

# USAID Trade Capacity Building Programs

## *Issues and Findings*

### Summary

**T**RADE HAS A MAJOR DEVELOPMENTAL IMPACT. Developing-country firms that enter export markets learn how to meet international standards for product quality, price, packaging, and reliability. Imports bring technology and help ensure competitively priced inputs for industry and products for consumers. Trade encourages efficiency and innovation in a country's economy. Compared to countries that are isolated, those that join the global economy have substantially higher per capita income growth.

Countries without proper policies or conditions—including inappropriate domestic price signals, market controls, excessive regulation, and inadequate physical infrastructure—will find it difficult to trade. Such countries will benefit less than others from trade capacity building (TCB) assistance from USAID. Ideally, assistance should go to countries that can use it effectively.

Where the United States provides substantial TCB assistance to countries regardless of economic shortcomings, success is less likely. USAID TCB programs can help shift a country's policy stance outward, away from import substitution. Agency-funded experts can provide the analysis and training a country needs to identify critical policy and institutional changes and the expertise to support the country's efforts.

USAID has TCB programs in 104 countries, a number that challenges the program design and management capacity of the Agency's staff. Except for countries favored for political reasons, funding is also a serious constraint. To meet the challenge of the Doha Development Round of trade negotiations and of a rapidly growing number of bilateral U.S. trade agreements, USAID needs more trade specialists—and more funding—focused on priority regions and countries with economic policies that support trade reform. ■

### Background

This evaluation brief examines issues related to USAID's TCB assistance programs. The analytical

### KEY IDEAS

- Support winners. Concentrate trade development assistance on countries that are serious about economic policy reform.
- Recent increases in training for USAID staff in trade development and funding for trade capacity building are useful. But there is still a need for more funding and more USAID TCB staff.
- Expand USAID's capacity to evaluate impact by collecting and analyzing data systematically. To make future TCB assistance more effective, expand efforts to define best practices by conducting higher quality and more frequent TCB evaluations.



research for this paper is contained in background documents prepared by James Fox (see page 8). The recommendations are based on data available in Washington, DC, and information collected through telephone and email contact with USAID missions. ■

## The Relationship between Trade and Development

### Trade Supports Development

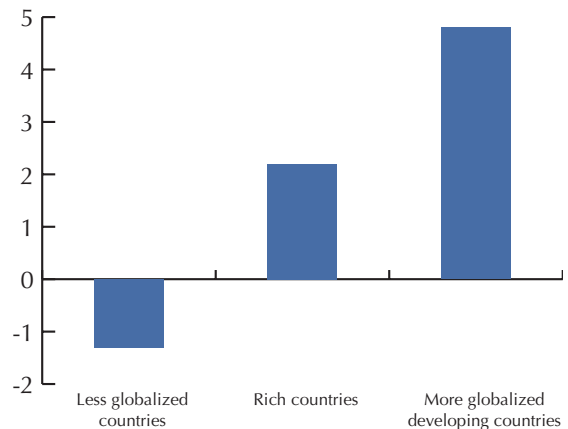
International trade and investment encourage competition, which in turn generates improved efficiency through skills development, technology transfer, and innovation. This process generates growth in both developing and developed countries.

Some countries have turned from hopeless cases into miracles in a generation. Korea, Taiwan, and Ireland, for instance, encouraged education and instituted strong economic reforms with an emphasis on international trade. More recently and more broadly, developing countries that opened their borders to trade have seen their per capita incomes grow rapidly—much more so than in rich or less globalized countries. According to the World Bank's analysis of the effects of trade liberalization since 1990 (see figure 1), developing countries that sought integration into the global economy during the 1990s enjoyed per capita income increases that averaged almost 5 percent per year. However, countries that limited their participation saw meager economic improvement.

### Economic Reform Should Come First

USAID's TCB strategy recognizes that activities are likely to have the greatest impact when they are implemented in developing countries that have already made progress in establishing a sound

**Figure 1. The Benefits of Integration: Average Annual GDP Growth per Head in the 1990s (percent)**



Source: *Globalization, Growth and Poverty*, by David Dollar and Paul Collier, World Bank, 2001.

investment climate and liberalized markets. The research literature and USAID's experience emphasize that TCB assistance alone is not enough. Even the best trade development program will have difficulties in countries where the economic and political environments are hostile. Entrepreneurs must believe that exporting can be profitable, and investors must have confidence that their capital will yield an acceptable return. Only when the economic policy environment is favorable is it possible to increase business investment and successfully enter export markets.

Most developing countries have lifted the more extreme barriers of overvalued exchange rates and capital controls. But there still can be difficulties. Any exporter has problems devising a successful production and export strategy when operating in an economy that suffers from rapid inflation, a lack of export financing, port congestion, restrictive labor laws, excessive market regulation, weak property rights, and government corruption. A bad economic environment harms all businesses, but it can be an even greater handicap for exporters who face stiff overseas competition. To be effective, USAID TCB assistance should be targeted to countries making serious, credible efforts to improve their business climate. Trade assistance in countries with a bad policy environment will generate meager results. ■

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# How Does USAID Allocate Its Trade Development Assistance?

## Trade Assistance Currently Does Not Support “Winners”

The majority of foreign assistance funds are not allocated according to the status of countries’ reform climate. Because of the source of funding, USAID TCB assistance is concentrated in countries that have been slow to make economic reforms. The Heritage Foundation’s Index of Economic Freedom ranks countries according to their fiscal, monetary, and investment policies; openness of trade, banking, and finance; and the extent of government intervention on wages, prices, and property rights. Some of the largest recipients of USAID TCB assistance have repressive economic controls and regulations and the lowest ratings on this index.

Figure 2 breaks down USAID TCB funding between countries whose economic policies the index rates as “free or mostly free” and those that are “mostly unfree or repressed.” Three-quarters of TCB funding goes to countries with poor economic policies.<sup>1</sup>

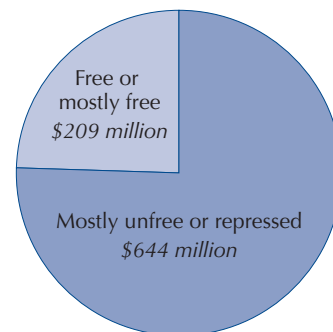
Figure 2 also provides the Index of Economic Freedom ratings of trade protection—the level of import controls and trade restrictions. Almost 90 percent of TCB funding goes to countries with moderate to very high levels of trade controls, and only about 10 percent to countries with low levels of import controls. Some of these funds, of course, support the process of reducing trade controls. But the overall pattern remains one of concern.

Because of the central importance of attracting investment to support economic development, USAID provides TCB assistance in nearly every country where USAID has a program. During FYs 1999–2001, USAID provided TCB assistance to 88 countries and regional programs.

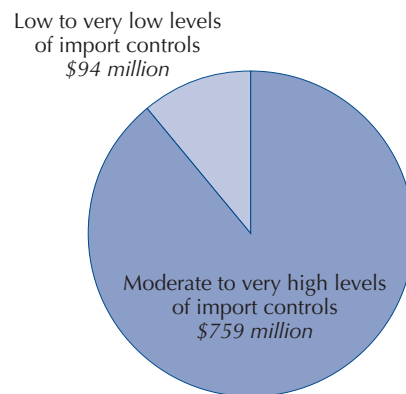
<sup>1</sup> Egypt received almost \$125 million in TCB assistance during FYs 1999–2001, significantly more than any other single recipient. This shows the influence of political considerations.

Figure 2. USAID TCB Country Funding, 1999–2001\*

### By Economic Freedom Ratings



### By Trade Policy Ratings



Source: USAID 1999–2001 TCB Database and Index of Economic Freedom, Heritage Foundation, 2001.

\* Data for regional groups and noncountry entities and West Bank-Gaza are not included.

The table (see page 4) lists the top 50 recipients by program size: 10 of the 15 largest recipients were countries characterized by weak economic policy environments. These account for over 40 percent of all USAID TCB assistance during FYs 1999–2001.

Countries receiving the most assistance include those of the former Soviet Bloc, and programs in Egypt, Jordan, West Bank-Gaza, and Haiti, where the United States has major political interests. These country allocations are heavily influenced by U.S. international political interests rather than the quality of a country’s economic environment. USAID also provides TCB in support of specific

## U.S. Government TCB Assistance, FYs 1999–2001, Ranked by USAID Funding (\$ thousands)

Rank	Country/Region	USAID	Other Agencies	U.S. Government Total	Economic Freedom Score <sup>2</sup>
1	Egypt	123,065	1,876	124,941	3.35
2	Armenia	59,775	2,912	62,687	2.65
3	Jordan	57,752	110	57,862	2.85
4	Sub-Saharan Africa not specified	53,709	24,108	77,817	–
5	Philippines	50,772	975	51,747	2.85
6	Georgia	44,908	605	45,513	3.40
7	West Bank-Gaza	42,238	–	42,238	–
8	Kazakhstan	41,128	846	41,974	3.50
9	Ghana	40,465	3,564	44,029	3.40
10	Haiti	28,444	–	28,444	3.60
11	Asia not specified	27,908	7,266	35,174	–
12	Kyrgyzstan	27,499	–	27,499	3.35
13	Ukraine	25,685	628	26,313	3.65
14	Russia	24,921	21,355	46,276	3.70
15	Croatia	23,815	31,901	55,716	3.15
16	Southern Asia not specified	22,300	20	22,320	–
17	Romania	21,071	1,210	22,281	3.75
18	India	19,088	20,556	39,644	3.50
19	Indonesia	18,356	153	18,509	3.30
20	Mozambique	16,669	250	16,919	3.25
21	Peru	13,700	1,085	14,785	2.80
22	Mali	13,101	430	13,531	3.00
23	Honduras	12,501	1,234	13,735	3.05
24	Global not specified	12,358	155,273	167,631	–
25	Nigeria	12,350	1,893	14,243	3.85
26	Vietnam	11,664	2,019	13,683	3.70
27	Bangladesh	11,393	6,377	17,770	3.50
28	Azerbaijan	11,136	25	11,161	3.35
29	Zambia	10,975	1,659	12,634	3.50
30	Central & Eastern Europe not specified	10,936	6,304	17,240	–
31	El Salvador	10,778	4,697	15,475	2.25
32	Morocco	9,750	200	9,950	2.95
33	Western Africa not specified	9,730	–	9,730	–
34	Latin America & Caribbean not specified	8,674	6,717	15,391	–
35	COMESA Secretariat	7,217	–	7,217	–
36	Tanzania	7,122	3,000	10,122	3.35
37	Caribbean not specified	6,904	5	6,909	–
38	Brazil	6,867	13,996	20,863	3.00
39	Sri Lanka	6,784	–	6,784	3.05
40	Thailand	6,238	782	7,020	2.55
41	Mongolia	6,124	570	6,694	3.00
42	Uzbekistan	5,725	1,071	6,796	4.20
43	Poland	5,600	851	6,451	2.91
44	Uganda	5,145	2,154	7,299	2.85
45	Dominican Republic	4,159	2,591	6,750	3.10
46	Senegal	4,120	245	4,365	3.05
47	Jamaica	4,000	1,384	5,384	2.80
48	Tunisia	3,899	–	3,899	2.95
49	Macedonia	3,786	239	4,025	3.25
50	Bulgaria	3,723	3,082	6,805	3.35

<sup>2</sup> The 2003 Heritage Foundation Index of Economic Freedom rates countries on the quality of their economic policies, laws, and regulations. The top country (Hong Kong) rates 1.45. The worst (North Korea) rates 5.00.

trade agreements. In this case, countries are not chosen on the basis of their reform orientation, but rather on the need to support U.S. efforts to negotiate trade agreements.

Results will be less than optimal as long as USAID feels it must have TCB activities in almost every country, even those with weak economic environments or restrictive trade policies. If USAID is to get the most impact from its investment, it needs the flexibility to allocate TCB assistance to poor countries that offer the best chance of success.

Proceeding in this manner would be valid, subject to two other important considerations. First, most of the TCB funding available comes from Economic Support Funds (ESF) and from the accounts for the formerly communist countries of Europe and Eurasia (E&E). In contrast, there is relatively little TCB funding available from the Development Assistance (DA) account, owing to other restrictions on these funds. Therefore, most of the TCB funding is simply not available for allocation to the good performers. Without more TCB funding in the form of DA, there is little scope for a greater focus on good performers.

Second, even with these constraints, the picture on selectivity—allocating aid to good performers—is brighter than depicted in this report, given recent events. There are arguably better indicators of policy performance and policy effort than Economic Freedom Scores, such as the Millennium Challenge Account (MCA) indicators and the World Bank Country Policy and Institutional Assessments. Based on this new information, the picture on country allocations, other than ESF, is reasonably positive. With the exception of Nigeria, all of the TCB recipients of DA shown on page 4 are either MCA eligible (top performers) or judged by USAID to be good performers. Further, the two leading E&E recipients of TCB assistance, Armenia (a top performer) and Georgia, are eligible for MCA funding. ■

## How Can USAID Identify Best TCB Approaches?

To do its job effectively, USAID needs to apply best practices and make adjustments if progress lags. Lessons from one country need to be available to other countries. By learning what works and what does not, USAID can develop a set of best practices to help avoid repeating mistakes. Approaches available to USAID include the following:

- *Measuring Results.* While it may be difficult for many USAID programs, measuring the impact of TCB assistance should be straightforward because of the ease of making quantitative projections of results and comparing the projections against outcomes. A successful TCB program will produce new export commodities, develop new export markets, and increase the total value of products being promoted. All countries collect export statistics. Those of some countries are not reliable, but import statistics from developed-country markets—the target for TCB projects—are usually of high quality and provide an objective, verifiable indicator of success in achieving project goals. The total value of any country's exports will always be subject to fluctuation, but USAID projects should choose measures relevant to program goals (such as nontraditional exports, exports to new markets, or high-value exports) for which export performance is closely linked to program activity.
- *Evaluating TCB Assistance Programs.* Program evaluation could be an important tool, but few TCB assistance evaluations have been completed in the last decade. Most recent evaluations were descriptive, concerned with implementation issues, or they failed to measure impacts such as export performance. They rarely identified critical factors of success or furnished statistical data on relevant export trends. Most evaluations provided no meaningful way to assess export performance. None provided a time series table showing a trend from the pre-project baseline to the final year of the project. Only one evaluation provided any time series data (exports for the specific firms receiving

assistance), and only one included clearly specified export data for the final year of the activity. This shortcoming is very troubling. It may be difficult to measure the outcome of a project intended to, for instance, improve governance in a country, but it should be easy to measure the success of an export promotion project. Yet the available documentation does not attempt to do so.

- *Using the Strategic Objective (SO) Framework.* The lack of evaluations would not be a problem if performance results were effectively captured by USAID's SO system. This study examined trade development SOs for 110 Results Review and Resource Request (R4) reports covering 22 major USAID country trade programs over a five-year period. The R4s described program objectives, activities, and expected results. The analysis of R4s was expected to generate outcome indicators. But it failed to yield particularly meaningful results. Activities and indicators frequently changed, making it difficult to judge results. USAID needs to know what TCB approaches work best, but R4s do not provide this information.
- *Getting Support from USAID Washington.* The lack of expertise and resources at the field level has increased the need for support from USAID Washington. Expertise in Washington to respond to such needs has been weak in recent years, but has increased significantly during the past two years. The Bureau for Economic Growth, Agriculture, and Trade (EGAT) has developed training courses on trade issues for USAID mission staff and provided training for more than 200 USAID professionals. EGAT has also funded best-practice studies on customs reform, sanitary and phytosanitary regulations, regional trade areas, successful country programs, and other trade issues for dissemination to missions. Some USAID regional bureaus have also increased their capabilities. These are important steps, but they are still not sufficient to assure high-quality mission programming. USAID Washington staffing in this area is

stretched and is still inadequate. Some missions continue to design new activities with little knowledge of experience elsewhere or of sequencing issues. ■

## What Capacity Constraints Does USAID Face?

USAID faces financial and staffing constraints that hinder implementing TCB assistance. Developing countries face other frustrations and constraints in responding to trade opportunities.

### Financial

USAID recently increased TCB funding from \$249 million in 1999 to \$548 million in 2003. Most USAID TCB assistance is for technical assistance and training, not for capital expenditures or credit. In a typical country, a few million dollars per year is adequate to support short- and long-term technical assistance and the strengthening of local institutions. There is often full funding of TCB programs that are politically motivated (funded from the ESF and SEED budgets). But it is a different story with DA-funded programs. Congressional earmarks and directives leave little discretionary DA funding for TCB assistance. USAID funding for TCB is difficult to find for those countries where the potential for good results may be most favorable.

### Staffing

TCB funding requirements are modest in terms of overall USAID funding, but TCB requires specialized expertise for oversight and management. USAID private-sector officers and economists are important to success. In general, interviewees from both USAID and cooperating consulting firms reported a substantial decline in USAID's capacity to manage and implement TCB activities during the 1990s. There were frequent complaints that USAID lacked the direct-hire expertise to oversee the recent increase in funding. USAID needs to continue to increase the number of staff who are knowledgeable about trade issues.

USAID's March 2003 trade strategy paper, *Building*

*Trade Capacity in the Developing World* (PD-ABX-241), provides reasons for building financial and staffing capacity. Indeed, USAID has substantially strengthened TCB assistance staff training during the last year or two.

## Other Constraints

USAID has successfully contributed to the U.S. Government's goal of helping developing countries join the World Trade Organization (WTO) and implement their WTO commitments. These activities are expected to promote development of poor countries by reducing obstacles to participation in the world economy and encouraging competition.

Developing countries face other problems. On the demand side, developing-country exports in key sectors are constrained by tariffs, quotas, and other nontariff barriers in developed and other developing countries. On the supply side, developing countries need to improve their economic responsiveness, competitiveness, and productivity. The perception that developed countries aren't doing enough to promote supply capabilities in poor countries has led many developing countries to become disillusioned with trade liberalization and the WTO.<sup>3</sup> USAID has a unique capacity among donors to address this problem. It has in-country presence, the ability to use grant funding, and the capacity to work directly with the private sector and NGOs. These advantages help USAID build developing countries' capacity to increase exports. Approximately 90 percent of USAID TCB assistance funding goes for supply-side programs. USAID should continue this emphasis. ■

## Recommendations

### 1 Concentrate trade development assistance on countries that are serious about economic policy reform.

USAID TCB assistance has a broad footprint, but it is not very deep. TCB assistance funds are spread over many countries, but most receive very little funding. Much of the money is concentrated in a

few countries with poor policy environments. TCB programs are of little value if economic policies work against trade development. USAID should concentrate funding on countries that offer the best prospects for success.

### 2 Further strengthen USAID staff and funding.

USAID needs to increase the number of trained staff in USAID Washington and missions. USAID has substantially increased staff training in trade development. This is a positive first step toward increasing mission capacity; however, workloads in the field are already quite heavy. Training should be supplemented by additional specialized staff to help energize the effort. USAID's senior-level staff should work harder to disseminate U.S. trade policy goals to the missions, emphasizing the close congruence between the U.S. trade and development agendas. To complement effective TCB assistance programs, USAID should play a more assertive role in the development aspects of trade in Washington interagency forums.

### 3 Conduct more and better evaluations of TCB assistance programs.

USAID needs to draw on its country program experience to know which TCB approaches work best and under what conditions. The decline in the number and quality of TCB evaluations—many do not even quantify the change in exports—is surprising and unfortunate. This problem has broad roots: the lack of a “market” in USAID Washington for good evaluation work affects evaluation of TCB assistance and other areas of USAID's work. Strengthening Washington's interest can help remedy this. A start would be to identify and disseminate the lessons from USAID's recent, major TCB efforts in Ghana, Jordan, and Uganda. Identifying successful approaches—not simply relying on earlier work in Latin America and Asia—is particularly important in Africa and the Middle East, where participation in the world economy has lagged the most.

<sup>3</sup> The equal need for domestic reforms within the developing countries is often ignored in these debates.

#### 4 Tap the knowledge of USAID contractors.

USAID has a small staff with specialized expertise in TCB, but the private sector and NGO development community often contracted by USAID also have a wealth of knowledge and experience in implementing TCB projects. This was confirmed in a workshop undertaken with contractors for this study. Additional efforts to draw on this expertise—perhaps through more formal submissions from the contractors with the greatest experience in this area—might be useful, especially on sequencing, priorities, and service-contracting procedures.

#### 5 Collect and analyze more data.

USAID Washington recently acquired the TradeMap technology for dissemination to host country trade specialists and the private sector.<sup>4</sup> But this very welcome service has limitations as a tool for USAID use in assessing past or ongoing TCB efforts. There are important economies to centralizing data collection and analysis. USAID Washington is the place to increase capacity to support, monitor, and evaluate mission-level efforts to increase developing countries' participation in the world economy. At a minimum, there is a need to provide detailed and up-to-date export data for all countries with USAID TCB assistance projects.

#### 6 Use evaluations to help direct the TCB assistance buildup.

Country fieldwork to interview experts on the quality and impact of USAID TCB activities would

<sup>4</sup> TradeMap, developed by the International Trade Centre (U.N. Conference on Trade and Development/World Trade Organization), provides online access to the world's largest trade database and presents indicators on export performance, international demand, alternative markets, and the role of competitors from the product and country perspectives. It provides trade flows (values, quantities, trends, market share, and unit values, both in graphic and tabular format) of over 180 countries and territories and 5,300 products defined at the 2-, 4-, or 6-digit level of the Harmonized System.

This evaluation brief, one in a series of papers that USAID produces regularly, examines existing programs and provides analytical input to policymakers and practitioners on USAID's trade capacity building assistance. This brief and other relevant documents can be ordered from USAID's Development Experience Clearinghouse (DEC). To order or download, go to [www.dec.org](http://www.dec.org) and enter the document identification number—PN-ACU-561—in the search box. The DEC may also be reached at 8403 Colesville Road, Suite 210, Silver Spring, MD 20910; telephone 301-562-0641; fax 301-588-7787; email [docorder@dec.cdie.org](mailto:docorder@dec.cdie.org). Editorial, design, and production assistance was provided by IBI—International Business Initiatives, Arlington, VA, under contract no. HFM-C-00-01-00143-00. For more information, contact IBI's Publications and Graphics Support Project at 703-525-2277 or [pgsp@ibi-usa.com](mailto:pgsp@ibi-usa.com).

#### RELATED PUBLICATIONS

The analysis in this paper is based on the following documents:

*An Evaluation of Trade Capacity Building: Overview* (PN-ACT-167)

*USAID Support for WTO/FTA Accession and Implementation* (PN-ACT-168)

*USAID Behind-the-Border Trade Capacity Building* (PN-ACT-169)

*Regional Trade Agreements: A Tool for Development?* (PN-ACT-170)

deepen the Agency's understanding of the factors key to program success. Because many African countries have benefited little from access to world markets, that continent is a good area to conduct field studies on lessons learned and constraints to increased trade. USAID recently established three regional hubs to provide TCB assistance. While these are probably too new for evaluation, two hubs—in southern and eastern Africa—build on a long history of trade development support. Research in either of the hub countries (Kenya and Botswana) and several countries in the region could lead to recommendations for future orientation of the hub programs.

#### 7 Expand the scope of trade development studies.

The analysis prepared for this study identified additional issues that require analysis. They include the following questions:

- How should the type of TCB assistance change, based on the quality of a country's economic policies?
- Should macroeconomic and democracy/governance reforms be part of TCB assistance?