An Evaluation of Trade Capacity Building Programs

USAID Behind-the-Border Trade Capacity Building

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An Evaluation of Trade Capacity Building Programs

USAID Behind-the-Border Trade Capacity Building

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Introduction

This paper reviews the experience of USAID in "supply-side" activities in trade capacity building (TCB). Much has been written on foreign market access or "demand-side" issues, focusing on barriers imposed by developed countries to the products of developing countries. These barriers include higher tariffs on products exported by developing countries than on those traded among industrial countries, quotas and other non-tariff barriers for apparel and other products, and the use of other measures such as antidumping laws. These barriers do exist, though their quantitative importance has declined over the years. Tariffs have been declining and access increasing through preferential arrangements for developing countries, including the Generalized System of Preferences (GSP) and regional preferences—the Caribbean Basin Initiative (CBI), the Automotive Products Trade Act (APTA), and the African Growth and Opportunity Act (AGOA) for the United States, and the "Everything But Arms" (EBA) initiative of the European Union.

Despite demand-side problems, the contrasting experience of different developing countries makes clear that these demand-side problems are only a small part of the explanation for poor export performance. Overall imports by the United States and other OECD countries from the developing world have grown dramatically over the last several decades, with most of the growth in manufactures. The sector most complained about as a market access problem—apparel—has been one of the most dynamic. In the case of the United States, total imports from developing countries rose from $39 billion in 1975 to $588 billion in 2000. U.S. imports of manufactures rose much more dramatically, from $8 billion to $300 billion. For apparel, the corresponding numbers are $2.2 billion and $47 billion. And while U.S. imports of apparel in 1975 were heavily concentrated in the Asian "tigers" of Hong Kong and South Korea, by 2000 these countries had lost much market share to other developing countries in Asia and Latin America.

Nevertheless, the growth in exports from developing countries has not been general. Instead, the country experience can be grouped into three categories: a modest number of rapid growers, a large number of slow growers, and a third group of very slow growers or nongrowers. The first group includes mostly Asian countries, including Thailand, Indonesia, Malaysia, and China, but also a few countries from other regions such as Costa Rica, Mexico, and Mauritius. The middle group includes most of Latin America, a few African countries, and a number of Asian countries. The final group includes most of Africa and the Middle East and a few countries in other regions.

For economists a decade or two ago, the obvious explanation for the differential performance of different countries was differences in economic policies. Get policies right, they said—referring mainly to appropriate exchange rates, low inflation, free-market domestic policies, and mostly private firms in productive sectors—and faster export growth will result. Most countries of the developing world have followed this advice to a significant degree. Rapid inflation is now more an exception than a rule, market-based exchange rate policies are in place in most countries, and there has been a retreat by governments from controls on economic activity and ownership of firms. Yet the payoff for this effort, while real, has been much lower than expected for many countries. It is true that reforms are incomplete in most countries, but the policy improvement has been so large that this provides only a weak argument. It can reasonably be argued that getting economic policies right will work in the long run, but, as John Maynard Keynes said, "in the long run, we are all dead."

The discovery that policies were not enough set off a search for other explanations. Institutions and culture are currently the prime suspects. Both are slippery concepts, since definitional problems abound and explanations for failure can be turned into reasons for success. The most egregious case is East Asia, where "Confucian culture" now explains success instead of backwardness.

The fact that countries can perform economic miracles in a generation—Korea, Taiwan, and Ireland being cases in point—provides a more encouraging picture. The problem in countries is not that insufficient elements for export success exist; it is that they have lacked catalytic agents that put a cumulative process in motion.

The key ingredient in the success of such countries has been the continual upgrading of the productive capabilities of firms. This has required several elements. First, the country's overall policy environment must be favorable for exporting so that entrepreneurs believe that exporting can be profitable. Second, connections to current international technology need to be established by attracting export-oriented foreign investment and by linkages between local firms and foreign markets. Third, a greater degree of collaboration between government and the private sector and among private sector firms (e.g., through "clusters") is needed.

Table 1: Major Recipients of Behind-the-Border Trade Assistance
FY 1999–2001
(million $)

Country	Trade Facilitation	Services Trade	Trade-Related Agriculture	Total
Ghana	13	12	15	40
Haiti	5		20	25
Eygpt	11	5	6	25
Jordan	20			20
West Bank/Gaza	16			16
Russia	15			15
Kyrgyz Republic	9	5		14
Peru	13			13
Georgia	12			12
Phillipines	5		7	12
Mozambique	6		5	11
Zambia	4		4	8
Armenia			7	7
Kazakhstan	7			7
Azerbaijan	6			6
Croatia	6			6
Romania	5			5
Ukraine	5			5
Mongolia	4			4
Subtotal	**162**	**22**	**64**	**248**
Other Countries	**77**	**19**	**37**	**133**
Total Funding	**239**	**41**	**101**	**381**

Note: Countries listed include only those with more than $4 million over the three-year period for any specific category.
Source: USAID TCB Database

Results from the Database

The categorization in the USAID database on TCB does not permit specific identification of those projects aimed at directly increasing the capacity of firms to export. It would probably be impossible to come up with such categorization, since most USAID activities in this area contain a variety of interventions: some with private sector firms, some with government, some aimed at increasing supply capacity for the domestic market, and some aimed at activities such as improved environmental practices that are not directly export related.

Table 1 provides the information on USAID support to three areas that probably contain nearly all of the supply-side activities: trade facilitation, services trade promotion (including tourism promotion), and trade-related agriculture. Altogether, USAID provided $381 million in these areas. Table 1 lists the major recipients of this assistance, including all countries where as much as $4 million was allocated in any of the three categories over the three-year period FY 1999–2001. One notable feature of the countries listed is the predominance of former Soviet Bloc countries and areas where the United States has major political interests, such as Haiti, Egypt, Jordan, and West Bank/Gaza.

Review of Recent Studies

The last major study of USAID's work in this area was published in 1994. That study concluded that a good overall policy framework was a necessary precondition for successful building of supply capacity. Broadly, this would include a realistic and stable real exchange rate, the capacity for potential exporters to obtain inputs at near world prices, capacity to export without excessive restrictions, and a generally positive environment for private sector development. In the absence of such conditions, the study found, USAID efforts should be concentrated on improving the overall policy framework.

Where an appropriate policy framework is in place, the study concluded that the highest payoffs went to promotion of linkages between firms and foreign buyers, foreign investors, and suppliers. Such links are the main means for technological upgrading. In many countries, governments have sought to provide services in these areas, but usually without much success.

Information on foreign market requirements was found to be another key resource for new exporters. Again, government providers of information were found to be of little help, as was government support for travel to trade shows. Trade associations were found to have a much better track record in providing information to members, for they tended to be much more responsive to the demands of their members than government agencies. Finally, some firm-level assistance, perhaps in the form of 50-50 funding of new experimental activities, was found to have high payoffs.

A number of evaluations or other reports of USAID work in this area have been undertaken since that CDIE study. This section describes the results. A review of the USAID database identified eight such reports, covering seven countries. Appendix 1 provides short summaries of the relevant findings of that work. In general, these reports are of limited evaluative use. Four are final reports prepared by the contractor who carried out the project, and a fifth—though not prepared by the contractor—is mainly a summary of the contractor's work. Of the remaining three, two are midterm evaluations, which typically (and appropriately) focus mainly on project implementation issues. Most are relatively old. Three were written in 1995, one each in 1997, 1998, and 1999, and two in 2000.

The SO approach was expected to increase the emphasis on outcome indicators. The earlier review of R4s in the TCB area[1] concluded that such indicators were not particularly meaningful, as changes in indicators frequently occurred. These reports confirm this problem. All of the projects reviewed were intended to increase exports. This is a particularly easy sector for comparing expectations with outcomes. All countries collect export

[1] (PN-ACT-167) Export and Investment Promotion Services: Do They Work? Mckean and Fox, 1994.

statistics. While some of these are unreliable, import statistics from developed country markets—the target for these projects—are usually of high quality and provide an objectively verifiable indicator of success in achieving project goals.

Unfortunately, most of the reports provided no meaningful way to assess export performance during the period under review. None of them provided a time-series table showing a trend from the pre-project baseline to the final year of the project. Only one provided any time series at all—exports for the specific firms receiving assistance—and only one included clearly specified export data for the final year of the activity. This is troubling, as it should be easy to measure the success of an export-promotion project. Yet the available documentation does not attempt to do so.

Results of Interviews

The interviews conducted as part of this exercise included queries to all USAID Washington bureaus, responses by 18 USAID missions to emails or phone calls, and consultations with trade specialists in eight consulting firms providing technical assistance under USAID projects.

In general, interviewees reported a substantial decline in USAID's capacity to manage and implement TCB activities over the last decade. Even with the increase in funding in the last three years, there were frequent complaints that USAID direct-hire staff lacked the expertise to oversee the increased funding. At the same time, there was recognition that USAID has been staffing up its capacity, particularly over the last year, and that USAID missions have become more knowledgeable on trade issues. Interviewees also frequently complained about lack of funding for TCB. Even though most TCB projects consist mainly of technical assistance and do not require large amounts of funding, the level of resources available was even lower.

Findings

Trade has been neglected. The neglect of trade during the 1990s is evident in a variety of ways. Most of the trade projects completed in the 1990s were never evaluated seriously, and the general failure to try to distinguish between success and failure is evident from the studies done.

Much TCB spending is of little value. The literature on trade capacity building is unambiguous that little will be achieved without a favorable policy environment. Nevertheless, USAID has committed much of its TCB resources to countries with poor environments.

USAID capacity is weak. Both in the field and in Washington, USAID's capacity to carry out TCB to strengthen supply capacity in developing countries is very limited.

Recommendations

1 Strengthened supply-side activities.

The behind-the-border, supply enhancement activities are the most developmentally important activities in the TCB area, particularly in the longer term. Poor counties will not continue to support the WTO and a liberal world trading regime unless they see growth and diversification in their own exports. This is also the area where USAID potentially has the greatest comparative advantage, with its grant funding, on-the-ground management, and private sector orientation. But strengthening this effort will mean more financial resources and hiring additional economists and private sector or trade promotion officers.

2 More and better trade data.

The lack of data on trade trends in countries where USAID has provided support for export promotion is the most glaring shortcoming of recent evaluations of such activities. Without good trade data, it is not possible to focus USAID resources on the places where they are having the highest payoffs. The USAID acquisition of TradeMap from the International Trade Centre in Geneva is a useful addition to the resources for analysis of trade potential, but it does not provide the depth of historical data that would permit better analysis of major trends.

3 More analysis of major past projects in Africa.

At least in the documentation available for this study, neither of the two major USAID supply-side TCB programs in Africa—in Ghana and Uganda—has properly been studied for lessons. Since the great majority of the least developed countries are in Africa, more effort is needed to draw the lessons from these major efforts.

Appendix 1: Commentary on Recent USAID TCB Project Evaluations

Kenya Export Development Support (KEDS). Mid-Term Evaluation. PriceWaterhouse, July 1, 1995. 218 pp. PD-ABM-423.

This midterm evaluation focuses more on project implementation issues than ultimate outcomes. The findings include the conclusion that the Kenyan government export promotion office was not serving the purpose intended under the project, and training of its staff should be discontinued. It recommends more assistance for private sector associations, more funding for the export development fund, and revision of the project's measurement of employment and export impact. It also calls for a 17:1 ratio of impact to investment, and notes that a 30:1 ratio would be more appropriate if the project were free from restrictions on the kinds of investment it could promote.

The paper reports that deterioration of Kenyan economic policy during the period of implementation limited project's success in increasing exports and employment. The paper provides some trade time series to identify actual trends in broad categories of exports, though not for the specific categories supported by the project. It reports up to four years of exports for the 33 firms identified as participating in the program. For the 16 firms for which four years of data are provided, exports rose from $11 million to $25 million.

USAID/Ghana Trade and Investment Program and Project, August 1995. Mid-Term Evaluation. Rita Aggawal et al. 81 pp. PD-ABM-236.

This is a midterm evaluation, so it focuses more on implementation issues than on outcomes. The report concludes that, overall, the project is succeeding, though changes are recommended in various components. The main elements—promoting better economic policies, supporting export associations, subsidizing initial firm-level efforts, and providing information to exporters—are all seen as achieving positive results.

One table compares target exports with actual ones, though it fails to make clear whether the figures are cumulative or for a particular year. It provides neither commodity breakdown nor time series of exports.

USAID/Uganda: Investing [investment] in Developing Export Agriculture (IDEA) Project Evaluation: Final Report. March 1997. 39 pp. PD-ABQ-636.

This final report, carried out by USAID staff, provides a thorough discussion of project implementation issues. The report asserts that the project has exceeded its life of project goals for exports, but includes no table showing export trends or the products included in the calculation.

The report concludes that project funding is inadequate to address the opportunities, and that project design requires excessive geographical dispersal of activities, including into areas where payoffs from the assistance are likely to be small. It suggests that too much effort is given to small farmers, while a larger export and employment payoff would come from concentrating more resources on larger producers.

Final Report: Small Business Export Development Project (SBED). Chemonics International, May 1997. 66 pp. PD-ABQ-683.

This report, prepared by the contractor who implemented the project, concludes that the project was a great success. Export volume increased by 158 percent, compared to a target of 10 percent, and export value increased by $11.8 million. Employment increased by 91 percent (or possibly 9.1 percent, as the report is ambiguous), compared to a target of 10 percent, though the same table identifies the number of jobs created as a very modest 58. No table shows the time trend of exports or employment and identifies the commodities exported, leaving the reader with no means to verify the significance of the claimed total. Extensive data is included on such matters as the firms receiving technical assistance, and a listing of all the individuals who received training.

The report identifies an overly ambitious project design (providing assistance to too many sectors with limited funding), midproject uncertainties about the availability of planned levels of funding, and the weakness of the Jamaican counterpart organization that was to carry on the work after project termination.

Morocco Agribusiness Promotion Project. End of Project Review. Richard D. Abbot. Prime International, Inc. June 1998. 47 pp. PD-ABQ-711.

This review concludes that the project was a great success, increasing agribusiness exports by $67 million, including $55 million to nontraditional markets and the introduction of 45 new products. It may have been such a success, but the report shows no time series for such exports, nor identifies the new products exported. The reader consequently has no means to judge the importance of these figures, either in relation to total Moroccan exports of the products in question, or to the time trend in exports that was occurring prior to project initiation.

Diversification of export markets, notably to the United States, was a major project emphasis. One major effort was the "red tomato initiative" which was aimed at gaining USDA authorization for imports of Moroccan red tomatoes. This was not completed by project end. The report provides no justification for the diversification effort, such as the natural disadvantage in transport costs and times that Morocco will permanently face in comparison to Mexican and Caribbean Basin producers.

USAID/Kampala: Evaluation of IDEA [Investment in Developing Export Agriculture] Project. May 1999. John Mullenax and Joe Carvalho, USAID/REDSO. 81 pp. PD-ABR-548.

This evaluation, undertaken near the end of the five-year project, concludes that it was a great success, and that it should be extended for another four to five years. It found that the project had achieved its major goals in exports and employment, but that a much longer time frame was needed to complete the institutionalization of support services for non-traditional agricultural exporters.

The report finds about $37 million in exports in 1998 (consisting of cut flowers, fresh fruits and vegetables, spices, and beans) were generated as a result of the project, and judges that substantial increases in exports would result from continuing the project. While the identification of specific categories of export achieved in a specific year provides more information than most other documents included here, it still does not provide the time series data—including preproject trends—that would allow an objectively meaningful first impression of project results.

Central Asia Trade and Investment Project. Completion Report. Booz-Allen & Hamilton. July 7, 2000. 89 pp. PD-ABT-483.

The report details the activity of the contractor, focusing mainly on legal reform aimed at promoting trade and investment. Numerous laws were passed during the project's execution, and one of the four countries assisted joined the WTO. The project seems to have played an important role in the passage of laws and implementing regulations. The report is dedicated entirely to activities undertaken during the project, and makes no reference to outcomes with respect to either trade or investment. No tables on export or investment trends are included.

Sri Lanka Agro-Enterprises Project. Final Evaluation. Mark A. Van Steenwyk, David C. Hamblin, and G. Balasuriya. Oregon State University, August 30, 2000. 160 pp.[2]

The document is labeled a "final evaluation," but was written by people from Oregon State University, the institution that implemented the project. Thus, it is probably better labeled as a final report.

The project aimed to increase Sri Lankan exports of agribusiness products through the provision of technical assistance and cost-sharing grants. The report finds that the project has been an enormous success. It was "well designed and relevant;" its "leadership was excellent; and "the team concludes that AgEnt's overall results exceeds output performance expectations in virtually every category measures" [sic]. Most impressively, "Export sales resulting from AgEnt assisted agribusiness sector development activities increased from an annual rate of $17.3 million to $374.0 million, a 21-fold increase." While the report identifies various products as "success stories," it does not provide a time series of agricultural exports so that the reader can identify the trend in exports of either specific products or the total of the products being promoted.

The estimate of the increase in exports appears to have been generated from internal reports of the project, though no specifics are included in the final report. No effort appears to have been made by the "evaluators" during their six weeks in Sri Lanka to check the consistency of project reporting with national trade statistics. This would have revealed an enormous inconsistency. The AgEnt project began in late 1992. According to the Central Bank of Sri Lanka, total exports of nontraditional agricultural products rose from $113 million in 1992 to $164 million in 1999 and $153 million in 2000. The Central Bank provides extensive commodity-by-commodity statistics, but the evaluation does not contain enough information on specific products to attempt any reconciliation. In sum, the project evaluation finding on the export results should be viewed as highly unlikely.

[2] This document does does not appear in the USAID project evaluation database. Evaluations of other USAID projects may exist, but simply have not been catalogued into the USAID database.

This Evaluation Working Paper can be ordered from USAID's Development Experience Clearinghouse (DEC). To download or order publications, go to www.dec.org and enter the document identification number in the search box. The DEC may also be contacted at 8403 Colesville Rd, Ste 210, Silver Spring, MD 20910; tel 301-562-0641; fax 301-588-7787; email docorder@dec.cdie.org.

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