to its major export markets for garments under the EU's Everything But Arms Initiative, the U.S. Generalized System of Preferences, and the Canadian Market Access Initiative (Dunn, 2007). The evidence to date indicates that Bangladesh has not fully adjusted to the post-MFA world: its exports are still highly concentrated in the garment sector, and longstanding barriers to competitiveness (e.g., generally inadequate infrastructure—especially port infrastructure, low labor skills, and an unattractive business climate) remain unresolved (Dunn, 2007; Davies and Dunn, 2008).

I. Overall Evaluation

126. During 1996-2007, the IMF's involvement in trade policy issues in the seven countries examined went through the full swing of the pendulum. From 1996 until approximately 2001, the Fund was actively involved in a rather wide range of trade policy issues. By far the greatest involvement was in tariff and quota policy and customs administration, but involvement also occurred episodically in subsidies, PTAs, trade in financial services, and state trading monopolies for traded goods. After 2001, the IMF shifted to a generally hands-off mode, at times skirting even trade policy issues with macroeconomic relevance. Fund-supported programs in low-income countries have been increasingly less likely to contain trade-related components. Even in the surveillance of low-income countries for which trade policies are relevant, if not critical, for growth and/or resilience to shocks, missions have been less willing to address trade policy issues. Part of the reason for this change lies in the Fund's streamlining of conditionality and a perception that trade policy is generally not critical to macroeconomic objectives. For low-income countries, particularly in Africa, the introduction of the criterion that the Fund's structural conditions must be macro-critical—exemplified by the softening of the Fund's stance with regard to Mozambique's sugar sector protection in 2000—marked a welcome change in the Fund's approach to trade liberalization, which had frequently gone beyond the IMF's primary areas of interest.

127. In general, the IMF's positions on trade policy reflected a rather broad consensus in the academic and public policy literature on the merits of liberal trade regimes. Indeed, governments for the most part were interested in changing their trade policies broadly in the direction advocated by the IMF, though important differences arose on the pace of change. IMF advice and conditionality tended to press hard for a rapid pace of reform, at times in consonance with governments' preferences, but at other times zooming in on issues even of questionable macroeconomic relevance and pressing countries to unilaterally liberalize faster than their intrinsic commitment supported. Some of these differences arose because governments wished to continue to protect some sectors or industries, others because governments were concerned about fiscal or adjustment costs of rapid change.

128. In many of the cases, staff underestimated the effects of trade liberalization on fiscal revenue. Country authorities often cited revenue concerns as a reason for slowing the pace of tariff reduction. Staff, however, tended to push for speedier trade liberalization in conjunction with tax reforms (such as the introduction of a VAT and a rationalization of tax and tariff exemptions), and for improvements in customs administration to compensate for anticipated revenue losses. In most cases, FAD provided extensive technical assistance in these areas. However, tax and tariff exemptions proved difficult to remove, usually because they were perceived to be important for attracting and retaining foreign investment, and customs administration reforms were lengthy processes that took time to bear fruit, if they ever did. According to Baunsgaard and Keen (2005), low-income countries in general have recovered, at best, no more than about 30 cents of each dollar of trade tax revenue lost from trade liberalization; IMF (2005b) came to a similar pessimistic conclusion.

[57] Earlier in 2004, Bangladesh was one of the first Asian countries to sign the so-called Istanbul declaration seeking a two-year extension of the ATC deadline. The October 2004 appeal to the WTO was opposed by larger exporters such as China, India, and Brazil.

129. Interagency cooperation was not always present on trade policy issues but worked reasonably well when it was. The World Bank was active in all seven case study countries but was not always involved in trade reforms. The Bank took the lead in trade reform in some cases, and worked jointly on trade reform with the Fund team in others. In general, Bank-Fund cooperation worked well when the work was clearly delineated and both teams were in close and constant contact. This was the case in Bangladesh, for example. Of course, the success of such cooperation is also rather dependent on personalities and compatible priorities. When Fund and Bank staff diverged on a particular trade policy issue (such as sugar sector protection in Mozambique), the IMF had either to get involved substantively, so that it was in a position to defend its position to critics, or drop the issue altogether. IMF-WTO cooperation was episodic and generally low-key. The Fund staff's trade policy advice was usually in line with observations in the WTO's trade policy reviews, although for low-income countries, these reviews were not frequent. Where cases of alleged dumping arose, Fund staff appropriately discouraged the use of ad hoc trade measures and pointed the country authorities to the WTO; in doing so, however, staff should have been more careful to understand whether or not low-income countries could follow antidumping procedures that were consistent with WTO rules.

130. The effectiveness of the IMF's involvement in trade policy issues during the first part of the evaluation period was mixed and seems to have depended on several key factors. Typically, favorable outcomes (that is, outcomes where IMF support and analysis seem to have contributed to changes in trade policy that are likely to have increased economic efficiency and growth, or to have better positioned countries to offset the revenue impact of trade liberalization) occurred when the IMF worked closely with the World Bank or itself became substantively invested in the analysis of a specific issue, almost regardless of its nature. Usually, these outcomes occurred when the government was interested in, or at least not inherently resistant to, trade liberalization. Poor outcomes (that is, outcomes where no policy changes occurred, or where changes occurred but were later reversed, or where IMF advice or conditionality prompted serious and high profile objections) usually arose when the IMF's advocacy and pressure exceeded the government's intrinsic commitment to liberalization or when advocacy went beyond the depth of the underlying analytical work and the IMF found itself unable to defend a position on which it had taken a very strong stand.

131. The IMF's general withdrawal from trade policy issues since the early 2000s may have led to its missing, or only belatedly recognizing, some important issues with clear macro relevance. In almost all of the case study countries, a significant trade policy development has been a shift toward PTAs. In some cases, PTAs added complexities to individual members' trade regimes, such as the introduction of supplementary/suspended duties or high common external tariff rates on certain items. Yet membership in a (potential) customs union basically took trade liberalization, especially tariff reform, off the table in IMF programs and also, to some extent, in surveillance discussions with the Fund. Fund staff were noticeably reluctant to be drawn into PTA issues. In some sense this was understandable, as PTAs tend to be driven by political, as well as economic, motives, and staff were unwilling to get involved in bilateral/regional relations. Also, the IMF Board had sent quite mixed signals on what it expected the staff's involvement in PTA issues to be. But staff were also slow to analyze the macroeconomic impact of preferential arrangements, or to form views on the extent to which such arrangements could hinder or facilitate the process of trade liberalization in an individual country. For example, formal EPA negotiations between the European Union and African countries began in 2003–04 but Fund missions only started to analyze their impact in the four African case study countries in 2008, if at all. (It is true, however, that the negotiations were, and still are, evolving, and that some of the countries were receiving advice and technical assistance on the negotiations from other sources under the IF.) Only in one of the case studies (Vietnam) did bilateral and regional trade liberalization form a component of a Fund-supported program; even in this case, staff made no attempt to systematically assess the macroeconomic implications of the PTAs that were incorporated in the program.

132. Some of the IMF's strongest work on trade came in connection with the erosion of trade preferences. Analyzing the macroeconomic impact of trade preference erosion on the most vulnerable low-income countries was a task that staff were well equipped to handle and an area where the IMF could make a unique and constructive contribution to international trade policy discussions. The individual country analyses were carefully done and important for macroeconomic policy and planning: they helped to reassure countries when domestic macroeconomic effects were not projected to be large and to spur the authorities to formulate plans for action when they were. The analyses were also important from a systemic point of view, as they pointed to how broad trends in the advanced countries' trade policies affected smaller players on the global stage.

133. Accurate, timely, and sufficiently informative trade policy indicators are prerequisites for any meaningful involvement by the IMF in trade policy issues. The Fund's TRI had little operational

usefulness. Staff were instructed to incorporate the TRI in all medium-term programs starting in early 1998 (IMF, 1998b) but they had little idea as to what would have been a reasonable change in the index to target over the course of a given program. As a result, projected reductions in TRI ratings were not meaningful and were rarely realized. Compounding the problem in low-income countries was the difficulty in obtaining reliable and up-to-date information on trade policy changes. While other agencies have made great strides over the past several years in compiling cross-country data on trade barriers and trade preferences, large information gaps remain, especially in low-income countries that will be costly to fill. Discontinuing the use of the TRI was right in light of its many shortcomings, but one or more well-grounded summary measures of trade policy would have been useful both for staff (to obtain a clearer idea of the extent of a country's trade restrictiveness or trade distortions relative to other countries, as a basis for dialogue) and for the IMF at large (to be seen to be involved in trade policy issues in an even-handed way).

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Annex. Case Study Countries: Key Trade Measures in IMF-Supported Programs

Annex Table 1. Tanzania: Key Trade Measures in the 1996 ESAF-Supported Program

Tariffs	Export Taxes/ Restrictions	State Trading Monopolies	Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, October 25, 1996 (IMF, 1996j)				
*Harmonize import taxes between the mainland of Tanzania and Zanzibar by end-December 1996. [Structural benchmark]** Reduce the maximum tariff from 40 percent to at most 30 percent by July 1997.	Complete by March 1997 a study of possible new tax measures (directed mainly at the agriculture and mining sectors) to replace the temporary tax on traditional exports introduced in the 1996/97 budget under the CBI initiative.	*Announce that all companies, including the Tanzania Petroleum Development Corporation, will be able to import refined petroleum products. [Prior action]**	*Extend the jurisdiction of the Tanzania Revenue Authority (TRA), including the operations of the preshipment inspection companies, to include Zanzibar. [Prior action]** *Close all owner-operated bonded warehouses except those used for the storage of petroleum, motor vehicles, and production inputs. [Prior action]** *Complete an audit of the bonded warehouses by end-December 1996. [Structural benchmark]** *Establish a monitoring system for bonded warehouses by end-December 1996 prior to computerization of the system in end-March 1997. [Structural benchmark]**	
Memorandum of Economic and Financial Policies, November 19, 1997 (IMF, 1997e)				
Further simplify the tariff structure with a maximum rate of 25 percent at the beginning of 1998/99, following a review of the tariff system to be undertaken with technical assistance. Prepare for the introduction of parallel VAT systems in Zanzibar and mainland Tanzania.		*Fully decontrol petroleum product pricing and importation by June 1998. [Structural benchmark]***	Introduce a new preshipment inspection contract, including provision for the sealing of containers, with effect from January 1998. Implement an action plan for strengthening the Customs Department in light of the comprehensive review of procedures, including as key steps establishing targets for clearance times, implementing the Automated System for Customs Data (ASYCUDA) at the Dar es Salaam port, and producing timely and accurate trade statistics.	
Memorandum of Economic and Financial Policies, January 19, 1999 (IMF, 1999a)				
*Obtain government approval for reform of the import duty and exemptions regime by March 1999. [Structural benchmark]** *Adopt a reform of the tax system, including changes in import duties and exemptions by June 1999. [Structural benchmark]** *Revise duty rates in the 1999/2000 budget in line with Tanzania's undertakings under the CBI. [Condition for completion of mid-term review]**		*Remove controls on petroleum product prices by February 1999*; pending removal of controls, increase price ceilings in line with any increase in import costs when it occurs and refrain from any reduction in price ceilings. [Structural benchmark]^*	*Introduce preshipment inspection for private sector imports to Zanzibar by January 1999. [Structural benchmark]^*	Review the structure and level of tax incentives, such as the differential treatment of investments depending on whether or not they are approved by the Tanzania Investment Centre, as well as the tax treatment of NGOs and the public sector.

Annex Table 1 *(concluded)*

Tariffs	Export Taxes/ Restrictions	State Trading Monopolies	Customs Administration	Trade-Related Subsidies/ Exemptions
Memorandum of Economic and Financial Policies, July 13, 1999 (IMF, 1999h)				
Keep import duty and VAT rates under review, in consultation with the governments of neighboring countries, with a view to achieving greater harmonization. Phase out over time suspended duties on some of Tanzania's imports from its partners in COMESA. Phase out over time the temporary sugar regime including suspended duties on sugar imports from other countries and the assumed dutiable value that is higher than the world price.			Apply the standard preshipment inspection fee to imports coming in through Zanzibar, in view of the latter's failure to extend preshipment inspection to private sector imports. Study the merits of introducing mechanisms for improving coordination of exemption control among the departments of the TRA and of introducing a refund system under which duties are payable upon importation, but refundable to exempt parties.	Establish a new duty drawback system within three months of provision of IMF technical assistance. Begin pro forma recording of customs duties and VAT liabilities of the public sector by July 1999, in preparation for the elimination of the exemption of such imports in future. Review statutory exemptions from customs duty payment. Amend the Import Duty Act to centralize in the Income Tax Department of the TRA the certification of the status of NGOs eligible for exemptions.

Italics denote prior actions, performance criteria, and structural benchmarks.
* indicates commitment was met.
** indicates commitment was delayed or modified subsequently.
^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 2. Tanzania: Key Trade Measures in the 2000 PRGF-Supported Program

Tariffs	Export Taxes/ Restrictions	State Trading Monopolies	Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, March 9, 2000 (IMF, 2000a)				
Eliminate the suspended duty on sugar by July 1, 2002. Review the tariff structure and correct anomalies in the classification of goods in the intermediate bands in the 2000/01 budget. Subject to the performance of domestic revenue sources and progress of negotiations within the frameworks of agreements with regional trading partners (particularly in SADC and EAC), carry out further reductions in the top rate over the 3-year program period.	Consider establishing an antidumping law.	Eliminate the sole remaining export duty (on scrap metal) by July 1, 2000.	*Base minimum dutiable values on international prices (except sugar) by July 2000. [Structural benchmark]** Refrain from imposing minimum dutiable values on any other commodities. Review the existing list on a quarterly basis, with the aim of phasing them out. Eliminate the remissions recently provided on 25 commodities when used as intermediate goods rather than for final consumption by assigning the goods to single rates by the 2001/02 budget.	*Establish a new duty drawback system by March 2000. [Structural benchmark]**
Memorandum of Economic and Financial Policies, July 18, 2000 (IMF, 2000e)				
Under the 2000/01 Finance Bill, unify the rates for a number of the 25 commodities that had been given split rates last year. Unify the rates for the remaining items in the 2001/02 budget. Refrain from adding new items to the existing list.	Request technical assistance from the WTO to introduce a law on antidumping and countervailing measures that is WTO-consistent.		Fully implement the WTO's import valuation methodology by January 2001.	

Annex Table 2 *(concluded)*

Tariffs	Export Taxes/ Restrictions	State Trading Monopolies	Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, February 24, 2001 (IMF, 2001a)				
*Harmonize the split import duty rates for all goods by July 1, 2001. [Structural benchmark]**	Have legislation on dumping, subsidies, and countervailing measures in place by June 2002, with assistance from the WTO.		Revise the contract under which TRA receives preshipment inspection services to reflect a new role of preshipment inspection, particularly in training and developing, maintaining, and making available price databases to TRA.	*Eliminate all remaining tax exemptions for the government (except those constituting contractual obligations) by July 1, 2001. [Structural benchmark]***
Review the tariff structure further in the 2001/02 budget with the aim of reducing the number of nonzero bands from the current four to three, and to rationalize the rates on inputs by, inter alia, eliminating all the remaining split rates.				
Continue to reform the system of trade protection, including through a further reduction of external tariffs in line with regional initiatives under the SADC and the EAC. Begin implementing the tariff reduction schedule agreed within SADC from July 2001.				
Memorandum of Economic and Financial Policies, August 31, 2001 (IMF, 2001d)				
Start implementing a program of tariff reduction in the context of the SADC whereby import tariffs on 11 percent of total trade with the member countries will be eliminated effective November 2001.				
Gradually reduce the top import tariff rate beginning with next year's budget, in harmony with regional partners.				
Keep under review the justification for suspended duties on sensitive import items.				
Memorandum of Economic and Financial Policies, March 29, 2002 (IMF, 2002a)				
Gradually eliminate the suspended duties (import surcharges) imposed in the budget for 2001/02 on 13 product groups, starting with a significant step in the budget for 2002/03.				
*Announce a timetable for the elimination of the remaining suspended duties by July 2002. [Performance criterion]**				
Reduce the top tariff rate from its current level of 25 percent in the framework of the EAC trade protocol expected to be concluded by end-2002.				

Italics denote prior actions, performance criteria, and structural benchmarks.
* indicates commitment was met.
** indicates commitment was met with a delay or subsequently modified.
^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 3. Kenya: Key Trade Measures in the 1996 ESAF-Supported Program

Tariffs	Nontariff Barriers	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, April 12, 1996 (IMF, 1996f)		
Further rationalize the import tax structure, with the objective of achieving a maximum tariff rate of 30 percent, and no more than 4 rates (including zero as one of the rates) by July 1997. Eliminate the discriminatory elements of the supplementary levy on sugar by December 1996. Abolish the specific duties on cereal imports by end-1996. Eliminate the suspended duty on petroleum imports that was introduced in November 1994 to provide temporary protection to the refinery, by October 1996, contingent on the completion of the liquefied petroleum gas import unloading pipeline.	*Abstain from reimposition of direct controls on prices, marketing, and foreign trade (throughout 1996). [Performance criterion]** Establish an appropriate antidumping mechanism with technical assistance from the WTO, to be presented to parliament by end-1996.	Stop granting discretionary import duty exemptions from February 1, 1996.

Italics denote prior actions, performance criteria, and structural benchmarks.
* indicates commitment was met.
** indicates commitment was met with a delay or subsequently modified.
^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 4. Kenya: Key Trade Measures in the 2000 ESAF-Supported Program

Tariffs	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, July 12, 2000 (IMF, 2000d)	
*Complete the development of a tariff reform program by March 31, 2001, with a view to implementing it under the 2001/02 (July–June) budget. [Performance criterion]**	*Prepare by March 31, 2001 a plan for the elimination of major import exemptions awarded to the public sector, with a view to implementing the plan under the 2001/02 budget. [Structural benchmark]^^*

Italics denote prior actions, performance criteria, and structural benchmarks.
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** indicates commitment was met with a delay or subsequently modified.
^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 5. Mozambique: Key Trade Measures in the 1996 ESAF-Supported Program

Tariffs	Export Taxes/Restrictions	Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, May 30, 1996 (IMF, 1996g)			
Simplify the current tariff structure by reducing the number of rates and their maximum levels by mid-1996.	Gradually eliminate the tax and avoid any quantitative restrictions on exports of unprocessed cashew nuts.	*Sign a contract for the private management of customs by end-June 1996. [Performance criterion]**	*Complete the study of the legislation on tariff exemptions and take measures to substantially curtail them. [Prior action]**
		Combine preshipment inspection with the full reconciliation of duties due and paid to help the strict enforcement of customs laws, starting in March 1996.	
		Further streamline the licensing of exports, ensuring that its use for statistical purposes does not entail an unnecessary burden on exporters.	
		Make efforts to redirect illegal exports of gold and precious stones through normal commercial channels by increasing border control.	
Memorandum of Economic and Financial Policies, June 9, 1997 (IMF, 1997b)			
		*Introduce a standard customs form for clearance of exempted goods by end-June 1997. [Structural benchmark]**	
		*Approve a program for redeploying current customs personnel and recruiting new staff by end-April 1997. [Structural benchmark]**	
Memorandum of Economic and Financial Policies, August 10, 1998 (IMF, 1998e)			
*Lower the top import tariff rate from 35 percent to at least 30 percent by April 30, 1999. [Structural benchmark] **		*Implement the Trade Information Management System customs software in at least four sites by October 1998. [Performance criterion]**	
		Review the role of preshipment inspection in the context of the introduction of the single administrative document for customs clearance planned for October 1, 1998.	
		Prepare laws on setting special tribunals and regulations for resolving disputes concerning customs matters, and submit to the Assembly of the Republic in June 1999.	

Italics denote prior actions, performance criteria, and structural benchmarks.
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^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 6. Mozambique: Key Trade Measures in the 1999 ESAF-Supported Program

Tariffs	Export Taxes/Restrictions	Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, June 10, 1999 (IMF, 1999g)			
*Complete an assessment of the remaining import surcharges (cement, steel plates and tubes, sugar) by September 1999. [Structural benchmark]^* Refrain from adopting new import surcharges or increasing existing general import surcharges. Further reduce the level and dispersion of import tariffs during the period of the new three-year ESAF arrangement. Reduce the top import tariff rate from 30 to 25 percent, effective in January 2002.	Refrain from adopting new export taxes/restrictions or increasing existing export taxes/restrictions.	*Complete computerization of at least ten customs clearance points by September 1999. [Performance criterion]** *Adopt new procedures governing customs warehousing and transit trade by September 1999. [Structural benchmark]** *Complete redeployment of 500 redundant customs personnel December 1999. [Structural benchmark]** *Submit revised customs legislation to the National Assembly (basic customs act; customs code; and law on customs tribunals) by December 1999. [Performance criterion]*** Provide the necessary financial and other support to customs to ensure that the management company completes its scheduled work by end-1999.	*Review the tax and tariff system and adopt a position toward rationalizing the exemptions regimes by March 2000. [Structural benchmark]**
Memorandum of Economic and Financial Policies, March 17, 2000 (IMF, 2000b)			
*Complete a review of sugar sector policy, with a view to determining (i) whether support for the sector is warranted, and (ii) the amount, duration, and form of any such support by August 2000. [Structural benchmark]**		*Attain a target level of customs personnel (1,100 staff) by April 2000. [Structural benchmark]*** *Implement adequate physical controls around the industrial free zones and adopt a mechanism of tax and customs surveillance to prevent leakages, by April 2000. [Structural benchmark]**	*Complete a review of the system of tax and customs exemptions by August 2000. [Performance criterion]***

Italics denote prior actions, performance criteria, and structural benchmarks.
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** indicates commitment was met with a delay or subsequently modified.
^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 7. Ghana: Key Trade Measures in the 1999 ESAF-Supported Program

Tariffs	Export Taxes/Restrictions	State Trading Monopolies	Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, April 14, 1999 (IMF, 1999c)				
*Reduce the top tariff rate to 20 percent by January 1, 2000. [Structural benchmark]**	*Increase the producer price to 60 percent of the f.o.b. cocoa price for the 1999/2000 crop year by end-June 1999. [Performance criterion]**			
*Complete a comprehensive review of the tariff regime by end-September 1999. [Structural benchmark]**	Increase the producer price by at least 2 percentage points in each of the next two years and reduce the share of the Cocoa Board and the tax on cocoa to allow for increases in the farmers' share of the f.o.b. price.			
Gradually reduce the average tariff rate over the next three years to less than 10 percent.	Review surrender requirements once the licensed buying companies (LBCs) begin exporting cocoa.			
Memorandum of Economic and Financial Policies, November 3, 1999 (IMF, 1999k)				
	Accelerate the increase in farmers' share in the f.o.b. price of cocoa starting in 1999/2000 crop season to at least 62 percent in 2000/2001.	Allow LBCs to export at least 30 percent of their cocoa purchases.	*Provide an assessment of the factors that led to the loss of merchandise from bonded warehouses, together with an estimate of the resulting revenue losses, steps to identify and prosecute those responsible, and measures taken to prevent recurrence of such incidents in the future. Indicate the measures to be taken to strengthen customs. [Prior action]**	Monitor exemptions and report them on a quarterly basis by Harmonized System code.
Memorandum of Economic and Financial Policies, June 25, 2000 (IMF, 2000f)				
*Complete a study on Ghana's tariff structure that assesses the prospects to further reduce tariff rates, by end-October 2000. [Structural benchmark]**	Impose an ad valorem tax projected at 17.8 percent on cocoa exports. A producer price will remain in effect whereby farmers will receive an estimated 67 percent of the f.o.b. export price.	*Inform Fund staff of the cocoa policies for the 2000/01 crop, and issue regulations to allow qualified LBCs to export 30 percent of cocoa purchases. [Prior action]**	Tighten controls over bonded warehouses by requiring computerization of inventory, conducting unannounced audits, limiting warehousing time and type of commodities allowed, and requiring breakage reports to be filled with customs not more than 48 hours after the goods reach the warehouse.	Refrain from introducing new tax incentives, particularly those contingent on export and import performance, until the revenue impact of the existing incentives has been assessed.
*Ask parliament to eliminate the special import tax or replace it with antidumping measures if justified according to existing domestic legislation, by end-March 2001. [Structural benchmark]***				Tighten tariff exemptions by allowing only NGOs specifically exempted by parliament to import goods free of duty.

Annex Table 7 *(concluded)*

Tariffs	Export Taxes/Restrictions	State Trading Monopolies	Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, June 11, 2001 (IMF, 2001c)				
*Submit to parliament those supplementary tax measures requiring parliamentary approval (including a 5 percent import duty on certain items on the mining list and on materials for processing timber). [Prior action]**	*Submit to parliament those supplementary tax measures requiring parliamentary approval (including a 10 percent levy on exports of lumber). [Prior action]**			*Submit to parliament those supplementary tax measures requiring parliamentary approval (including a 1 percent customs processing fee on tariff-exempt imports and a limitation of tariff exemptions on imports by NGOs). [Prior action]**
*Eliminate the special import tax in the 2002 budget effective immediately (end-March 2002). [Performance criterion]**				
Formulate plans for broader tariff reform by the end of 2001, so that implementation can begin with the 2002 Budget.				

Italics denote prior actions, performance criteria, and structural benchmarks.
* indicates commitment was met.
** indicates commitment was met with a delay or subsequently modified.
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^^ indicates no information on compliance.

Annex Table 8. Guyana: Key Trade Measures in the 1994 ESAF-Supported Program

Tariffs	Nontariff Barriers	Export Taxes/ Restrictions	State Trading Monopolies	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, June 30, 1994 (IMF, 1994b)				
*Implement the second phase of the common external tariff reduction by February 1995. [Structural benchmark]***	Review the remaining import prohibitions in the context of changes implemented by other CARICOM member countries.	*Eliminate remaining export taxes by December 1995. [Structural benchmark]**		Cease the issuance and renewal of discretionary waivers of consumption taxes and import duties to eliminate them over time.
Memorandum of Economic and Financial Policies, May 26, 1995 (IMF, 1995b)				
*Implement the second phase of the reduction of the common external tariff by June 1995. [Structural benchmark]**			*Submit to the International Development Association (IDA) the proposed regulatory framework for Guysuco by September 1995. [Structural benchmark]***	
Memorandum of Economic and Financial Policies, March 18, 1996 (IMF, 1996d)				
Observe the CARICOM schedule of tariff reduction and further cut the maximum common external tariff from 25 percent to 20 percent in early 1997.			*Agree with IDA on a regulatory framework for Guysuco by June 1996. [Structural benchmark]***	
Memorandum of Economic and Financial Policies, April 2, 1997 (IMF, 1997a)				
Reduce the maximum import duty from 25 percent to 20 percent in line with CARICOM's common external tariff policy by June 1997. [Performance criterion]**			*Agree with IDA on a regulatory framework for Guysuco by June 1997. [Condition for completion of mid-term review]^* *Establish the regulatory framework for Guysuco by September 1997. [Structural benchmark]^* *Establish the remaining steps for restructuring Guysuco by June 1997. [Structural benchmark]^*	

Italics denote prior actions, performance criteria, and structural benchmarks.
* indicates commitment was met.
** indicates commitment was met with a delay or subsequently modified.
^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 9. Guyana: Key Trade Measures in the 1998 ESAF-Supported Program

Tariffs	Nontariff Barriers	Export Taxes/ Restrictions	Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, June 16, 1998 (IMF, 1998d)				
		*Revise the sugar levy to make it more transparent. [Prior action]**		*Bring the import regime for inputs to Guysuco in line with other enterprises. [Prior action]**
Memorandum of Economic and Financial Policies, April 28, 1999 (IMF, 1999d)				
*Reduce the maximum import duty from 25 percent to 20 percent. [Prior action]**			Increase the customs valuation exchange rate by 7 percent on April 30, 1999 (estimated yield of 0.7 percent of GDP).	
Memorandum of Economic and Financial Policies, November 1, 2000 (IMF, 2000g)				
	Review trade policies to ensure consistency with CARICOM and WTO requirements.		*Shift to an automatically adjusted market-based custom valuation exchange rate. [Prior action]**	

Italics denote prior actions, performance criteria, and structural benchmarks.
* indicates commitment was met.
** indicates commitment was met with a delay or subsequently modified.
^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 10. Guyana: Key Trade Measures in the 2002 PRGF-Supported Program

Customs Administration	Trade-Related Subsidies/Exemptions
Memorandum of Economic and Financial Policies, August 30, 2002 (IMF, 2002d)	
*Formally agree to allow technical work to begin on a comprehensive review of the tax system and its administration with a view to designing a reform that would broaden the tax base and increase tax revenue, while taking into account Guyana's commitment under regional trade/WTO arrangements. [Prior action]**	
Memorandum of Economic and Financial Policies, August 22, 2003 (IMF, 2003d)	
	*Amend Section 12 of the Customs Act with a view to eliminating discretionary powers to grant exemptions to commercial undertakings or individuals. [Prior action]**
	*Enact legislation so that income tax holidays are granted only to new firms that create new employment located in depressed areas or that conduct economic activity in specific fields. [Prior action]**
Memorandum of Economic and Financial Policies, July 7, 2004 (IMF, 2004a)	
Strengthen tax administration to include extension of ASYCUDA to off-site locations and implementation of ASYCUDA++ or equivalent system for the modernization of customs administration.	*Adopt regulations defining guidelines and criteria for the implementation of the Customs Order Act, by end-July 2004. [Performance criterion]**
	*Review the Customs Duties (Amendment) Order and draft amendments where necessary, by end-November 2004. [Performance criterion]^*
	Adopt the necessary amendments to the Customs Duties (Amendment) Order and send to parliament by end-Jan 2005.
	*Publish tax exemptions granted (during September to December 2003) by end-July 2004. [Performance criterion]**
	Continue to publish tax exemptions annually (including the amounts), by end June each year, in relation to the preceding fiscal year.
Memorandum of Economic and Financial Policies, January 12, 2005 (IMF, 2005a)	
With the support of the Inter-American Development Bank, extend ASYCUDA to off-site locations and implement the ASYCUDA++ or equivalent system for the modernization of customs administration by end-March 2006.	*Undertake a study, with the support of CARTAC, on the economic costs and benefits of the existing exemptions, focusing on how the exemptions affect the critical economic sectors, by end-June 2005. [Performance criterion]***
	*Adopt revisions to Customs Duties (Amendment) Order by end-January 2005 [Structural benchmark]**
	Publish by end-June 2005 tax exemptions granted (including the amounts), specifying the recipients by categories (companies by name), as well as new or revised contracts signed that give rise to exemptions under Section 11 of the Custom Duties (Amendment) Order in relation to the preceding fiscal year.

Italics denote prior actions, performance criteria, and structural benchmarks.
* indicates commitment was met.
** indicates commitment was met with a delay or subsequently modified.
^ indicates commitment was not met.
^^ indicates no information on compliance.

Annex Table 11. Vietnam: Key Trade Measures in the 1994 ESAF-Supported Program

Tariffs	Nontariff Barriers	Trade in Services
Memorandum of Economic and Financial Policies, September 22, 1994 (IMF, 1994c)		
*Replace tariffs by excise duties and reduce the maximum import tariff rate to 60 percent by April 1, 1995 [Performance criterion]**	*Eliminate import permits for at least 5 commodities by April 1, 1995. [Performance criterion]***	
Rationalize the import tariff schedule into 6 rates by October 1995.	*Reduce the coverage of imports requiring an import shipment license by April 1, 1995. [Structural benchmark]***	
	Lift the import prohibition on cigarettes.	
	Simplify registration procedures for exporters and importers during 1995. Once a commercial law has been promulgated, simplify the registration procedure further with only one administrative step required to fulfill all the conditions necessary to conduct international trade.	
Memorandum of Economic and Financial Policies, June 1, 1995 (IMF, 1995c)		
	*Remove import shipment license requirements for at least half of imports (measured in terms of value, excluding the imports that require import permits) by August 1, 1995. [Prior action for mid-term review]***	
	*Reduce the number of commodity groups requiring import permits to 5 by April 1, 1996. [Structural benchmark].***	
	Propose a plan for eliminating the remaining requirements for import permits during the discussions for the second annual ESAF arrangement.	
	Abolish the requirement for import shipment licenses.	
Memorandum of Economic and Financial Policies, December 18, 1995 (IMF, 1996a)		
*Submit to the National Assembly draft legislation incorporating tariff reforms to (i) further reduce the maximum rate of import tariff; (ii) reduce the number of import tariff rates; and (iii) apply excises uniformly to goods whether produced domestically or imported by October 1996. [Structural benchmark]^*	*Remove the requirement for shipment licenses for about half of imports (in value terms, excluding imports that require import permits) in early 1996. [Prior action]**	Reduce restrictions on local currency business imposed on foreign banks, before June 30, 1996.
	Phase out half of the remaining import shipment licenses during 1996 [Structural benchmark] and eliminate the remainder in 1997.*	
	*Reduce the number of commodity groups requiring import permits to a maximum of 5, by July 1996. [Performance criterion]**	
	Agree on a timetable for the removal of the remaining permits at the time of discussions for the midterm review.	
Memorandum of Economic and Financial Policies, October 28, 1996 (IMF, 1996l)		
	Eliminate sugar from the list of commodities that require import permits by the end of 1996.	*Relax the limit on local currency lending by foreign bank branches. [Prior action]**
	Reduce the coverage of import licensing through the issuance of a complete list of consumer goods that require import licenses at the beginning of 1997.	
	Allow all licensed exporters (including private sector enterprises) to export commodities outside of the scope of their license with the exception of certain major products from the beginning of 1997.	

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Annex Table 12. Vietnam: Key Trade Measures in the 2001 ESAF-Supported Program

Tariffs	Nontariff Barriers	Export Taxes/ Restrictions	Trade-Related Subsidies/Exemptions	Trade in Services
Memorandum of Economic and Financial Policies, March 14, 2001 (IMF, 2001b)				
Reduce AFTA tariffs on the majority of tariff lines of products subject to the tariff reduction roadmap of AFTA, to at most 20 percent by the start of 2003, and further to 0–5 percent by the start of 2006.	*Adopt and announce a program with annual targets for phasing out quantitative restrictions, on a multilateral basis, on 6 items (cement and clinker, remaining steel products, construction white glass, paper, vegetable oil, and granite tiles and ceramic tiles) during 2001–03. [Prior action]** *Free foreign trading rights for business-registered domestic firms, by allowing them to import all kinds of goods except banned and conditional imports. [Prior action]**	Lift restrictions on enterprises permitted to export rice and rice export licensing, and adopt a more liberal regime.	Cease granting any new and phase out all existing ad hoc (case-by-case) exemptions on import tariffs during 2001–03.	Secure for one of the state-owned commercial banks strategic equity participation with a reputable foreign partner by end-2003.
Memorandum of Economic and Financial Policies, November 7, 2001 (IMF, 2001e)				
Implement the 2001 tariff reductions under AFTA.	Replace quantitative restrictions for three items (steel, vegetable oil, and construction glass) with tariffs. Auction at least 25 percent of the garment export quota while continuing to improve the auction process.			
Memorandum of Economic and Financial Policies, June 3, 2002 (IMF, 2002c)				
Effect tariff reductions already announced under the AFTA roadmap.	Adopt a timetable to establish the proper legal framework to implement the USBTA. Remove quantitative restrictions on three out of five remaining items (cement, motorcycles, and passenger vehicles up to nine seats) by end-December 2002. Assess the potential impact of global integration on the most vulnerable sectors, drawing on donor technical assistance.			Prepare regulations to further open to foreign investors areas in the services (including most retail sales and distribution), agribusiness, and fishery sectors, in advance of the timeframes under the USBTA.

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Annex Table 13. Bangladesh: Key Trade Measures in the 2003 PRGF-Supported Program

Tariffs	Nontariff Barriers	Customs Administration	Trade in Services
Memorandum of Economic and Financial Policies, June 4, 2003 (IMF, 2003b)			
Rationalize the tariff structure by moving to a four-tier tariff rate in FY04, with a maximum rate of 30 percent. Reduce the effective average tariff rate in tandem with efforts to broaden the customs tax base in order to protect revenue.	Reduce the list of goods subject to control (ban, or with quantitative restrictions) from 134 to around 70.	*Complete revamping the bonded warehouse system, including requiring bank guarantees for all imports going through the system, by end-December 2003. [Structural benchmark]** Continue automation of customs and other modernization measures.	
Memorandum of Economic and Financial Policies, July 8, 2004 (IMF, 2004b)			
*Adopt in the FY05 budget a three-tier customs duties structure with a maximum rate of 25 percent. [Prior action]** Reduce the number of supplementary duty rates from 7 to 3 and the maximum rate to 30 percent.	Further phase out quantitative restrictions for reasons other than environmental, security, and religious, except for poultry, fishing net, and salt, and replace them with appropriate tariff duties. Streamline import licensing requirements to improve the investment climate. Reduce restrictions on the import of textiles.		*Agree on action plans with the managements of Sonali, Janata, and Agrani Banks covering the period to Jun 2006 to operationalize the resolution strategies for each bank, with key benchmarks including timelines for necessary legal changes to eliminate limits on foreign ownership in the banking sector, by end-November 2004. [Performance criterion]***
Memorandum of Economic and Financial Policies, May 26, 2005 (IMF, 2005c)			
	Replace all remaining quantitative restrictions by tariffs by end-June 2005, in the context of DSC III, except those on grounds of health, national security, religion, and environmental protection.	Further strengthen the pre-shipment inspection, customs valuation process, and the post-clearance audit, with World Bank assistance. Continue to monitor the functioning of the bonded warehouse system; make further efforts to ensure that inspectors are well trained.	
Memorandum of Economic and Financial Policies, January 9, 2006 (IMF, 2006b)			
Further reduce average tariffs (including any surcharges) by at least two percentage points in the context of the FY07 budget.	Further reduce the number of regulatory stages involved in the clearance of imports and exports.		

Italics denote prior actions, performance criteria, and structural benchmarks.
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