

A.I.D. DISCUSSION PAPER NO. 12

**MEASURES TO ENSURE
THE EFFECTIVE USE OF AID**

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MEASURES TO ENSURE THE EFFECTIVE USE OF AID

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U. S. Paper presented to
The Conference on Improving the Effectiveness of Aid for Overseas Development
(sponsored by the Overseas Development Institute and the Ditchley Foundation)
at Ditchley Park, Oxfordshire, England
June 3-6, 1966

A.I.D. Discussion Papers are circulated for the information of the addressees and their staffs. These papers are intended to serve several functions: to improve knowledge of analytical studies, research results and assistance policies among Agency personnel; to encourage the careful recording and analysis of Agency experience and problems by persons currently engaged in them; and, to share such experience and ideas with interested persons outside of the Agency.

September, 1966

Measures to Ensure the Effective Use of Aid

Introduction

What constitutes effective aid from the donor's viewpoint varies in different countries and at different times, depending on the donor's objectives and on the recipient's level of development.

Most donor countries intend their aid to serve several major objectives, including accelerated development in the recipient country, strengthened political ties with that country, and expanded trade and investment opportunities. For many of its country assistance programs, the United States would add to this list of goals heightened internal or external security; progress towards a system of government which is reasonably responsive to public aspirations and stable enough to encourage development; a more equitable distribution of wealth, income and services among classes, regions, and/or ethnic groups and between urban and rural areas.

This paper concentrates on ways to increase foreign aid's effectiveness in supporting development. This reflects both the central concern of the Conference, and the primary focus of the U.S. economic assistance program. Over the past fifteen years, U.S. aid has shifted from a heavy emphasis on security toward much greater stress on development, with the exception of our programs in those few countries where there is an acute security threat. However, U.S. economic aid remains a multipurpose instrument--the actual assessment of its effectiveness in particular countries and the design of measures to increase its effectiveness must therefore still take into account security and political as well as development objectives.

Confining our attention to development goals, the criteria of effective aid must be further modified according to the recipient country's level of development. The yardstick applied to programs in a country with extremely limited administrative and technical cadres and institutions, e.g., some countries in Africa, would be much too modest for programs in countries like Chile or Turkey. Not only are different yardsticks appropriate, but they should be used to measure different kinds of achievement. Effective development aid is aid which is applied to the priority requirements at a particular stage of development, and requirements change as the country progresses.

In the past five years, A.I.D. has pursued two major lines of action to increase aid's development effectiveness: (i) The program planning process has been refined and elaborated, by requiring broader

and longer-term analyses of each recipient country's problems and prospects, and more precise identification of aid goals and targets as a framework for determining the volume and composition of aid to a country. Considerable effort has gone into recruiting more economists and other analysts and training staff already in the Agency to conduct better analysis. (ii) A.I.D. has increasingly recognized that economic aid can promote development not simply by supplementing the host country's limited capital and technical resources, but also by exerting influence on host country policies and programs. As we have become more aware of aid's potential leverage role, we have experimented with techniques for exercising such leverage more effectively.

However, it should be noted at the outset that development of theory has outpaced application in practice. Many conceptual problems remain, and administrative problems hinder implementation of ideas which are well worked out in theory. Therefore, the discussion below states A.I.D.'s current thinking regarding aid goals and targets and the use of influence, and also indicates the extent to which these ideas are actually applied and some of the reasons for the gap between theory and practice.

A. Defining Goals and Targets

The U.S. approach to determining the volume and composition of assistance to particular countries has passed through several stages. During the Marshall Plan, aid levels were determined largely by balance of payments considerations. As U.S. assistance shifted to the less developed countries during the mid-1950's, the balance of payments approach gave way in many cases to a project approach, since the developing countries lacked the institutional and managerial capacity to ensure effective use of a large volume of commodity imports. A number of selection and evaluation procedures were developed to ensure that projects were soundly planned and that funds were not wasted through diversion, inflated costs, lags in delivery of material or arrival of technicians, host country failure to provide agreed local cost support, or other problems. While projects which clearly contributed little to economic progress were avoided, a systematic effort to determine optimal overall use of aid resources developed only gradually.

With time, however, it has become increasingly clear that a collection of sound projects does not necessarily add up to accelerated growth, much less bring about the structural changes required to increase savings and foreign exchange earnings and lead ultimately to self-sustaining growth. A.I.D.'s contribution is increased by concentrating both resources and influence on particular strategic problems within each sector of the underdeveloped society. A.I.D. is increasingly trying to focus aid resources and influence in each receiving country

on a limited number of such goals selected in the context of a broad analysis of the country's development prospects and problems.

1. Selecting Goals

a. The analytic framework

In all countries where the U.S. conducts large or moderate assistance programs--roughly 45 out of the close to 70 countries to which some U.S. economic aid is extended--assistance goals are selected in the context of a rather comprehensive, continuing analysis of the country's development problems and prospects. Field missions are asked not only to examine the current situation and immediate prospects and requirements, but also to anticipate trends for several years into the future. In eight or nine countries where data permit and the scope of the U.S. program warrants, such projections usually take the form of a macro-economic model, and include estimates of the results of alternative assumptions regarding key variables. The usefulness of such projections does not depend on very accurate data, since the main purpose is not to predict progress but to test which policy variables are most important in determining the rate and pattern of growth.

Ideally, macro-economic analysis along these lines must be supplemented by depth studies of problems and prospects in key sectors, or in fields which cut across sectors, such as export promotion. In estimating possible progress over, say, a five year period, existing government policies, priorities and administrative capacity should not be taken as immutable, but rather regarded as policy variables. On the other hand, the estimate should not assume radical, therefore highly unlikely, changes in policies, priorities or efficiency. The purpose of the analysis is, in fact, to pick out those key changes which are both necessary to realize potential growth and feasible in the light of major constraints, including competing claims upon limited capital and administrative skills, social and cultural attitudes, and political pressures.

Such an analysis is too time-consuming to attempt for all development fields in a country. Therefore analysis normally narrows in scope as it proceeds from more general to more detailed levels, identifying at each stage those sectors or problems which seem to play a key role and therefore warrant closer examination.

Even rather crude analysis along these lines permits aid resources and influence to focus on key changes necessary to accelerate growth and restructure the economy. As analysis is carried further, aid goals can be more sharply defined. (It might be noted that sharper definition does not imply narrower scope.)

b. A.I.D. Experience with Establishing Goals

An aid agency's ability to devise its program fully as a consequence of this kind of analysis is evidently circumscribed by "real world" factors (in addition to the existence of non-developmental objectives of foreign assistance).

First, it is obvious that other considerations enter into selection of aid goals, in addition to the identification of those fields or problems on which progress is most essential in view of the country's level of development and potential areas of comparative advantage. A donor interested in maximizing the development effectiveness of its assistance would select from among a list of priority goals those which (i) were not being addressed by other donors, and (ii) called for types of aid which it could administer effectively, i.e., fields of activity for which it could provide required skills and commodities at competitive or better-than-competitive prices and quality.

Second, the volume and composition of project aid in any given year is largely determined in the short run by activities already under way, except in those rare cases in which a new country program is started or a limited program is greatly expanded.

Third, in many developing countries A.I.D. is prepared to provide a flow of loans for sound capital projects which substantially exceeds the host country's ability to identify, prepare and propose sound projects. Increased assistance for pre-feasibility and feasibility surveys eases the problem only slightly. Therefore in many countries A.I.D. is likely to finance a capital project which looks economically and technically sound and for which funds on suitable terms are not available from other sources, even if the project has little or no relation to the goal structure of the rest of the country assistance program. As a result, capital project assistance is often poorly integrated with other A.I.D. activities.

Fourth, poor data and a still inadequate understanding of the development process hamper analysis at every stage. However, once certain sectors or problems have been selected as particularly important, continued efforts to gather information over the longer term will permit considerably improved analysis and performance.

Fifth, despite vigorous efforts to recruit more general economists and specialists in sector analysis (e.g., education planners, agricultural economists, etc.), the best staffed field missions at present have perhaps two or at most three thoroughly trained general economists and very few missions have any qualified sector

analysts. International and domestic U.S. demand for education planners, good agricultural economists and other sector analysts greatly exceeds supply, and A.I.D. has found it very difficult to attract the kind of talent it needs to conduct the analysis sketched above. We are now experimenting with using contract teams for sector analysis; for example, Education and World Affairs is conducting a two-year study of education problems in Nigeria, and the RAND Corporation is considering helping in Turkey and Colombia.

Because of these problems, many of the "goals" outlined by field missions still serve more as labelled receptacles for the set of projects being carried out under the supervision of the individual technical divisions in the mission, rather than a de novo grouping with its own internal logic and strength. The projects may be well- or ill-planned individually and as a group, but superficial "packaging" by itself adds nothing to their effectiveness.

On the other hand, where the approach has been taken seriously and supported by adequate analysis, it has led to significant changes in program design, and to better directed and coordinated activities and influence. For example, one goal in the Pakistan program is that East Pakistan achieve self-sufficiency in rice production by 1970, while increasing rice yields per acre to permit crop diversification. Crop diversification may in turn lead to improved nutrition and the increased production of export crops. This goal of producing more rice and higher acreage yields provides a unifying focus for technical assistance, project and commodity dollar loans, local currency loans and grants, and influence directed to many types of activity, including improved planning, agricultural extension, training, improved supply of fertilizer, pesticides, seeds and other production requisites, irrigation, marketing, credit, coastal embankments, flood control, and rural works. Most of these kinds of activity were already under way when the goal was formulated, but questions of volume, phasing, location, and specific emphasis (for example, what kinds of pest control to emphasize) are now determined by considering their contribution to the goal of increased total production and acre yields of rice.

2. Defining Targets

Purpose and Nature of Targets

Fairly precise achievement targets associated with each goal serve three purposes. (i) They facilitate precise planning, by focusing attention on how much and what kinds of progress is feasible and desirable; identifying the total in-puts, in terms of resources skills, and changes in policies and procedures, necessary to achieve this progress; and finally suggesting the share of total

resources and the kinds of influence the donor should provide. (ii) Time-phased targets also permit a running evaluation of progress, so that steps can be taken to correct lags. (iii) Finally, targets or benchmarks permit an after-the-fact assessment of performance, which may make it possible to apply experience with one problem in one country to similar problems elsewhere.

One or two hypothetical examples may illustrate the kind of targets we believe to be helpful in planning and evaluation. Assume that increased foreign exchange earnings represent one key goal in a relatively advanced developing country where the growth of exports has failed to keep pace with progress in other fields. In this case it is possible to set a quantitative target associated with the goal--say, a 50% improvement in export performance over a five year period. This target in turn reflects detailed estimates of potential increases in earnings from commodity exports, tourism, remittances, and other sources. Therefore the overall target can be supplemented with targets for increased earnings from those sources which are expected to make the greatest contribution to the total increase in foreign exchange earnings--let us say, an 80% increase in earnings from mineral exports, and a 200% increase in earnings from tourism. The next step is to identify the actions which must be taken if the targets are to be achieved. In the case of an overvalued exchange rate this may require a certain amount of devaluation. Meeting the minerals export target may require capital inputs such as modernized mining equipment and easier access to credit, technical inputs such as application of improved mining techniques, and policy inputs such as revision of the mining code and adjustment of freight and loading charges for certain types of ore. These conclusions will point to the need for new or continued aid activities, and for experts to encourage and assist the host government to take the needed policy measures.

Another goal might be reorientation of the formal education system to better serve manpower and other developmental needs. Although no single over-all target can be associated with this goal, a number of contributing targets can be identified. One such target might be a shift in the distribution of students at secondary and higher levels from generalist to technical and professional fields of study. If a key bottleneck to such a shift were poor mathematics and science preparation in the early secondary school years, another target might be a specified increase during a five-year period in the number of qualified mathematics and science teachers at this level. Still another target might be the introduction over the five-year period of terminal technical and commercial programs at secondary and sub-university level, on a scale adequate to train a specified number of students annually.

As these examples suggest, targets may be quantitative, e.g., percentage increase in mineral exports, or qualitative, e.g., revision of the mining code. Since many of the most important tasks in the

developing countries are essentially qualitative, insisting on artificial quantification is not helpful and may be self-defeating. What is important is that the target be precise enough to permit formulation of a course of action to achieve it, and of "mid-term" and "terminal" assessment of whether it has been achieved.

The examples also illustrate our view that meaningful targets must be framed in terms of host country accomplishments, rather than in terms of accomplishments attributable directly and entirely to aid and the donors. This reflects the fact that the essence of the aid process is bringing about desired changes in the host country situation with marginal inputs--marginal resources and marginal influence. Efficient construction of a capital facility or successful completion of a technical training project is not significant in isolation. Only if the facility or the skills are coupled with other actions to bring about priority changes is the assistance really "effective". Recognizing this from the start--stating targets in terms of changes in the host country situation and considering the full range of action needed to achieve the targets--may lead to better project selection and design, increased complementarity among projects, and more systematic use of influence.

b. A.I.D.'s Experience with Establishing Targets

A.I.D.'s experience with establishing targets and using them for planning and evaluation purposes is very limited thus far. Fairly specific targets have long been included in the field missions' annually up-dated descriptions of each technical assistance project. But these targets relate solely to the individual project. While they are useful in assessing whether the project is proceeding as planned, they do not help us assess whether the project is really worthwhile and is having the intended broader effect.

Several years ago an effort was made to require broader quantified targets attached to each major program goal. However, the requirement was at once so general and so rigid that field missions either ignored the instruction or submitted meaningless targets.

A more flexible and detailed system of five-year goals and targets is being attempted this year on an experimental basis for nine major country assistance programs. If the experiment proves useful as a planning and evaluation device, the requirement that output targets be established will be extended from these nine programs to all or most other A.I.D. country programs.

Partial results available thus far suggest that where a goal is well-defined and aid activities are systematically related to the goal, it is fairly simple to construct rather precise

five-year targets and to spell out the most important host country and A.I.D. actions necessary to achieve the target. However, it becomes quite difficult to construct meaningful targets if a goal is less well-thought-through, and aid activities are less well articulated. This suggests a need for tighter analysis, rather than discrediting the concept of targets. In our limited experience, while it is easier to establish quantitative targets for inherently quantitative goals (e.g., increased production, increased supply of trained manpower, etc.) than for institutional development goals (e.g., reorientation of an education system), it is not difficult to construct reasonably precise qualitative targets with respect to institutional development and policy changes. Finally, it may be worth noting that A.I.D. country desk officers in Washington found it much more difficult to spell out targets and associated inputs than did field mission staff who are much more thoroughly familiar both with the host country situation and with details of the aid program.

B. Using Influence Effectively

The discussion of goals and targets applied both to the effective use of aid as additive resources and to effective use of aid to influence host country self-help measures. In the long run, aid's "influence potential" is much more important than its resource contribution. This is true for two reasons. Total aid from all sources has probably contributed roughly 20% of total investment in the developing countries in the past few years. The use made of the remaining 80% is clearly much more important in accelerating growth than is the use of aid alone. Furthermore, policies and procedures--import licensing arrangements, investment codes, marketing board pricing policies, power transportation rate structures, tax provisions, to name only a few--affect economic development at least as powerfully as the presence or absence of adequate infrastructure or technical skills. Successful efforts to influence macro-economic and sectoral policies are likely to have a greater impact on growth than the added capital and skills financed by aid.

1. Types of Influence

It is useful to distinguish between the more general concept of influence and the narrower concept of leverage. Leverage goes beyond influence and persuasion to condition aid, explicitly or implicitly, on specified host country action. Leverage may be negative or positive: aid may be withheld unless certain conditions are satisfied, or additional aid may be made available if host country performance achieves specified standards. Positive leverage is sometimes called "incentive programming".

It is also useful to distinguish between rewarding overall performance by generous aid allocations (thereby presumably encouraging continued good performance, and perhaps inducing other countries to improve their policies), and using current aid negotiations to encourage specific future self-help measures. The first approach is general and "ex post"; the second approach is specific and "ex ante". The 1961 Report of the President's Task Force on Foreign Assistance relied on persuasion as the primary technique for influencing aid recipients to undertake reforms. It stressed the need to concentrate U.S. assistance in those countries which performed best, thereby both placing our assistance where it would be most effectively used and inducing other countries to improve their performance. However, the pattern of U.S. aid allocations has not always favored good performers clearly enough to exercise a strong demonstration effect. Moreover, specific self-help measures call for decision and action by individual host country officials or agencies. Except for very major macro-economic decisions taken at the highest levels, the connection between specific decisions and the possibility of increased aid available in the future to the country as a whole (not necessarily to the agency which must implement the reform) is too tenuous to have much direct impact. Therefore during the past three years A.I.D. has tried to develop techniques for using current aid negotiations to encourage specific self-help measures.

2. The "influence potential" of different forms of aid

Potentially, all forms of aid can be used to exercise influence. Some forms of aid are better suited to influencing macro-economic policies; others relate more readily to sector or sub-sector policies.

Much technical assistance is primarily designed to influence policies and procedures directly through providing technical advice, or indirectly through training and association designed to influence attitudes and increase analytic skills. However, with rare exceptions, technical assistance has been used for leverage only to facilitate the operation of the project itself, e.g., refusal to enter into or continue a project unless adequate counterparts are provided or the host country fulfills commitments regarding office space, transportation or other supporting services. The fact that technical assistance projects are rarely used for leverage on host country actions beyond the scope of the projects themselves reflects the assumption that host governments are probably not so eager to get or keep specific technical assistance that they are willing to alter sectoral or sub-sectoral policies or procedures. Most technical assistance projects are relatively small. Often they

reflect the donor's view of what needs to be done more than the host government's priorities. Many countries do not count technical assistance as part of the aid level.

There is another constraint on using technical assistance to exert leverage. Effective technical assistance depends much more directly and heavily than other forms of aid on good relations between the foreign technicians and the organization or officials with whom they work. Pressure for reforms, say, in sectoral or sub-sectoral policy might or might not require decision or action from the counterpart organization itself. If it did, and if the pressure were resented, the gains from the immediate improvement in policy might be vitiated by reduced long-run effectiveness of the technical assistance itself.

Project capital assistance can be used to exert both general influence and specific leverage on host country actions. At the simplest level, virtually all donors, bilateral and multilateral, insist that engineering and technical criteria essential to the success of the capital project itself be satisfied. Most donors call for some host country contribution to local costs. These requirements themselves may have a constructive influence, by educating host country officials in what constitutes a well-planned project. However, these conditions also slow the rate of commitments and disbursements. The proper balance between maintaining a given level of project standards and maintaining or expanding the investment program depends on individual country circumstances.

Moreover, A.I.D., the IBRD, and other donors have not infrequently attached to capital project aid conditions going beyond the scope of the individual project. Narrowly conceived, most often conditions relate to the efficient use of the project--e.g., provision for adequate maintenance, or altered rate structure (for a power project). But they may also affect the performance of the entire sector or sub-sector. For example, a sizeable A.I.D. loan for road construction in Afghanistan was conditioned on the Government's establishing, staffing and budgeting for an adequate road maintenance organization. Loans for power stations in Korea were conditioned on changes in rate structure designed to encourage a more economical use of electricity and enhance the investment incentive in the power field.

Perhaps the most important constraint on the use of capital project aid for leverage is the fact that for many developing countries, the volume of assistance available from all sources for well-designed capital projects substantially exceeds the availability of project proposals which meet technical and economic criteria. If donors are competing for good projects, they are deterred from attaching

conditions extending beyond the scope of the project. Even if competition is not a factor, political pressure to maintain a flow of aid discourages any delay in obligations or commitments of funds for sound projects.

A.I.D. is currently exploring new techniques to increase influence on over-all and/or sector policies through project lending. One possible approach is to select a sector or problem area (in the context of country analysis described in A above) and indicate to the host government an interest in giving in-depth assistance for the development of that sector. We would either offer to finance or ask the recipient to finance a thorough study of the sector--of its prospects, its development relative to the growth of the entire economy, its requirements, and alternative means of satisfying those requirements. Such a study would include feasibility studies of a number of projects in the sector. Upon completion of the survey, we would offer to finance a specified number of projects at a specified sum and to supply or finance technical assistance for the projects and the operation of institutions within the sector. The offer would be conditional on the host government's undertaking, the policy adjustments and other measures identified in the sector study as necessary for real progress in the sector.

A.I.D. has thus far found program (commodity) assistance the most powerful and flexible form of aid for influencing macro-economic policies. This is true for several reasons:

(i) Commodity aid is almost always larger in volume than individual projects; in a number of countries U.S. commodity assistance substantially exceeds total project aid.

(ii) Most donors are reluctant to provide commodity aid. Yet it may be badly needed at certain stages of development, to permit fuller utilization of existing facilities and to support widely scattered small capital improvements which are difficult to finance on a project basis. Moreover, commodity aid flows quickly; its effects on the economy are prompt. Therefore commodity aid is strongly desired and has high scarcity value.

(iii) Since commodity aid provides equipment, raw materials and spare parts for the economy as a whole, linking commodity aid to macro-economic policies is more likely to appear reasonable and appropriate to the recipient. Therefore program loan negotiations permit access to discussion of a wide range of issues. The volume of program lending is usually based on an analysis of balance of payments requirements. This can easily be broadened into a general review of the economic situation, conducted jointly with the host

government, and resulting in decisions both about the volume of aid and about required self-help actions. Recent program loan agreements with Brazil, Chile, Colombia and Korea have provided for joint quarterly reviews of the economic situation and of progress on particular problems.

(iv) Since commodity aid can be increased or decreased at the margin or delayed in timing, it provides a credible incentive. The program loan agreements with Brazil, Chile, and Colombia mentioned above provide that assistance will be released in quarterly tranches, contingent on host country performance as measured by agreed indicators. A recent agreement with Korea provided "incentive funds" for five specific policy reforms: progress on any one of them would be "rewarded" with a small increment in the total program loan, and adequate performance on all five would result in release of the full \$10 million provided under the loan agreement.

(v) Some of the most important self-help measures needed in many developing countries require external support at the time the measure is taken as a precondition for its success. For example, U.S. willingness to make a larger part of its total aid available in the form of commodity assistance, helping to meet a possible surge in foreign exchange requirements, played a significant part in Pakistan's decision to liberalize import controls in July 1964. Measures to stimulate private sector activity may also require program loan support.

3. Maximizing influence

While A.I.D.'s experience with systematically maximizing influence is limited, a few broad principles are clear.

The first principle is obvious: the donor must understand the country situation well enough to identify the most important self-help measures needed. While easy to state, this is not easy to do. Therefore the kind of analysis described in A above is essential for the effective use of influence.

The second principle is mutual respect and the open exchange of views between the donor and recipient. The developing countries themselves increasingly accept the idea that donors have a legitimate interest in the development policies and programs of aid recipients. But the relationship is inherently delicate. Even if the host government is receptive, there are always groups within the country ready to cry "interference".

Moreover, unless the host country really understands and accepts the need for measures it is urged to undertake, it may conform to the letter of the agreement while finding ways to defeat its purpose. Or it may simply fail to meet its commitments. For example, in March 1963 an agreement between the U.S. and Brazil

(known as the Bell-Dantas agreement) was concluded in which Brazil agreed to take measures to curb inflation and improve its financial situation, while the U.S. agreed to make available, subject to applicable legislation and contingent on Brazilian performance, approximately \$400 million for the period March 1963 through May 1964. (This sum included Export-Import Bank and Treasury credits and PL 480 commodities as well as A.I.D. assistance.) It gradually became clear that Finance Minister Dantas lacked sufficient support within the Brazilian Government to implement his program. Dantas was replaced in June 1963. Beyond the initial tranche that had been released immediately, the U.S. limited further assistance during the remainder of the Goulart regime to PL 480, project assistance, and programs in the Northeast.

Even where the host government understands the need for and is committed to implementing agreed reforms, no mechanistic formula is adequate to ensure effectiveness. In Chile, for example, a program loan agreement concluded in 1962 (negotiated in collaboration with the IMF, the IBRD, and other DAC donors), stipulated that Chile take certain stabilization measures and achieve a substantial surplus on current account from which the bulk of public investment would be financed. IMF and A.I.D. officials reviewing Chilean performance later in the year agreed that the conditions were met, yet severe inflation and other major problems persisted. In this case explicit leverage attached to precise targets was effective in a narrow sense but failed of its real goal. This suggests both a need for improved understanding of the problem and the importance of continued close consultation with the host government.

The most outstanding examples of effective influence--e.g., import liberalization in Pakistan, were based on months or years of discussion with host government officials, and the gradual reinforcing of the views of those within the government who favored the reform. The opportunity to maintain such a dialogue is one of the strongest arguments for substantial field missions and sustained field mission input.

Despite the importance of basing influence on informal and continuing discussion with host country officials and influential private individuals, A.I.D. is convinced that it is useful to make an understanding explicit and formal by incorporating it into aid agreements and providing for periodic review.

It is easier to reach agreement on specific self-help measures if there is a mutually agreed framework of general principles. The Charter of Punta del Este to some extent precommits Latin American governments to the principle of reform. The annual reviews conducted

by the Panel of Wise Men of the Inter-American Committee for the Alliance for Progress (CIAP) reinforced and provided a multilateral context for U.S. efforts to encourage improved performance in Latin America.

In many cases, the U.S. is of course not the only donor country, nor even the major donor country. The IBRD-IDA, the IMF and other multilateral institutions also play an important role in many countries where the U.S. has assistance programs. Clearly, where more than one major donor is involved, coordination is important not only for most efficient resource use but also to make most constructive use of influence. It follows that we should seek ways to agree with other donors on the scale of requirements, the self-help efforts which may be desirable, and the best ways of influencing the recipient country.

In a number of cases, consortia or consultative groups, sponsored by the OECD, World Bank, or Inter-American Development Bank, have provided a useful forum in which donors could coordinate their views. The United States has encouraged those groups of which it is a member to give greater emphasis to identifying and encouraging needed self-help measures, in some cases as a precondition for assistance. Although multilateral institutions may feel they need to move more gradually and carefully than bilateral donors in insisting on adequate self-help measures by countries which are members of those institutions, there is a clear trend toward greater recognition and acceptance of performance requirements in the multilateral context. Indeed, multilateral institutions, free from actual or suspected political motivations and acting in concert with bilateral donors, may be able to encourage greater self-help efforts than would result from strictly bilateral negotiations. Even where there is no formal consortium or consultative group, the U.S. has found it helpful to conduct negotiations for explicit self-help understandings parallel to, and where possible jointly with, negotiations between the recipient and the IMF (where stabilization is involved), the IBRD, other multilateral lending institutions, and other bilateral donors.

For maximum influence on development policies, incentive programming must not only build on past and facilitate future discussion and persuasion, but must also be coupled with the ex post approach of allocating aid among countries roughly in accord with their achievements.

C. Evaluation

The term "evaluation" is used by A.I.D. to apply to at least four different functions:

(i) compliance control, e.g., observance of legislative and administrative requirements.

(ii) management improvement, e.g., evaluation and improvement of Agency-wide procedures and administration; analysis of specific management problems and formulation of solutions for these problems.

(iii) assessment of project implementation, e.g., evaluation of the efficiency with which specific assistance activities are being carried out, in terms of the original work plan and targets.

(iv) assessment of actual contribution to development.

Compliance control, including audit and inspection mechanisms, are used by all responsible financing institutions, and presumably are not of particular interest to this conference.

All large organizations also have arrangements for assessing and improving management and procedures, and for breaking administrative and implementation bottlenecks. In A.I.D., the Office of Management Planning has a wide range of responsibilities of this kind. There is also an Operations Review Committee, chaired by the Deputy Administrator and composed of senior AID/Washington officials, which acts as a high-level "bottleneck breaker". An Operations Evaluation Staff, consisting of five senior evaluation officers (often former mission directors), is attached to the Administrator's Office. Members of this staff look into problems both in Washington and in the field missions, and submit brief written reports and more extensive oral reports. The Operations Evaluation Staff is concerned with problems of management, project implementation, and the overall composition of country programs; it thus performs a variety of evaluation functions.

This conference is primarily interested in techniques of evaluating development effectiveness. A.I.D. finds that while evaluating implementation and evaluating development effectiveness are conceptually distinct, in practice they tend to merge. Field mission technical divisions are responsible for continuously reviewing the progress of particular projects in their fields. Whenever new funding is required--annually, or less frequently in the case of projects being implemented under longer-term contracts--projects presenting special problems or of doubtful value are singled out for higher level review, starting with the mission director and proceeding as necessary through various echelons of Washington review. These periodic reviews usually include both an appraisal of implementation and a reassessment of the project's developmental value.

The annual program review process is the major channel for evaluating whether current assistance efforts as a whole appear adequate in volume and composition to achieve stated objectives and goals.

Since most programs consist largely of continuing activities, the review process inevitably requires a reassessment of current efforts as well as judgments regarding proposed new activities. The review process is conducted successively within the field mission, in the appropriate regional bureau in Washington, and finally (for all major country programs and selected smaller programs) by the Administrator or his Deputy. Until this year, this entire process has compressed into the July-October period. This year the process is being started earlier (in May) to permit a fuller exchange of views and questions.

The evaluation component of the annual reviews is supplemented by ad hoc visits to field missions on the part of Operations Evaluation Staff members or regional bureau teams or senior officers.

While ad hoc field trips and the annual reviews may attempt some evaluation of the contribution of current activities to current growth, these efforts are handicapped by the fact that the developmental impact of many aid activities may take a number of years to become evident. Moreover, indirect effects often are as or more important than direct effects.

Therefore, to learn more about the effectiveness of different assistance forms and techniques of aid administration, it is important to evaluate the impact of past activities on development.

A.I.D. has sponsored a rather comprehensive retrospective assessment of U.S. economic aid to Taiwan over the fifteen-year period 1951-1965. This study was conducted under the direction of Dean Neil H. Jacoby of the University of California at Los Angeles, and evaluates the broad effects of aid on the rate and pattern of economic growth and on social and political evolution, as well as the more specific accomplishments and shortcomings of aid allocation and administration.

A.I.D. has also conducted studies of the impact of specific types of assistance, drawing samples from a number of countries. For example, a study has been made of the effectiveness of participant training in terms of the use made in the developing countries of returned trainees.

Finally, the Program Coordination Staff conducts continuing cross-section analyses of the relationships between the volume of assistance and recipient performance measured in terms of selected macro-economic variables (rate of growth of GNP, marginal savings and investment rates, trade volume and pattern, etc.)

Although we believe that these studies are valuable, it is clear that far too little effort has been devoted to retrospective analysis of the actual contribution to development of specific aid programs and activities. Over time, we hope to build up a much more extensive body of analysis to supplement the continuing assessment of on-going programs.