MANAGING AID TO ACHIEVE TRADE RESULTS

PROPOSAL FOR FURTHER WORK

Joint Meeting of the Development Assistance Committee and the Working Party of the Trade Committee on Aid for Trade
17 June 2011, OECD Conference Centre, Paris

This document is submitted to the Joint Meeting of the DAC and the Working Party of the Trade Committee FOR COMMENT under Item 8 of the draft agenda [COM/DCD/TAD/A(2011)1/PROV].

Members are requested to provide their comments by Friday 24 June cob Paris time.

Contacts:
Masato Hayashikawa, DCD - Tel.: +33 (0)1 45 24 16 92 - E-mail: masato.hayashikawa@oecd.org
William Hynes, DCD - Tel.: +33 (0)1 45 24 15 68 - E-mail: william.hynes@oecd.org
MANAGING AID TO ACHIEVE TRADE RESULTS

1. Introduction

1. Recent changes in the global landscape of development co-operation have led to a greater demand for and focus on results. The political need to demonstrate the outcomes and impact of aid for trade is growing, especially in light of the significant amount of aid that has been directed toward this area since the launch of the Aid-for-Trade Initiative in 2005. Given the multidimensionality of aid-for-trade objectives, the limitations of the tools of analysis, and the complex causality chain, the relationship between specific outputs of aid-for-trade programmes and the overall impact on trade performance and growth has been treated mostly as a kind of “black box”. Making further progress on results management in aid for trade requires opening this box.

2. In this context, the October 2010 OECD experts meeting on measuring results in aid for trade\(^1\) agreed to take this work to the country level through a series of pilot studies (hereinafter referred to as ‘the study’) in a number select partner countries to develop a menu of indicators to measure performance of aid-for-trade programmes and project towards targets and objectives. Members strongly emphasised the importance of partner countries setting quantifiable targets and objectives of their aid-for-trade strategy (the indicators are ‘owned’). Furthermore, donors in the field (the end-users of indicators) should be involved from the start of the project.

3. This note presents the draft terms of reference (ToR) of the study and is structured as follows. The next section sets out the purpose and objectives of the study. Section 2 provides the scope. Section 3 outlines the activities and key issues to be addressed. Section 4 explains the organisation and timeframe of the study. Finally, the background of the study is presented in the Annex.

2. Purpose and Objectives

4. The purpose of the study is to provide the aid-for-trade community with a comprehensive analysis and assessment of the use of country-owned results measurement frameworks for trade-related activities financed through aid. In particular, the study will examine the feasibility of developing a set of aid-for-trade intervention logics with quantifiable targets and a menu of indicators to measure results (i.e. outcomes and impacts) around which donors – including the providers of South-South cooperation – can align their monitoring and evaluations. The objective is to develop meaningfully comparable results frameworks based on country systems, which would allow for the tracking of progress (results) at country-level, and at the same time, satisfy donor accountability requirements.

5. A greater focus on results must not lead to a proliferation of individual and donor-oriented systems to define and measure results. The study aims to make a contribution to advancing this agenda in line with the aid effectiveness. In particular it would present practical approaches to foster greater managing for results by partner countries, through:

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1. Experts Meeting on Indicators: Measuring Aid-for-Trade Results at the County Level, 22 October 2010 (for more information: www.oecd.org/document/41/0,3746,en_2649_34665_46303593_1_1_1_1,00.html).
• promoting alignment of donor and partner country objectives and targets,
• reducing parallel results reporting processes,
• increasing transparency and objectivity of decision making,
• contributing to the global public good of evidence about the relationship across inputs, processes and outcomes, and
• increasing accountability for delivering on promises by all parties.

3 Scope

Pilot countries

6. Recently OECD has undertaken a meta-evaluation based on 162 evaluations of aid for trade related donor activities in Ghana and Vietnam and in the transport and storage sector (see the final report: COM/DCD/TAD(2011)1). The results of the meta-evaluation show that further work is clearly required in the area of results measurement. As a logical sequence, the study will continue to focus on Ghana and Vietnam as pilot countries. In addition, a third pilot country from Central America will be identified in cooperation with the Inter-American Development Bank.

Target sector

7. The study will focus on the transport and storage sector. A lack of transport infrastructure is a key binding constraint that aid for trade aims to address (Box 1). Projects in the transport and storage sector are trade-oriented in nature and define their principal target as the enhancement of trade or the facilitation of the movement of goods. Regardless of the particular focus or instruments used, all projects aim at rehabilitating, maintaining or constructing transport infrastructure (roads, rails or ports) and, in turn, enhancing trade performance and improving economic and social conditions, including poverty reduction. However, it is important to note that while improved economic and social conditions are the ultimate goals of donors, transport and storage projects are designed to achieve these goals as a result of improved transportation performance.

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2. For example, the study found that impact of trade was not explicitly considered in most reviewed evaluations. Furthermore when the impact on trade was mentioned, it was most often only briefly invoked on the basis of theoretical or hypothetical links but it was neither measured, nor verified. When it was, in general terms, the operations’ impact on entrepreneurs, exporters and/or importers was hardly ever evaluated. Problems highlighted include a lack of *ex ante* robust assessment of the operation to be undertaken. Objectives tend to be defined without the preliminary work required for making the operation “assessable”.

Box 1. Trade and transport infrastructure

Transport costs account for a large part of the value of imported and exported goods throughout the world. Francois and Manchin (2007), for example, conclude that export performance, and the propensity to take part in the trading system at all, depends on institutional quality and access to well-developed transport and communications infrastructure. Similarly, Djankov, Freund and Pham (2008) show that trade delays reduce exports, and that the effect is larger than tariffs. Bora, Bouet and Roy (2007) present a gravity model showing that Africa’s trade under-performance is driven by poor trade-related infrastructure. The authors conclude that interventions to improve both the level and quality of infrastructure could yield high returns. This view is supported by Limao and Venables (2001) who argue that quality of infrastructure is an important determinant of transport costs, and show that poor infrastructure accounts for more than 40% (and up to 60% for landlocked) of predicted transport costs.

Consistent with these arguments, the Commission for Africa (2005) identified ‘geography’ as one of the two root causes of Africa’s poor development performance (the other being governance). The Commission points out that these landlocked countries, where more than a quarter of Africa’s total population live, face a substantial competitive disadvantage and therefore are much more likely to remain poor. For instance, transport costs are 50% higher and trade volumes 50% lower than in similar coastal countries. It is also said that being landlocked is equivalent to being located 10,000 km farther away from markets (Clark, Dollar and Micco 2004). Due to their lack of access to infrastructure, a higher proportion of people suffer from undernourishment than their peers in coastal countries. Worst still, if the neighbouring countries are also poor, their landlocked-ness even becomes a poverty trap (Collier 2007).

Reliable and affordable infrastructure reduces the cost of doing business. It helps to connect poor people to the growth process by improving their access to growth poles. There is empirical evidence that increased access to infrastructure contributed to growth and lowering of income inequality, including across sub-Saharan Africa (Calderon and Serven 2004, 2008). For landlocked countries, it is imperative for growth acceleration and inequality reduction to improve the availability and the quality of infrastructure. The Commission recommends that Africa needs an additional USD 20 billion investment each year in trade-related infrastructure. This should support the continent’s regional, national, urban and rural infrastructure priorities – ranging from rural roads, power plants to ICT and other economic infrastructure needed to support greater integration of sub-Saharan Africa, and to enable African countries to break into world markets.

8. The choice of the transport sector also fits well with the long-term growth agenda agreed at the recent G20 Summit in South Korea. The G20 leaders adopted the “Seoul Development Consensus for Shared Growth” which identified nine action areas or pillars for reform and transformation to create “optimal conditions for strong, sustainable and resilient economic growth in developing countries.” These areas, inter alia, included infrastructure development (i.e. energy, transport, communications, water and regional infrastructure) and trade capacity building. Therefore, evaluation in this area will become more important.

3. Activities

9. The study will be undertaken through a consultative process involving the pilot-country governments and the donor community (bilateral and multilateral donors and providers of South-South cooperation active in the sector). For this reason, it is important to involve in the process existing aid co-ordination groups, such as local consultative group or sector and sub-working groups (e.g. on infrastructure).

10. A core reference group will be set up in each pilot country, comprising the partner government, a lead donor in the sector, the development bank and possibly a South-South partner, to help guide and steer the pilot process and function as a sounding board. Table 1 presents the top five donors for Ghana and Vietnam based on the average 2008-2009 ODA commitments.
Table 1. Lead donors in Ghana and Vietnam

<table>
<thead>
<tr>
<th></th>
<th>Ghana</th>
<th>Vietnam</th>
</tr>
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<tbody>
<tr>
<td>World Bank</td>
<td>218.7</td>
<td>813.3</td>
</tr>
<tr>
<td>United States</td>
<td>80.1</td>
<td>809.7</td>
</tr>
<tr>
<td>Canada</td>
<td>67.0</td>
<td>306.3</td>
</tr>
<tr>
<td>AfDF</td>
<td>56.1</td>
<td>Korea</td>
</tr>
<tr>
<td>EU Institutions</td>
<td>54.8</td>
<td>France</td>
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</tbody>
</table>

11. The study will have two distinctive parts or phases. The first phase will focus on the four central themes: trade-related country priorities, alignment around country strategies and systems, results and accountability frameworks, and existing trade-related indicators. It will include an assessment of pilot country systems and capacity to plan, monitor and manage for results, and a survey of the existing trade-related targets and performance indicators used by pilot-country governments and donor agencies in the area of transport and storage. This phase will also be based on the responses to the 2009 and 2011 OECD-WTO Partner Country Questionnaires, particularly the section on the implementation of aid for trade. The phase will identify the main conceptual and methodological issues related to building a menu of aid-for-trade indicators. The study will also examine the implications of the use and development of country systems (vis-à-vis donors’ commitment to respect the Paris Declaration and Accra Agenda for Action principles of ownership and alignment). Some of the specific questions that need to be answered are as follows.

- What aid-for-trade policies/strategies exist in the pilot country? How were they defined?
- What are the needs and priorities of the pilot country in the transport and storage sector?
- Does a results-based monitoring and evaluation system exist in the pilot country? Describe the methodologies and indicators used.
- What accountability mechanisms/procedures exist in the pilot country to discuss?
- What is to be measured and how will be measured? Key questions for formulating indicators:
  - What (country-specific) result is intended?
  - Who is this result meant to affect?
  - To what extent should this result take place?
  - Which qualitative aspects of the result should be borne in mind?
  - By when and, if appropriate, where should the result occur?

12. Based on the analysis and conclusions of first phase of the study, the second phase will define the specific objective of the menu, i.e. the key dimensions of aid-for-trade results at the country level that the menu should capture and measure. Phase II should outline practical recommendations for the development of aid-for-trade specific intervention logics for the transport and storage sector in the three pilot countries, with a menu of relevant targets and performance indicators. This should explain the causal links between the results being reported and the interventions of the donors. Reliable data are required for setting out the baseline in order to precisely formulate targets and establish quantitative indicators to measure the achievement of those targets. If country systems do not provide the necessary data, donor targets may be included where appropriate. However, transparency about the methodology on data collection must be ensured. If the pilots are successful the next stage of the project could comprise more sectors and more partner countries.
4. Organisation and Timeframe

The study will be conducted by the OECD Secretariat with the support of pilot country-based consultants and in close collaboration with the World Trade Organisation (WTO). The work will begin in the Q3/2011, following the Third Global Review on Aid for Trade (18-19 July). At least two meetings will be organised in each of the three pilot countries: at the start to launch the process, and at the end to draw lessons from the pilot projects. The field work (data collection, stakeholder interviews, etc.) will be carried out by the local consultants. Progress in work and provisional results will be presented and discussed at the joint meetings of the DAC and the Working Party of the Trade Committee. At the end of the Phase I of the thematic study an interim report will be produced no later than Q2/2012. This report will describe the results of the descriptive analysis, conclusions and references according to Section 3 above. At the end of the Phase II after the completion of the pilot studies, a draft of the comprehensive report will be completed by the end of Q3/2012. Further revisions may be requested at this time with a final version available by the beginning of Q4/2012. The final report will be published and launched at an OECD workshop on managing for aid-for-trade results to be organised in the Q4/2012.

<table>
<thead>
<tr>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEPT</td>
<td>OCT</td>
</tr>
<tr>
<td>Study launched: Stakeholder consultation</td>
<td>Phase I report completion</td>
</tr>
</tbody>
</table>
ANNEX

The idea of developing a set of indicators on aid for trade was first introduced at the first Global Aid for Trade Review in 2007. As a follow-up to this recommendation, an Expert Symposium, organised by the WTO in September 2008, discussed with key stakeholders a set of possible indicators. Furthermore, at the November 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.

Recent changes in the global landscape of development co-operation have led to a greater demand for and focus on 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 (AfT) in a way that focuses on development outcomes and impacts (rather than inputs and processes), and uses performance information to improve decision-making. The ‘political’ need to demonstrate the macro impact of AfT is also growing, especially in light of the significant additional resources that have been directed toward this area since the launch of the AfT initiative in 2005. Given the multidimensionality of AfT objectives, the limitations of the tools of analysis, and the complex causality chain (not to mention the problem of attribution), the relationship between specific outputs and overall impact (trade and growth) in AfT has been handled mostly as a kind of “black box” (Figure 1). Making further progress on results management in AfT requires opening this box.

The black box captures the “intermediate” effects of an AfT activity or activities, which can be further classified as short- and medium-term outcomes. The intervention-logic model define these two types of links, or the degree to which results are achieved over time, as ‘results (outcomes)’ and ‘specific impacts’ respectively (Figure 2). While there is no one set of outcome measures that will fit all AfT interventions, there may be some benefit in providing specific intervention logics for AfT in order to open the black box by focusing on the intermediate outcomes.
An intervention-logic must be developed for each country, based on its context and existing government strategies, and in order to establish the basis for measuring impact, one needs to specify the particular targets of the intervention and its intended outcomes as precisely as possible. The next step is to establish a set of measurable indicators that can be used in assessing the impact of specific AfT interventions. Inside the black box, relevant indicators are needed for each intermediate step in the result chain. These include ‘short-term outcome’ indicators for the ‘results (outcomes)’ step and ‘medium-term outcome’ indicators for the ‘specific impacts’ step.

Such a menu of indicators should be representative of the key characteristics of AfT, 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 AfT categories (but still focusing on a few key aspects which are deemed central), while still providing credible information on results AfT is achieving in building trade capacities and expanding trade.