OPTIONS FOR TRADE, FINANCE AND DEVELOPMENT: GETTING THE INSTITUTIONS RIGHT
NOTE

The policy options presented in this synthesis are the result of a collective process involving all members of the E15 Expert Group on Trade, Finance and Development. It draws on the active engagement of these eminent experts in discussions over multiple meetings as well as think pieces commissioned by the E15 Initiative and authored by group members. Jean-Louis Arcand was the author of the report. While a serious attempt has been made on the part of the author to take the perspectives of all group members into account, it has not been possible to do justice to the variety of views. The policy recommendations should therefore not be considered to represent full consensus and remain the responsibility of the author. The list of group members and E15 papers are referenced on page 12.

The full volume of policy options papers covering all topics examined by the E15 Initiative, jointly published by ICTSD and the World Economic Forum, and launched at the Forum’s Annual Meeting at Davos-Klosters in 2016, is complemented with a monograph that consolidates the options into overarching recommendations for the international trade and investment system for the next decade.

E15 INITIATIVE

Jointly implemented by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum, the E15 Initiative was established to convene world-class experts and institutions to generate a credible and comprehensive set of policy options for the evolution of the global trade and investment system to 2025. In collaboration with 16 knowledge partners, the E15 Initiative brought together more than 375 leading international experts in over 80 interactive dialogues grouped into 18 themes between 2012-2015. Over 130 overview papers and think pieces were commissioned and published in the process. In a fast-changing international environment in which the ability of the global trade and investment system to respond to new dynamics and emerging challenges is being tested, the E15 Initiative was designed to stimulate a fresh and strategic look at the opportunities to improve its effectiveness and advance sustainable development. The second phase of the E15 Initiative in 2016–17 will see direct engagement with policy-makers and other stakeholders to consider the implementation of E15 policy recommendations.

For more information on the E15 Initiative: www.e15initiative.org

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OBJECTIVES AND OUTPUT

The E15 Expert Group on Trade, Finance and Development had three objectives

- Examine how trade and finance can be leveraged for sustainable development in poor economies.
- Assess the effectiveness of capacity building initiatives and trade preference systems designed for low-income countries and least developed countries.
- Analyse novel financing instruments enhancing the impact of trade finance on development.

Overarching questions and issues the Expert Group was tasked to consider

- Should the international community be doing more to bring the supply and demand of capital together, particularly for physical infrastructure in developing countries?
- How to address the structural specificities and characteristics of low-income countries, coupled with their inherent heterogeneity in terms of degrees of structural transformation and capacity to mobilize domestic resources?
- What types of financial developments and platforms are appropriate for developing countries?
- Should official development assistance be seen as a source of finance for developing countries or should it be seen as an insurance instrument for vulnerable poor countries?
- Do trade preference systems still represent opportunities for developing countries?
- How can capacity building initiatives be enhanced internationally, regionally, and locally?
- Which knowledge dissemination tools and development-led expertise bring greater clarity to the international trade-finance-development scene?
- How do services infrastructure (including financial services) and services innovation enable whole-of-economy productivity, employment, and growth?

Expert Group analysis and policy proposals were submitted in two forms

1. Critical issues studied through think pieces commissioned for the E15 Initiative. These papers are referenced on page 12 and can be accessed at http://e15initiative.org/publications/.
2. Policy options presented in this synthesis and compiled in the summary table. The options are grouped under four market failure headings:
   - Externalities and coordination failure
   - Public goods
   - Natural monopolies at the regional level
   - Asymmetric information
TABLE OF CONTENTS

FOREWORD ..................................................................................................................... 2

TRADE, FINANCE AND DEVELOPMENT: GETTING THE INSTITUTIONS RIGHT ......................... 4

CONCEPTUAL FRAMEWORK ......................................................................................... 4

TRADE AND FINANCE POLICY OPTIONS: A TALE OF MODERN MARKET FAILURES .............. 5
  Externalities and Coordination Failure ................................................................. 5
  Public Goods ........................................................................................................ 6
  Natural Monopolies at the Regional Level .......................................................... 7
  Asymmetric Information ....................................................................................... 8

NEXT STEPS AND MEASURING PROGRESS .................................................................. 9

TABLE SUMMARY OF MAIN POLICY OPTIONS .................................................................. 10

EXPERT GROUP PAPERS AND THINK PIECES .................................................................. 12

MEMBERS OF THE EXPERT GROUP ................................................................................. 13
One of the main findings of research over the past two decades is that economic institutions, broadly understood to be the economic, legal, and regulatory structures that facilitate economic exchange, constitute the single most important determinant of economic growth and development. The national and international institutions associated with trade and finance are, in turn, among the most powerful levers available to the international community in terms of advancing the 2030 Agenda for Sustainable Development. The E15 Expert Group on Trade, Finance and Development therefore sought answers to a deceptively simple question: what can be done to improve the enabling environment in terms of trade and finance, at both the national and supranational levels, through concrete policy proposals that have a reasonable chance of being implemented?

While international debates on trade, finance, and development issues often tend to be fragmented into watertight silos separated by disciplinary, sectoral, and institutional barriers, the Expert Group adopted a simple and unifying conceptual lens through which to structure its work: improving the efficiency of national and international economic institutions will come from correcting market failures—leading us (hopefully) to be able to do more with what we already have in terms of physical and human capital. The examination focuses primarily on economic development in low-income countries.

The main message behind the policy options is that there are four types of market failure—externalities and coordination failure, public goods, natural monopolies at the regional level, and asymmetric information—that will not be adequately addressed by the market system. There is room in these areas for relatively low-cost policy prescriptions in the trade and finance fields that can go a long way towards improving the efficiency of national economies, regional groupings, and the international trade and investment system. The policy options range from the relatively short term, such as ensuring the presence of an international correspondent bank in all developing countries, to the more general and long term, such as steering official development assistance towards more strategic uses that leverage its impact by increasing the
productivity of private financial flows. Yet they all share one key characteristic: they are potentially efficiency-enhancing and, if one may be allowed a bit of economic jargon, they display a marginal social productivity that is strictly positive and sometimes quite large.

The Group was made up of experts from a wide range of disciplinary and professional backgrounds. Despite this heterogeneity, and thanks to a healthy dose of self-discipline and good humour during multiple meetings and informal exchanges, the Group’s discussions arrived at a coherent and consensual set of policy options. The Harvard Center for International Development supported the Expert Group in this endeavour as knowledge partner.

As co-conveners of the E15 Expert Group on Trade, Finance and Development, we are convinced of the need to provide organized and structured input into the policy and governance debate on the interface between trade, finance, and development. The recommendations that have resulted from this thought and dialogue process are offered to policy-makers and stakeholders alike, in the hope that they provide paths to effectively respond to policy imperatives of societies the world over, and especially in developing countries. In a second phase of the E15 Initiative, we intend to engage policy-makers in advancing these options.

Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

Richard Samans
Managing Director and Member of the Managing Board, World Economic Forum

Pol Antràs
Professor of Economics, Harvard University
THE PRIMACY OF ECONOMIC INSTITUTIONS AS DETERMINANTS OF ECONOMIC GROWTH AND DEVELOPMENT IS A KEY EMPIRICAL REGULARITY THAT HAS EMERGED FROM THE PAST TWO DECADES OF RESEARCH. THE MECHANISMS THROUGH WHICH TRADE AND FINANCE AFFECT DEVELOPMENT DO NOT ESCAPE THIS PATTERN. A COUNTRY’S INSTITUTIONAL ENVIRONMENT—WHERE INSTITUTIONS ARE UNDERSTOOD IN THEIR ECONOMIC (AND NOT POLITICAL) SENSE IN TERMS OF SOCIAL AND REGULATORY STRUCTURES, SUCH AS THE RULE OF LAW OR THE PROTECTION OF PROPERTY RIGHTS—IS THUS CENTRAL FOR ECONOMIC ACTIVITY TO DEVELOP AND FLOURISH.

CONCEPTUAL FRAMEWORK

One of the leading explanations for poverty in the world today is that it is partly a product of departures from Pareto-optimality. When markets, firms, and households are subject to market, institutional, and informational imperfections, Pareto-inferior equilibria occur, leading to deviations with respect to the first-best optimum. This manner of seeing the world holds that inefficiencies lie at the heart of underdevelopment. If one takes this view as the point of departure, the big questions for the realm of trade, finance, and development are the following: what are the main sources of deviations with respect to the first-best optimum, and what can be done to tackle these deviations in concrete policy terms?

Correcting market and institutional failures thus constitutes the crux of the Expert Group’s policy options, which are primarily directed at low-income economies. Policy-makers and developing country governments dealing with trade and finance must concentrate on “getting the institutions right.”

Broad agreement was reached among the members of the E15 Expert Group on Trade, Finance and Development, convened by ICTSD and the World Economic Forum in partnership with the Center for International Development at Harvard University, that strengthening the enabling environment through concrete policy proposals in the trade and finance arena is one of the most important ways of advancing the 2030 Agenda for Sustainable Development. Members of the Group were also aware of the fact that, to be politically acceptable, its proposals would have to pass the “market failure test.” Namely, any meaningful policy recommendation would have to be justified on the basis of the underlying problem not being adequately dealt with by the private market system.

Correcting market and institutional failures thus constitutes the crux of the Expert Group’s policy options, which are primarily directed at low-income economies. Policy-makers and developing country governments dealing with trade and finance must concentrate on “getting the institutions right.”

Strengthening the enabling environment through concrete policy proposals in the trade and finance arena is one of the most important ways of advancing the 2030 Agenda for Sustainable Development.
Natural monopolies, in which problems are more efficiently solved at the regional rather than the national level;

Asymmetric information, which can be on the side of the country (lack of capacity) or on the side of the firm (unreliable information available to foreign investors).

A benefit of using the market failure framework is that all of the policy options that emerged from the expert dialogue process correspond to problems that will not be solved by the market mechanism. The options, grouped under the four market failure headings, aim at improving economic institutions—national and supranational—in some shape or form.

**TRADE AND FINANCE POLICY OPTIONS: A TALE OF MODERN MARKET FAILURES**

**EXTERNALITIES AND COORDINATION FAILURE**

Externalities arise when the private cost or benefit of an activity is not equal to its social cost or benefit. Four policy options fall under this category.

**POLICY OPTION 1 – Strategic use of ODA and blended finance**

The analysis of trends in financial flows to least developed countries (LDCs) reveals that official development assistance (ODA) has played a relatively marginal role, in comparison to domestic public and private finance, in underwriting the Millennium Development Goals (this policy option refers explicitly to LDCs). However, ODA enjoys a number of unique developmental advantages over other forms of financial flows, with concessionality being one of the most important. Strategic use of this scarce resource will be one of the main challenges for LDCs as they position themselves to implement the Sustainable Development Goals in their domestic context. There is a need to focus ODA in a manner that increases its marginal productivity, often through a focus on building institutions that strengthen the enabling environment, as well as by using it to leverage private sources of capital through blended finance. There is also the potential for improving the productivity of domestic financial resources. In basic economic terms, the social benefit of ODA is significantly higher than its private benefit, and current arrangements fail to “internalize” this potentially valuable positive externality, including ODA’s role in helping to ensure a stable macroeconomic environment.

**POLICY OPTION 2 – Mobilization of domestic resources through tax revenue**

Tax policy is a key determinant of the behaviour of firms, be they domestic or multinational. In order to increase the capacity for domestic resource mobilization of poor countries, major efforts—both at the international and domestic level—need to be made in terms of revamping policies aimed at combatting “base-erosion and profit-shifting” (BEPS). Corporate tax from multinational enterprises (MNEs) is an important source of government revenue in many developing countries, particularly the poorest. Tackling BEPS by MNEs could substantially increase tax collection. A particular challenge arises from “transfer mispricing.” A major portion of global trade takes place within firms, and tax authorities need to be able to discover the transactions that have taken place, assess whether the correct amount of tax has been paid, and collect any tax due. It can be difficult for a tax administration to know about offshore transactions, so a high level of international cooperation between tax authorities is required. For developing countries, more support is thus needed in two areas: (i) strengthening domestic institutions and legal arrangements so that they can implement new international standards on BEPS measures initiated by the OECD; and (ii) strengthening the international tax system so that it facilitates the work of developing country tax authorities.

**POLICY OPTION 3 – Guidelines for broadly used private standards affecting trade**

The road to diversification, value addition, and industrialization in a modern economy involves linking up effectively with global supply chains. In some of these, important purchasing firms act together and establish industry-wide standards that affect a large number of suppliers. These standards may be conflicting or even contradictory. For many developing country exporters, private standards are more significant constraints than official sanitary and phytosanitary standards or technical barriers to trade. There is a manifest issue of coordination failure involved when it comes to international standards set by dominant private firms, and which cannot be solved in existing fora such as the WTO. The adoption of standards is a typical...
example of a situation where coordination, in order to achieve a socially efficient outcome, is paramount: in the absence of outside involvement, coordination failure is likely. The gains to adopting well-crafted standards can also be characterized as a situation where there are significant positive network externalities to be internalized. For private industry-wide standards not to be a constraint but rather a conduit for effective participation in global supply chains, particularly for small and medium-sized enterprises, existing limitations need to be tackled.

POLICY OPTION 4 – Duty-free and quota-free preferences and rules of origin

- There has been a distinct lack of coordination (and political will) in terms of duty-free and quota-free (DFQF) preferences when it comes to LDCs. The United States, first and foremost, and large emerging markets should grant such access where they have not, and include liberal and simple rules of origin with extended cumulation provisions to maximize preference utilization by LDCs.

PUBLIC GOODS

At the intra-country level, economic institutions are the key public good. Public goods and services possess two characteristics. First, they are non-exclusive: once they are provided, they are available to all irrespective of whether or not they were involved in their financing. Second, they are non-rival: the consumption of the good or service by a given agent does not reduce its consumption by others. As such, they are the best example of goods, services, or institutional structures that will be underprovided by the market mechanism and where outside intervention is needed. The Group formulated five policy options that fall under the public goods heading. All are typical examples of institutional public goods that would go a long way towards improving the enabling environment in low-income countries, allowing them to harness the development potential of international trade.

POLICY OPTION 5 – Development-led legal and regulatory reform

- Within institutions such as the WTO, current approaches to trade and development have focused primarily on access to developed country markets through trade preference programmes and special and differential treatment for developing economies—which are important but not sufficient to achieve economic diversification and poverty reduction. What is missing is a process (both top-down and bottom-up) for effectively assessing the development benefits of trade policy at the national and regional levels, addressing non-tariff measures from a development perspective, and applying a more widespread, inclusive, and coordinated system for implementing trade frameworks through legal and regulatory reform. Without a well-functioning legal and regulatory framework, economic activity will not develop, but these structures have to be better adapted to developing country circumstances. While this is not a policy recommendation per se, it should be kept in mind when designing concrete legal and regulatory policy options.

POLICY OPTION 6 – Trade facilitation framework for services

- Given the pro-poor bias of the services sector, and in light of the fundamental contribution which efficiency in the services sector will make to the realization of the Sustainable Development Goals, WTO members should urgently embark on a joint process to establish a comprehensive Framework for Trade Facilitation in Services. This Framework should encompass both cooperative and negotiating mechanisms, complemented by capacity building and technical assistance, through which the multilateral trading system can spur concerted action. The Framework should include arrangements for public-private dialogue with services stakeholders and allow for the implementation of measures on a regional, plurilateral, and multilateral basis.

POLICY OPTION 7 – Aid for Trade funding for services

- The incentives that determine the sectoral allocation of Aid for Trade funds, which currently tend to ignore the services sector, need to be modified. Insufficient attention is given to services trade in Aid for Trade, especially via multilateral mechanisms, including the Enhanced Integrated Framework. This constitutes a misallocation of funding given the significant development dividends available from services growth. Boosting growth in the services sector is largely about getting the regulatory setting right, so that public policy objectives can be met without unduly increasing the costs of doing business. Regulatory regimes in services are often complex and overlapping. There is a need to fund country studies to address policy
and regulatory failures and to develop well-tailored reforms to reverse those failures—including mechanisms geared towards helping governments apply the guidance set out in recent World Bank regulatory toolkits designed to boost services competitiveness. Aid for Trade funds should be applied to this problem.

**Policy Option 8 – Correspondent-Banking Availability**
- Heightened regulatory requirements in the financial sector (e.g., Know Your Customer, Anti-Money Laundering) have led many low-income countries to become functionally cut off from international financial markets by the simple lack of a correspondent (international) bank. The consequence of this financial exclusion is particularly serious when it comes to the exchange of goods and services since, without the ability to exchange information or funds, local companies struggle to enter into the contractual obligations that underpin international trade. Solving this problem in the short run, which is both feasible and relatively low cost, would make a significant contribution to facilitating international trade for firms located in low-income countries. The proposal is that each country should house at least one local bank with a fully-fledged correspondent-banking arrangement with international financial institutions.

**Policy Option 9 – Coordination Efforts for Trade and Supply Chain Finance**
- A comprehensive global coordination mechanism for trade and supply chain finance is needed. It is recommended that a working group be established (within the E15 Initiative or as part of another international coalition of experts and institutions) to propose ideas and commission studies that could contribute to improved global coordination efforts in this area.

**Natural Monopolies at the Regional Level**

Natural monopolies occur when it is socially efficient, from the cost standpoint, to have a single supplier for a given good or service. The productive efficiency argument immediately begs the question of how to regulate the ensuing monopolistic structure. For the two policy options that fall under this heading, the natural monopoly framework is used in a slightly less restrictive form. The main point is that there are a number of key institutional failures that are more efficiently dealt with at the regional, rather than national, level because of the importance of underlying economies of scale and scope.

**Policy Option 10 – Regional Regulatory Cooperation in Financial Services**
- Regional mechanisms dealing with the regulatory aspects of cross-border financial services need to be strengthened. The integration of financial services has generally received insufficient attention in regional integration efforts. This has made it difficult for banks and other financial entities to operate regionally and support their customers so that they can enjoy the benefits of diversified, efficient, and cheaper financial services. It is important to ensure that the full extent of benefits arising from the economies of scale accrue to those in need of finance, such as micro, small, and medium enterprises. Access to finance has been highlighted as the single most important constraint for such enterprises to face the competition of an integrated regional market and connect with the global economy. Key issues to be addressed include the heterogeneity of regulatory frameworks and restrictive market access, significant checks on the mobility of talent, and constraints on cross-border data flow and offshoring regulatory structures.

**Policy Option 11 – Enhancement of Regional Aid for Trade**
- Given the many small markets in developing countries, it is clear that sustained economic growth needs to rely in part on creating larger, more viable markets through the rule-based sharing of resources and production assets. Deepening economic integration via regional cooperation has thus emerged as a key priority in the reform strategies of most developing economies. Implementing regional aid for trade initiatives is often complicated by: technical standards and financing issues; mistrust among parties; membership of overlapping regional organizations; non-implementation of regional agreements; poor articulation within national strategies; and, national and regional capacity constraints. This creates significant problems in terms of ownership, mainstreaming, and aligning national strategies around regional aid for trade priorities. Bridging these gaps by enhancing regional aid for trade initiatives through appropriate incentives is thus an important policy recommendation.

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Developing country governments are increasingly turning to public-private partnerships in a bid to attract foreign investment and address infrastructural financing gaps, however, they face important constraints in realizing the benefits that can accrue from such partnerships.

POLICY OPTION 12 - Technical advice on PPPs and sovereign debt contracts

- Demographic trends together with anticipated robust economic growth in low-income countries is increasing demand for physical infrastructure. Financing this infrastructure will require enormous amounts of capital in the coming decades, and only part of this can come from domestic savings or aid. Developing country governments are increasingly turning to PPPs in a bid to attract foreign investment and address this gap. However, they face two types of problems in realizing the benefits that can accrue from PPPs. First, despite the potential for high social rates of return, relatively small amounts of private foreign capital are flowing into infrastructure in developing countries. The obstacles include: investments that are large and lumpy; construction risks that are high; returns that are reliant on regulatory agencies and the creditworthiness of national governments; and, individual infrastructure projects that require complex legal arrangements often involving multiple parties and government agencies. Second, even when foreign investment does arrive, many PPPs fail in practice to deliver high public benefits. High-quality PPPs are complex to design, negotiate, and manage. Developing country governments face very substantial resource and informational challenges. These include: asymmetries in cost and technology information; insufficient institutional capacity to conduct solid prefeasibility studies or to structure contracts effectively; and, public sector liabilities triggered by PPPs that can be very sizeable (an aspect of PPPs that is very important in the context of rising developing country external debt profiles). Consequently, the institutional capacity of developing country governments to design, negotiate, implement, and evaluate PPP projects in all sectors, with a particular focus on infrastructure, should be strengthened.

POLICY OPTION 13 - Adoption of model solvency schemes and restructuring approaches

- A striking new trend in international finance is that the governments of many low-income countries are issuing sovereign bonds to finance public debt. Developing countries are entering uncharted territory as they turn towards international financial markets, which offer credit on harder terms than “traditional” donors and present new economic and political risks. While such bonds can provide funding for large projects, create domestic financing space for the private sector, and can be less costly than local issuance, they also come with refinancing risk, re-pricing risk, and exposure to exchange rate fluctuations. In some countries there has been a deterioration in sovereign balance sheets amid expansionary fiscal stances that have led (in some cases) to the rebuilding of debt stocks, with mounting concerns about debt sustainability. As global yields normalize, there is the real risk of sovereign debt difficulties in developing countries. Yet there is a dearth of suitable mechanisms for dealing with defaults and restructurings in an orderly, timely, and fair manner. In practice, restructurings have been conducted under various frameworks without a consistent approach that normalizes local laws and provides clarity for investors. Issuing governments have found themselves vulnerable to competing stakes that carry inherent conflicts of interest. Dependence on the market has led to restructuring outcomes that are counterproductive for the policy initiatives of the sovereign issuer. The precise legal provisions in bond contracts can make a very substantial difference for developing country governments, and the contracts that underpin many issuances are weak. These governments should be supported to strengthen the legal underpinnings of the bonds they issue—including through the adoption of model legal language.

ASYMMETRIC INFORMATION

Asymmetric information arises when, in a bilateral relationship, one party knows something that the other does not. In the market failure framework, this can be interpreted as there being a missing market for the underlying information, which can lead to severe inefficiencies. The two policy options grouped under this heading involve: (i) strengthening the capacity of developing country governments to negotiate and implement public-private partnerships (PPPs); and (ii) providing low-income countries with access to world class advice as well as in-country capacity building geared towards improving their position when in comes to designing and negotiating sovereign bond issuances and restructurings. In both of these areas, low-income countries are currently at a serious informational disadvantage vis-a-vis their international interlocutors.
The policy options put forward by the Expert Group on Trade, Finance and Development range from ambitious recommendations, in that they will most probably only be feasible in the long term, to options that should technically (if not politically) be easy to implement in the short term. In all cases, work on these options should start immediately.

**SHORT-TERM OPTIONS**

Three options deserve immediate attention in that they can deliver benefits rapidly. First, ensuring correspondent-banking availability depends on mobilizing the international banking community. In addition, the two capacity-building options (technical advice on PPPs and adopting model solvency schemes and restructuring approaches) are relatively short-term ventures, although they do involve coordinating a broad range of players at the international and domestic levels.

**MEDIUM-TERM OPTIONS**

The two services-centred options (implementing a trade facilitation framework for services and encouraging Aid for Trade funding) should be actively pursued in international fora for medium-term implementation. In addition, expanding DFQF and simple rules of origin (with extended cumulation) to all LDCs depends on nudging major preference givers. At the regional level, where there may in some instances be a greater convergence of interests, enhancing regional aid for trade and improving mechanisms for regional regulatory cooperation in financial services have a good chance of being adopted—perhaps by having successful regional groupings, such as ASEAN, mentor less successful ones. Providing guidelines for broadly used private standards affecting trade could be taken up by international organizations such as the International Organization for Standardization.

**LONG-TERM OPTIONS**

Options that involve the revamping of part of the international trade and finance architecture are long-term in nature and require the buy-in of a plethora of players. This is the case for the proposals on making strategic use of ODA and blended finance, and constructing a global coordination mechanism for trade and supply chain finance. Finally, two of the options (fostering development-led regulatory reform and mobilizing domestic resources) are also long-term and (largely) need to be implemented at the national level. Perhaps a limited number of “test case countries” could be identified in which the political will for such reforms is likely to exist.

**MEASURING PROGRESS**

A central element of the empirical literature on the impact of institutions on income per capita and growth is the use of protection against expropriation risk as the main indicator for economic institutions. The work of the Expert Group suggests that alternative indicators of what can be termed the “enabling environment” could be constructed.

Based on the weaknesses in country-specific trade and finance characteristics identified through the proposed policy options, the constituent elements of this new index could be the following: a Herfindahl index of concentration in the banking sector; the existence of a functioning antitrust authority; an indicator of fluidity of visa policy; the number of correspondent foreign banks; the existence of a national or regional credit bureau and/or a rating agency; and, the legal system under which sovereign bond issuance takes place.

This list of indicators could be complemented with data from the World Bank’s Doing Business survey, and standard composite indicator methods could then be applied to arrive at an aggregate index of “institutional readiness.” This is work in progress, and it is proposed that a working group be set up to operationalize the construction of this index.
<table>
<thead>
<tr>
<th>POLICY OPTION</th>
<th>TIMESCALE</th>
<th>CONCRETE STEPS</th>
<th>KEY PLAYERS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Failure: Externals and Coordination Failure</strong></td>
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| 1. Make strategic use of overseas development assistance and blended finance. | Long Term | - Enhanced flows and better quality of official development assistance (ODA) for more targeted and results-oriented development geared towards promoting specific elements of the enabling environment, such as social and economic infrastructure, as well as productivity-enhancing public institutions;  
- Greater use of blended finance to scale up investment by leveraging other sources of finance (including private finance), by enhancing project impact (by keeping broader public welfare concerns well in view) and by ensuring financial returns (for private investors and others) by reducing the average cost of capital, funding viability gaps, and providing guarantees against various kinds of risks prevalent in low-income economies;  
- Creating a more business-friendly policy environment by strengthening national capacities for accelerated domestic reforms, particularly in the financial sector, public expenditure systems, and in the area of the rule of law, thereby ensuring greater financial mobilization and a more efficient use of these resources;  
- Emphasize the role that ODA can play in dampening a country’s exposure to shocks, by ensuring that at least part of the allocation of conventional ODA depends on structural economic vulnerability indices. | Developing country governments, and bilateral and multilateral donors. |
| 2. Mobilize domestic resources in developing countries through stronger domestic tax institutions and a more transparent international tax system. | Long Term | - Increase capability building efforts on base-erosion and profit-shifting (BEPS) in developing countries, including by developing tools and providing guidance to support the practical implementation of the OECD BEPS measures and other related priority issues (international assistance can be a powerful catalyst for domestic resource mobilization);  
- Increase the automatic exchange of information between tax authorities, prioritizing the transfer of information to developing country tax authorities;  
- Increase the reporting by Multinational Enterprises (MNEs) to tax authorities, for example by creating a public tracking system that enables ready assessment of progress against international BEPS targets;  
- Strengthening the involvement of developing countries in international BEPS initiatives, including those led by the OECD. | Developing country governments, the international business community, the OECD and the IMF, bilateral and multilateral donors, and the UN Tax Committee. |
| 3. Provide guidelines for broadly used private standards affecting trade. | Medium Term | - Scrutiny and oversight as well as information dissemination concerning private standards, particularly industry-wide ones, that affect large numbers of suppliers, these activities should be undertaken by public bodies (national and international), private sector representatives from developing and developed countries, and civil society; guidelines could be formulated for specific sectors (e.g. food, textiles) and could involve examining whether they are compatible with the WTO Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) Agreements and other international agreements;  
- Apply public pressure and providing guidelines on harmonizing multiple, rival or conflicting standards employed by large firms or industry-wide standards, including fair trade and organic standards;  
- Develop model contracts for selected sectors (e.g. agriculture, mining, forestry, textiles) and identifying possible “honest brokers” to assist in the formulation of contracts in which developing country firms enter with large established firms;  
- Include compliance with private standards in Aid for Trade (AFT) programmes. | International development organizations (e.g. UNCTAD, UNDP, ITC, UNIDO), the WTO, bilateral and multilateral donors, the World Bank and the IFC, the private sector, civil society, and private foundations. |
| 4. Expand DFQF access to LDCs with liberal rules of origin and extended cumulation. | Medium Term | - Urge the US and large emerging markets to implement duty-free and quota-free (DFQF) market access for all LDCs;  
- Urge the EU to simplify product eligibility requirements;  
- Urge all preference givers to also include extended cumulation provisions in their rules of origin to maximize preference utilization. | The United States, European Union, and large emerging markets. |
| **Market Failure: Public Goods** |
| 5. Foster development-led legal and regulatory reform. | Long Term | - Create market-driven, neutral platforms to identify where development-led regulatory interventions are needed (across both geographical areas and issues);  
- Design tools for assessing and developing untapped market potential;  
- Share regulatory best practices, including at the regional level;  
- Connect the private sector to trade institutions. | Legal institutions, regional economic communities, national ministries, multilateral development banks, bilateral and multilateral donors, UN economic commissions and agencies, WTO, and the private sector. |
| 6. Implement a trade facilitation framework for services. | Medium Term | - Intensify temporary and short stay visa facilitation;  
- Enhance access to finance for trade in services;  
- Develop common guidelines for governance of electronic trade and cross-border data flows;  
- Benchmark best practices and developing regulatory principles to address cross-border market failures in services sectors. | The WTO, bilateral and multilateral donors, and the private sector. |
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<th>POLICY OPTION</th>
<th>TIMESCALE</th>
<th>CONCRETE STEPS</th>
<th>KEY PLAYERS</th>
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| 7. Encourage Aid for Trade funding for services. | Medium Term | * WTO members should emphasize the need to utilize AfT funds towards country-specific studies in order to identify and address policy and regulatory failures;  
* Organize dedicated sessions in WTO fora that focus on this topic;  
* Encourage Enhanced Integrated Framework (EIF) diagnostic studies for LDC members to concentrate on services policy and regulatory studies. | The WTO, OECD, UNCTAD, IFC, the World Bank, bilateral and multilateral donors, and the private sector. |
| 8. Ensure correspondent-banking availability. | Short Term | * Sponsoring/mentoring by the Bank for International Settlements (BIS), the Financial Stability Board (FSB), or the Wolfsberg Group of the process leading to the improvement of the local correspondent bank(s)’s governance structure;  
* Have the Know Your Customer (KYC) process validated by the sponsor so that it will be deemed to be sufficient for international regulatory purposes;  
* Secure an international ruling to ensure that developed countries banks are compelled to maintain a minimum service correspondent-banking network for each enabled country and chosen bank(s). | The BIS, FSB, Wolfsberg Group, the World Bank, bilateral and multilateral donors, and the banking sector. |
| 9. Coordinate efforts for trade and supply chain finance. | Long Term | * Ensure appropriate management and dissemination of data, analysis and knowledge;  
* Assure effective advocacy with core stakeholders including regulatory authorities;  
* Enable the development and implementation of effective policy at the national, regional and supranational levels. | Working group composed of international experts hosted by an interested institution. |

**Market Failure: Natural Monopolies at the Regional Level**

| 10. Improve mechanisms for regional regulatory cooperation in financial services. | Medium Term | * Creation of regional mechanisms such as regional credit bureaus and rating agencies;  
* Facilitation of free data flow and offshoring;  
* Standardization of documents and documentation requirements. | Regional development banks, parties to regional economic communities and trade agreements, and the banking sector. |
| 11. Enhance regional aid for trade. | Medium Term | * Involve an “honest broker” (such as regional development banks), or multi-donor programmes (such as Trademark East Africa), or regional initiatives (such as USAID African Trade Hubs), which all offer institutional mechanisms to coordinate regional and sub-regional programmes;  
* Have the EIF request that agencies carrying out Diagnostic Trade Integration Studies move to a regional focus;  
* Create financial incentives, such as providing a higher concessionality level for financing regional programmes rather than purely national programmes;  
* Build institutional and human capacities to respond to a wide variety of technical assistance needs covering a range of disciplines, including trade policy, customs, transport, and enterprise development. | Regional economic communities, regional development banks, the OECD, UN economic commissions and agencies, the WTO, bilateral and multilateral donors, and the private sector. |

**Market Failure: Asymmetric Information**

| 12. Improve technical advice on public-private partnerships. | Short Term | * Expand the access of developing country governments to world-class, independent, and preferably low-cost legal advisory resources to support the design and negotiation of large specific PPP contracts and other complex commercial transactions, building on initiatives such as the African Legal Support Facility housed at the African Development Bank;  
* Develop an internationally recognized model private-public partnership (PPP) framework to guide PPP projects, with a high level of participation by developing country governments; the United Nations Commission on International Trade Law (UNCTRAL) has model frameworks which are being updated: this initiative could be built upon and the participation of developing country governments greatly strengthened;  
* Provide technical resources to support the development of a clear legal framework; set up rules governing transparency so there can be some accountability to oversight organs of government and the general public concerning the use and terms of public resources in public-private partnerships. | Developing country governments, UN economic commissions and agencies, multilateral and regional development banks, bilateral donor agencies, and major private sector infrastructure investors. |
| 13. Adopt model solvency schemes and restructuring approaches. | Short Term | * Expand the access of developing country governments to world-class, independent, and preferably low-cost legal advisory services to support the design and negotiation of sovereign bond issuances and sovereign bond restructuring;  
* Strengthen in-house legal resources of central banks and finance ministries in developing countries, as well as local lawyers, through training so as to ensure high quality expertise and advice is available to developing country issuers. | Bilateral development agencies, private philanthropy, UNCTRAL, sovereign and other issuers, local courts, and international courts. |
EXPERT GROUP PAPERS AND THINK PIECES


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E15 INITIATIVE: EXPERT GROUPS AND TASK FORCES

In the quest for effective responses to the challenges faced by the global economy at this time, foremost experts were invited to contribute to 15 thematic groups as well as three task forces addressing horizontal issues. The groups met regularly between 2012 and 2015 with the goal of delivering a set of policy options on the occasion of the WTO’s 20th anniversary. These options are intended to animate discussions and feed the present and future international trade and investment policy agenda for sustainable development. The full volume of policy options papers, jointly published by ICTSD and the World Economic Forum, and launched at the Forum’s Annual Meeting in Davos-Klosters in 2016, is complemented with a monograph that consolidates the options into overarching recommendations for the international trade and investment system for the next decade. The second phase of the E15 Initiative in 2016–17 will see direct engagement with policy-makers and other stakeholders to consider the implementation of E15 policy recommendations.

E15 INITIATIVE THEMES

1 – Agriculture and Food Security
2 – Clean Energy Technologies
3 – Climate Change
4 – Competition Policy
5 – Digital Economy
6 – Extractive Industries
7 – Finance and Development
8 – Fisheries and Oceans
9 – Functioning of the WTO
10 – Global Trade and Investment Architecture*
11 – Global Value Chains
12 – Industrial Policy
13 – Innovation
14 – Investment Policy
15 – Regional Trade Agreements
16 – Regulatory Coherence
17 – Services
18 – Subsidies

* Policy options to be released in late 2016
Implemented jointly by ICTSD and the World Economic Forum, the E15 Initiative convenes world-class experts and institutions to generate strategic analysis and recommendations for government, business and civil society geared towards strengthening the global trade and investment system for sustainable development.