

Responding to the Challenges of Aid for Trade (II):

Aid for Trade Evaluation and Impact Assessment

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1. Introduction

During the Second Global Review on Aid for Trade (July 2009), the international community recognized that an assessment of Aid for Trade (AFT) outcomes and impacts would be required. A few months later, the Joint OECD Donor Assistance Committee and the Working Party of the Trade Committee (November 10, 2009) took the first steps towards the development of such evaluation, discussing the design, approach and potential challenges of the proposed exercise.

This note summarizes some early reflections initiated by the GTFA during summer 2009 and the central issues discussed during the OECD meeting. It provides donors and policy makers with a useful overview of the present state of the AFT evaluation debate and challenges ahead of us.

2. The context: evaluation and aid effectiveness

The delivery of official development assistance (ODA) increasingly focuses on transparency and accountability for the use of all development resources. (OECD, 2009b)

“Improved accountability is widely accepted as a way to establish incentives to help strengthen local ownership and achieve results.”

The growing attention to development results has made the “managing for results” concept the centre piece of the aid effectiveness agenda. Managing for development results (MfDR) provides a common performance management framework for achieving goals that build on lessons learned. Through the Paris Declaration and the Accra Agenda for Action, development partners have committed to manage and implement aid in a way that focuses on development outcomes and impacts (rather than processes) and uses performance information to improve decision-making.

A crucial element of this concept is the results chain, which specifies the inputs, activities, outputs, outcomes and impacts of a development intervention. The use of the a results chain, in turn, implies that an effective performance assessment is only possible if clear objectives and verifiable targets at output, outcome and impact level have been defined at the outset of the program”.

3. Current evaluation experiences in the area of AFT

The managing for results concept has been used to formulate a logical monitoring framework, following the path from “demand” (mainstreaming and prioritizing trade) to “response” (trade related projects and programs, through “outcomes” of priority projects and programs (enhanced capacity to trade) and finally to “impact” (lasting development results) (OECD, 2009b)

This logical framework is reflected in the Aid-for-Trade at a Glance (OECD/WTO, 2009) country fact sheets, which provide information on the different components of the logical framework. However, the country fact sheets should be seen as an evolving tool. A more thorough impact evaluation should provide more insight into the effectiveness of AFT.

For memory, AFT flows have been categorized as follows: (OECD/WTO, 2009)

- (i) trade policy and regulations,
- (ii) economic infrastructure,
- (iii) building productive capacity (this category also includes trade development),
- (iv) trade-related adjustment.

Future evaluation exercises can utilize these categories as a basis for conducting this work. It should be noted, however, that Other Official Flows (OOFs) are currently not included in the above categories. Given the importance of these flows for a country's trade performance, it would be very useful to also include them in future aid-for-trade reviews and subsequent impact evaluations.

The DAC Evaluation Resource Centre (DEReC) database contains an inventory of trade related evaluations. (OECD, 2009a) Most bilateral and multilateral donors have undertaken evaluations of trade-related assistance and other activities now covered by aid-for-trade. However, donors are applying "varying definitions, objectives, approaches and resources". Most donors have guidelines for their evaluation work, which are often based on the DAC Principles for Evaluation of Development Assistance. Donor's AFT programs are, in most cases, part of a broader effort to evaluate their ODA through structured and regular evaluation exercises. Nonetheless, several donors are currently trying to strengthen their evaluation framework for AFT. More specifically, (OECD, 2009a):

"the United Kingdom is developing a methodology for monitoring and evaluation in the context of its aid-for-trade strategy";

"USAID is in the middle of a project to determine the most efficient and effective way to evaluate trade building capacity projects and the trade element of other projects";

"the European Commission (EC) undertakes evaluations during mid-term and end of programs where appropriate..... EC's program monitoring focuses on output and possibly outcomes, but it does not consider it realistic to monitor trade impacts of specific aid programs because of the important number of external factors influencing trade";

"the World Bank evaluates its aid-for-trade projects in a similar way to other Bank projects with regular supervision reports and a final report on project outcomes and development impacts. The Bank's Quality Assurance Group (QAG) reviews a sample of lending projects for quality at entry and quality of supervision. Furthermore, after completion, projects/programs are randomly selected by the Independent Evaluation Group (IEG) for in-depth evaluation."¹

It should be noted that at present three quarters of the donors' evaluations do not include impact assessments beyond the objectives at project and program levels. However, several donors, for instance Ireland, Sweden, Norway, Germany, and the UK are planning to carry out impact assessments in the near future. The MCC has also taken several measures to strengthen their impact assessment strategy. (OECD/WTO, 2009).

¹ The last IEG evaluation on the World Bank's support for trade took place in 2006 and covered the period 1987-2004.

The above overview suggests that donors are applying different approaches and models as a basis from their evaluations. Therefore, the challenge is to identify an overall evaluation approach which assesses the impact of the joint AFT flows of all donors in a given country or region. This would require an exercise, where the project/program objectives of individual projects will be connected with strategic, long term outputs and impacts, which should be measured by using specific, preferably non-perception based indicators. A critical issue is the identification of these impact indicators and the need to identify baselines for individual program/projects and the impact indicators. Furthermore, it would be desirable to conduct joint evaluations with partner countries.

4. Modeling exercises developed by the research community

Current research using modeling exercises did not investigate the effectiveness of AFT flows at the project level, but rather at the macro level.

In a recent study by Gamberoni and Newfarmer (2009), the authors identified countries, which have the strongest potential demand for AFT. They ranked countries in terms of poor trade performance and relatively low capacity to trade. Countries with the lowest score (mostly LDCs and other low-income countries) have the strongest potential demand for AFT. The authors concluded that countries with the greatest potential demand for AFT are in general receiving AFT flows. “But the match is not perfect”. Many countries whose scores in trade performance and capacity indicate they should receive large amounts of AFT in fact receive below average amounts. The authors conclude that “in the aggregate, governments and donors have considerable scope for increasing AFT, especially among the under-performing low-income countries.”

The study also developed a conceptual framework for selecting indicators of trade performance. By using a gravity model, (quantitative) indicators were identified that would have the strongest predictive power on trade levels. The found indicators included infrastructure, institutions and trade policy-induced incentives. For example, one finding concluded that if the quality of infrastructure were to improve by 1 percent, exports would increase by more than 4 percent. Therefore, countries with low scores for these three sets of indicators should be “the strongest candidates for aid-for-trade as aid-for trade can act as a catalyst to improve these policies and institutions”.

In a second study, Helbe, Mann and Wilson, (2009) analyze an approach to target aid most efficiently in order to increase trade. Using a gravity model simulation, the authors calculated the export growth, resulting from different types of aid for trade facilitation. One of the reached conclusions stated that a 1 percent increase in aid flows related to Trade Policy and Regulatory Reform (one of the 4 categories of the aid-for-trade sector distribution) yields about US\$818 in additional global trade.

The research conducted by Brenton and Von Uexkull (2009) made use of a partial equilibrium model. The key relationship examined here was between the product specific technical assistance for trade and the impact on the exports subject to assistance. The findings stated that “on average, export development programs have coincided with or predated stronger export performance; such programs appear to be more effective when there is already significant export activity; there is some concern about the additionality of the programs and that support may be channeled to sectors that would have prospered anyway”. These conclusions depend very much on an assessment of outcomes in the absence of policy interventions. Therefore, “it would be useful to complement this analysis by an ex post case study analysis of the impact of specific technical projects and the reasons for their success and failure.”

5. Next steps and challenges ahead

During the November 10, 2009 meeting at the OECD it was agreed that further work would be initiated along two parallel tracks. First, a well-grounded “good practices” paper will be prepared. Based on inputs from OECD members, the Secretariat will collect evidence of existing practices. These practices will focus on “trade policy analysis, negotiations and implementation, trade facilitation, competitiveness and export diversification”. These are the top priorities of partner countries, as identified in the OECD-WTO Partner Country Questionnaire (OECD, 2009c). These areas correspond to (sub-sets of) the AFT sector distribution.

The second track will be directed towards conducting a meta-evaluation. This meta-evaluation will provide the basis for gaining insight into the linkages between AFT flows and their impact on trade performance. These linkages will be evaluated on a country-by-country or regional (for regional AFT activities) basis. This meta-evaluation will require the identification of impact indicators. To begin this work, the Secretariat will prepare an inventory of existing program indicators that will be assessed in order to suggest the optimal approach to utilize indicators in measuring impacts. An informal steering group will be established to discuss further the development and design of this meta-evaluation.

As highlighted in the documents and interventions prepared for the meeting, the following challenges have to be addressed to conduct AFT impact evaluation:

- (i) A number of issues are directly linked with the evaluation exercise:
 - To identify specific, non-perception based impact indicators to measure the impact of the aid-for trade flows as a whole for a given country or region. Indicators should be connected through causal links with programs/projects as classified by the sector distribution of aid-for-trade flows. Based on the indicators, a meta impact evaluation is intended to assess the impact of the joint donor development interventions in a given country.
 - To identify and develop baselines, both for individual programs/projects and impact indicators.
 - To provide an approach to identify proxies for non-quantifiable results, such as business climate, public sector performance, etc.
 - To research and design measures of the impact of budget support.
 - To determine a framework for joint evaluations with partner countries.

- (ii) Other issues which provide a context for delivering AFT activities include the following:
 - To determine if donors are working in support of a common country program (donor coordination)
 - To identify particular countries, which are underserved.
 - To specify trade programs, which address the most pressing issues affecting the ability of low-income-countries to trade.
 - To incorporate (and evaluate) Other Official Flows (OOFs) in aid-for trade flows
 - To determine the allocation of funds across countries-multilateral versus bilateral.

6. Possible indicators: some suggestions

The following three broad topics have a strong impact on a country’s trade performance and could serve as pillars of the evaluation exercise. These topics cover broad categories at a high level of aggregation. They are based on the three main steps of a trading process and by following this approach, a country’s trade performance at a meta-level is determined by answers to the following questions:

- How efficient is the production of goods and services at the firm level? (competitiveness);
- How restrictive are the foreign markets in which an exporting country is operating? (market access);
- How high are the costs of moving goods to foreign markets in terms of timeliness and cost-effectiveness? (trade facilitation).

(i) *Competitiveness*

Separate from the cost of trading and restrictions caused by trade and non-trade barriers, a country's capacity to produce efficiently shapes the potential for firms to compete successfully in foreign markets. This is determined by variables directly linked with the operations of a firm such as factor productivity, economics of scale, availability of credit, product quality, availability of backbone services, etc. However, the business operating environment in which firms function is also relevant. In this context, factors include the efficiency of government bureaucracy, tax regime, property rights regime, the degree of corruption, difficulties of starting and closing a business, etc.

The Global Competitiveness Report contains the Global Competitiveness Index (World Economic Forum, 2009), which is very comprehensive and captures the microeconomic and macroeconomic foundations of national competitiveness. This is defined as "the set of institutions, policies and factors that determine the level of productivity of a country". The index is calculated for 133 countries. It is based on 12 pillars comprising a total of 120 indicators, which are mainly based on surveys. The pillars include institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, good markets efficiency, labor market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation. Each pillar has been given a weight and countries are ranked based on the weighted average of the pillars. It is important to note that the scope of the overall index with regard to foreign trade is limited. However, a number of pillars, such as institutions goods market efficiency, financial market sophistication, technological readiness, market size and business sophistication could be further explored to assess the link between these indicators and AFT flows.

The World Economic Forum has also prepared the Global Enabling Trade Report 2009, which exclusively covers trade issues (World Economic Forum, 2009). This report contains the Enabling Trade Index, covering 121 countries. The index is based on data provided by international organizations and businesses and business organizations. The index measures the institutions, policies and services facilitating the free flow of goods over borders and to final destinations. The index covers the following sub-indices: Market access, border administration, transport and communication infrastructure and the business environment. The first three issues will be discussed separately in the following paragraphs, but the business environment sub-index could be a useful indicator to assess a country's competitiveness.

(ii) *Market Access*

Several trade restrictiveness indices have been developed over the years to measure the restrictiveness of trade regimes. A comprehensive indicator is the Market Access Overall Trade Restrictiveness Index (MA-OTRI), calculated by the World Bank (Islam and Zanini, 2008). This index summarizes the trade distortions that the rest of the world trade policies impose on the export bundle of each country. This index has been calculated for about 100 countries and therefore additional resources would be required to calculate the index for missing countries. This index could be used as an indicator to assess market access for individual countries.

(iii) *Trade facilitation/the costs of trading*

The wide definition of trade facilitation is described as the process of identifying and addressing bottlenecks affecting the cost-effective and timely movement of goods imposed by weaknesses in trade-related logistics. This covers issues such as logistics, trade-related infrastructure and transport facilitation together, along with the simplification, rationalization of procedures and the elimination of red tape.

The Logistics Performance Index (World Bank, 2007) is broadly accepted as an important indicator to assess the costs of trading for individual countries and is for example being used by the World Economic Forum in calculating its indices. The index, which was first published in 2007 covers seven areas that capture the logistics environment.² The LPI is a composite index to allow for comparisons between countries. The calculations of the index are based on surveys in which respondents were asked to evaluate the logistics performance and the environment and institutions in support of logistic operations in their countries and to provide time and cost data. The second LPI is expected to be available in December 2009.

A meta-evaluation based on these three sets of indicators could be carried out to investigate the relationship between the total AFT flows to a recipient country and a country's trade performance at a meta-level. However, it should be noted that the outcome of this type of evaluation could produce unexpected results. Generally, it is assumed that a country's trade performance would be positively correlated with the volume of incoming AFT flows. But that is not always the case. The highest AFT volumes (should) flow to countries with the highest demand for these flows, which are countries with a poor trade performance and relatively low capacity to trade. (Gamberoni and Newfarmer, 2009) However, redressing this situation will require much time and the involvement of many actors, in particular at the local level. Therefore, it is not realistic to expect short-term drastic improvements of a country's trade performance at a meta-level for countries with the largest bottlenecks.

A more cautious approach would consist of the selection of impact indicators at a lower level of aggregation. This type of indicators should be more directly linked with the outcomes of individual projects/programs and can be identified by studying the direct outcomes of these projects/programs. This approach would more likely result in a positive relationship between AFT flows and impact indicators at a more intermediate level.

7. Closing Comments

The initiatives proposed during the November 10, 2009 meeting at the OECD are important first steps towards carrying out an AFT meta-evaluation. However, the main challenge is a methodological one. The question is whether it is feasible to determine plausible links between activities and results at a project level and indicators at a meta-level as individual projects/programs may lack impact indicators at a meta-level. A number of possible meta-indicators have been presented in this note and the question to be resolved is how to link AFT activities at the project level to these or any other meta-indicators. An alternative, less ambitious approach would be to determine first from individual project samples in each AFT project category in a recipient country whether these projects contain indicators, which could be used for an impact evaluation at a more intermediate level... Finally, most of the meta-indicators proposed in this note are based on surveys, which may raise questions about the reliability of the data used. Even the hard, quantifiable data in the listed indices are for the most part also based on surveys.

² The seven areas are: Efficiency of the clearance process by customs and other border agencies; quality of transport and information technology infrastructure for logistics; ease and affordability of arranging international shipments; competence of the local logistics industry; ability to track and trace international shipments; domestic logistics costs; timeliness of shipments in reaching destination.

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