EXPERTS MEETING ON INDICATORS:
MEASURING AID-FOR-TRADE RESULTS AT THE COUNTRY LEVEL

-- Background Note for Discussion --

The results of the Aid-for-Trade Initiative can be measured in three areas: i) greater awareness (*i.e.* trade mainstreaming → increased demand); ii) increased aid-for-trade resources (*i.e.* donor response → increased aid flows); and iii) more effective aid-for-trade interventions (*i.e.* demonstrating outcomes and impacts). The OECD/WTO monitoring exercise has measured progress, in particular, the first two dimensions. Monitoring of the third aspect (*i.e.* reporting on results) at the country, regional and global level is rather complex. As a first step the OECD and the WTO have jointly launched a Call for Case Stories to solicit information about what is working and what is not at the national and regional level.

However, further work is also clearly required in the area of results measurement. Indicators are a tool for assessing at a glance the results of aid-for-trade projects and programmes at the country level. The aim of this Experts Meeting is to develop practical ideas and approaches on how and which indicators can best be used to measure aid-for-trade results. Based on the discussion, the Secretariat will summarise the main issues and draft a road map, outlining how to move the process forward towards selecting a limited number of aid-for-trade indicators.

SESSION I: THE DEMAND AND SUPPLY OF AID-FOR-TRADE INDICATORS

This session will set out the rationales for establishing a menu of indicators to measure aid-for-trade results at a country level.

Why do we need indicators to measure results in aid-for-trade?

Recent changes in the global landscape of development co-operation have led to a greater focus on the management *for* results. The need for results is recognised as a key aspect of, and pre-requisite for, improved aid effectiveness. Through the Paris Declaration and the Accra Agenda for Action, the development community committed to manage and implement aid for trade in a way that focuses on development outcomes and impacts (rather than inputs and processes), and uses performance information to improve decision-making. The need to show results in aid for trade is particularly pressing considering the significant additional resources that have been directed toward trade-related activities in recent years.

The idea of selecting a limited set of indicators to measure results in aid for trade was first introduced at the 2007 Global Aid for Trade Review. This was followed by a 2008 WTO *Expert Symposium* which discussed a set of possible key indicators. Furthermore, at the 2008 *OECD Policy Dialogue on Aid for Trade* a strong case was made for developing indicators that were comparable across countries and time. In response to this series of discussions, the OECD has agreed to develop further these ideas.

In addition, several donors are developing aid-for-trade results frameworks – a conceptual tool used for strategic planning and performance measurement at the country level. This opportunity should be seized to consider developing a more harmonised approach to performance measurement. Such an approach would also be in line with the explicit commitments in the Paris Declaration and the Accra Agenda which call for the maximum efforts to harmonise international indicators in order to avoid flooding partner countries with a wave of indicators.

At what level should the results be measured?

What actions are expected to lead to what results? In order to establish the basis for measuring impact, relevant indicators are needed for each step in the result chain (*i.e.* inputs → activity → outputs → outcomes → impacts) to show how changes at each level lead to changes at the next level, ultimately impacting on the long-term development objectives (*e.g.* poverty reduction).

The country-level results will consist in large part of the targets/objectives achieved by individual projects and programmes. Outcome indicators are used to measure the "intermediate" effects of an activity or set of activities targeted by aid for trade, and are directly related to the output indicators. Outcome indicators refer to the degree to which results are achieved over time and so can be further classified as short- and medium-term outcomes.

- Short-term outcome indicators are more directly linked (*i.e.* do not need additional intermediate results to understand the linkage) with the short-term changes brought about by the project outputs.
- Medium-term outcome indicators are used to measure medium-term changes (indirectly) brought about by the project on beneficiaries.

It is at the level of outcomes where there is the potential for adopting a limited set of indicators that help aggregate results data from across aid-for-trade projects. This set of indicators will capture the development partners' "collective contributions" to results achieved at a national level.

Country-level performance measurement systems put the higher-order development objective (impact) and intermediate outcomes at the centre stage. It is less concerned with defining the individual project means (inputs/processes) and outputs, and much more with measuring and achieving the higher-level results. A potential danger with this approach is that the linkages between the higher-order results and the individual project activities may become overly vague or disconnected. However, despite such attribution problems, monitoring outcomes and impacts should point towards the direction of changes (and progress) with which the Aid-for-Trade Initiative at the country level can be associated.

How to quantify results (that are credible, and can be added up and benchmarked)?

Given its scope and multiple objectives, how do we sum-up the results across aid-for-trade and summarise the information at the aggregate level? One approach would be to indentify and integrate a small number of common indicators across all types of aid-for-trade interventions to 'tag' certain aspects of results and promote common results measurement and reporting practices. Indicators would be set at the outcome level where measurements of the results (or the degree to which the goals were achieved) could be bundled up. Taken together, these indicators would permit each country to benchmark the overall progress in building trade capacity at the country level, and to observe and compare strengths, weaknesses, and gaps across donors and track progress over time. This, in turn, would help to identify specific actions that could help improve the impact of aid for trade.

Such a menu of indicators should be representative of the key characteristics of aid for trade, as defined by the WTO Task Force on Aid for Trade. The challenge, however, is to identify indicators which are broad enough to capture the wide range of aid-for-trade categories (but still focusing on a few key aspects which are deemed central), while still providing credible information on results aid for trade is achieving in building trade capacities and expanding trade.

Which trade-related indicators are available and what do they measure?

We must work from existing indicators. This means that the added value of the aid-for-trade indicators would mostly lie in the manner in which different existing indicators are combined to measure aid-for-trade results and how such country-level results information is presented and disseminated. Today there are a plethora of indicators and indices related to the different categories of aid-for-trade:

- *The International Trade Centre's Trade Performance Index* (TPI): TPI calculates the level of competitiveness and diversification of a particular export sector and compare results across countries. At present, the TPI covers 184 countries and 14 different export sectors, and provides three types of indicators: i) a general profile; ii) a country position for the latest available year; and iii) changes in export performance in recent years. Its composite ranking is based on five criteria which are value of net exports, per capita exports, world market share, and diversification of products and of markets.

- *The World Economic Forum's Enhancing Trade Index* (ETI): ETI is an aggregate indicator constructed from a range of both hard data and survey data, and focuses on the broader trading environment in a country. It aims to assess the extent to which countries around the globe have in place the institutions and policies for enabling trade. The World Economic Forum publishes an annual report where 123 different countries are measured against this index.

- *The World Bank's World Trade Indicators*: WTI database is a tool that enables countries to benchmark their trade policy and performance and compare across countries and country groupings (*e.g.* by region, income group, regional trade agreements, etc.). It contains a broad set (about 450 variables) of trade-related policy and outcome indicators for 211 countries and territories. WTI is organised around five thematic pillars: i) Trade policy; ii) External environment; iii) Institutional environment; iv) Trade facilitation; and v) Trade outcome.

By way of setting the stage for discussion, the session will start with presentations from:

- The European Commission (**Mr. Jan ten Bloemendal**) will provide insights into the growing demand for and focus on 'results' in development co-operation and share the experiences and perspectives on harmonising the way development results are measured and reported within the EU donor community, including aid for trade.

- **Ms. Tran Thi Thu Hang** from the Permanent Mission of Vietnam to the WTO will share her experience and views on how to deal with the practical issues related to managing results in aid for trade and will also articulate the demand for and the challenges of selecting indicators from a partner country's perspectives.

- The International Trade Centre (**Mr. Friedrich von Kirchbach**) and the World Economic Forum (**Ms. Margareta Drzeniek Hanouz**) will talk about their respective indicators: *e.g.* the thinking and processes behind the selection of these indicators (*i.e.* rationale, definition, partners involved, objectives, expected results, scope, methodologies, and tools used) and whether or not they are achieving their intended objectives.

SESSION II: WHICH INDICATORS TO SELECT?

For identifying and compiling a list of candidate indicators, there needs to be a clarity about "what" is to be measured and "how" it will be measured (*i.e.* how the required data will be obtained). This session will discuss the criteria for selecting indicators which can be used for aggregating aid-for-trade results at the country level.

Clarifying what is to be measured

The central focus of the monitoring exercise is to see the (relative) changes, over time and across countries, in the degree of success in building "trade capacity" and its impact on trade competitiveness and their trade performance. There is also the broader issue of how improved trade performance is contributing to the achievement of development objectives, *i.e.* the developmental impact of the trade outcomes. Therefore, the menu of indicators could focus on and should be representative of these three aspects of aid-for-trade results.

In addition, the number of indicators selected should be limited to the minimum needed to adequately capture the key dimensions of an aggregate result in aid for trade. After all, the idea is to keep the performance measurement system simple. In some aid-for-trade sectors, donors are already pursuing a harmonised approach by establishing sets of common indicators to determine the levels of achievements and compare these across countries. One such example is the Donor Committee for Enterprise Development (DCED). There is much to draw upon from their experience and lessons in developing and agreeing on such common aid-for-trade indicators.

Could we replicate the approach taken by the DCED and limit the number of indicators to only a few (3 to 5 indicators) that are central to the monitoring exercise? This question, in turn, raises another set of questions:

- How feasible is to summarise comprehensively the country-level results using 3-5 indicators?

- Should we identify a separate indicator for each aid-for-trade category? At what level of detail or aggregation?
  - Per aggregate category? (there are 5 categories → between 15 to 25 indicators)
  - Per sub-category? (there are 17 sub-categories → between 51 to 85 indicators)

Which selection criteria?

The DAC Evaluation Network outlines six criteria for selecting good indicators.

1) Valid : Does the indicator directly represent the result it is intended to measure?
2) Objective : Is the definition precise and unambiguous about what is to be measured?
3) Reliable : Is the data consistent or comparable over time?
4) Practical : Can data be collected easily, on a timely basis and at reasonable cost?
5) Useful : Will the data have utility for decision-making and learning?
6) Owned : Do partners and stakeholders agree that this indicator makes sense to use?

The key to a light but effective monitoring system is to have a clear focus on results. The first step is to narrow down the variables that can affect trade performance. It is also important to recognise that there are limits to what individual indicators can tell. They provide factual information about implementation progress but tell little about possible causation between different variables. Indicators (unlike evaluations) do not explain why something is observed. They just show what the current state is (one would have to go for further exploration of causes/effects to understand why indicators show what they show). Furthermore, a menu of indicators should not aim to be comprehensive but to provide a snapshot of aid for trade. They should remain a political tool for assessing overall trends and progress, and presentation should be based as much as possible on benchmarking and cross-country comparisons.

Some examples:

Some work has already been done, most notably by the World Bank, identifying indicators using sophisticated modelling techniques. In a recent study by Gamberoni and Newfarmer (2009), the authors developed a conceptual framework for selecting indicators that measure different aspects of trade performance (i.e. export growth, market share, competitiveness, demand effect, and concentration), as well as of trade-related domestic capacity constraints (i.e. infrastructure, institutions, and policy-induced price incentives). They selected a total of ten indicators to monitor trade capacity and performance (see Table below). Could their approach be a possible way forward?

Dimension	Indicator	Source
Trade performance	Real growth of exports of goods and services	WB, World Trade Indicator
	Change in export market share of goods and services	WB, World Trade Indicator
	Competitiveness effect (change in market share)	ITC, Trade Performance Indicator
	Demand effect (change in market share)	ITC, Trade Performance Indicator
	Index of export concentration (Herfindhal)	WB, World Trade Indicator
Infrastructure	Quality of transport and IT	WB, Logistics Performance Index
Institutions	Efficiency of customs	WB, Logistics Performance Index
	Time to export/import	WB, Doing Business
Incentives	Trade restrictiveness index (tariffs only)	WB, World Trade Indicator
	Share of tariff lines with domestic peaks	WB, World Trade Indicator

Source: Gamberoni and Newfarmer, 2009

The session will start with a presentation from:

- The DCED Secretariat (**Mr. Jim Tanburn)** will share its experience and challenges faced in selecting a limited set of indicators to measure results in private sector development, including the pluses and minuses of agreeing on 'universal' indicators.

- The Inter-American Development Bank (**Ms. Carolyn Robert**) will provide a regional perspective on results management, with a particular focus on the ongoing preparation for an assessment of the results and impact of its recently launched Strategic Thematic Fund on Aid for Trade.

SESSION III: HOW DO WE GO FORWARD?

The experiences, including the lessons-learned, shared by the DCED might provide some insights into how to take this work forward. This session will discuss the process of arriving at a menu of indicators to measure aid-for-trade results at the country level.

What process should be followed to arrive at a menu of aid-for-trade indicators?

In order to take this work forward, the Secretariat proposes to do the following. Based on the discussion, the Secretariat will summarise the main issues and draft a road map (by the end of this year), outlining how to move the process forward towards selecting a limited number of aid-for-trade indicators. This road map will also set out issues and questions that relate to possible future steps for deepening the project, including exploring options for increasing understanding of observed changes in indicators over time (for example, through evaluation). In particular, it is essential that all countries accept the validity and relevance of the indicators included, thus an increased reflection of developing country interests will need to be considered. This is also linked to the issue of 'ownership' (*i.e.* the sixth criterion that the indicators need to be owned). Therefore, as part of the next step, the Secretariat will also look at how best to engage partner countries and to 'multilateralise' the process.