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EMERGING ISSUES IN NONPROJECT ASSISTANCE

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PREFACE

Nonproject assistance has always been an important part of AID assistance. It includes commodity import programs, program assistance, cash transfers, and sector assistance. In recent years, nonproject assistance has grown so much that it now represents more than half of AID's program. Other donors have also increased their nonproject assistance.

The growing use of this tool is a response to the changing development climate facing developing countries. Upheavals in oil prices, major declines in developing country commodity export earnings, and the deepest worldwide recession in 50 years have required these countries to restructure and reorient their economies. Nonproject assistance has proved an effective tool in helping developing countries meet their immediate balance of payments needs while undertaking major economic reforms that will encourage effective resource allocation, market-oriented economic policies, and more equitable growth.

There is now sufficient experience with this form of assistance to identify some of the major issues encountered in the design, implementation, impact, and evaluation of nonproject assistance, as well as its likely potential for influencing policy in host countries. This paper consolidates two papers on nonproject assistance that were prepared by AID's Center for Development Information and Evaluation in June 1986 for the Development Assistance Committee (DAC). DAC is an 18-member donor

group that identifies methods for improving assistance techniques. Its Expert Group works on evaluation issues and has been examining the effectiveness of nonproject assistance. Although the paper was originally prepared for an international group, it can also serve as a useful background paper for those in AID who are dealing with nonproject assistance.

The present paper is based on two major sources. First, it is based on an analysis of the July 1985 DAC questionnaire (DAC/EV(85)7) on DAC members' nonproject assistance practices and concepts. Second, it is derived from an analysis of the results of almost 20 World Bank and AID evaluations. The comments are presented at an intermediate level of detail because DAC practice varies so widely. Nonproject assistance issues are also briefly presented in schematic form; however, it is recognized that these issues are complex and sometimes subject to wide interpretation.

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1. INTRODUCTION

Nonproject assistance has two important aspects: administrative and functional. Its important administrative aspects might include selection and timely arrival of commodities, management of counterpart funds generated by commodity sales, or completion of specified administrative changes by the host country government. Functional aspects could include balance of payments support, measures intended to increase employment, emergency food relief, or support to a particular sector of the economy. Definitions of nonproject assistance usually include aspects of both. As used in this paper, nonproject assistance, also known as program assistance, involves the transfer of resources--foreign exchange and commodities--to quickly relieve budgetary or balance of payments constraints on the host country economy or to support development of a particular sector of the economy. Sometimes, important policy conditionality is attached to these programs such that they seem to have two objectives: resource transfer and policy reform. Nevertheless, the basic purpose is support.

There are as many different kinds of nonproject assistance as there are donors. The varieties of nonproject assistance are presented in Table 1. Although there are many ways to categorize such assistance, this table suggests the complexity of defining nonproject assistance in operational terms and of the issues implicit in such nomenclature.

Table 1. Functional and Administrative Classifications
of Development Assistance

Functional Use of Resources	Administrative Classification				Project
	Nonproject Assistance			Project- Type ^d	
	Program		Sector		
	Cash Transfer ^a	CIP ^b	Program ^c		
Satisfy discrete development need					
Physical (road, building)				x	x
Training and institutional development				x	x
Provide additional resources, with emphasis on short-run					
Balance of payments	x	x	x	e	e
Budget support	x	x	x	e	e
Preventing catastrophic fall in consumption (e.g., emergency relief, food aid)	x		x		
Improve efficiency by providing critical inputs for a sector or region, including local and re- curring costs			x	x	

^aDirect transfer of cash payment of foreign exchange not tied to goods or services.
Generates local currency for budget support.

^bCommodity import program. Quick-disbursing (less than 2 years as a rule) resource transfer with assistance used to finance general import requirements (i.e., goods with some related services to meet balance of payments, budget, or critical input requirements). Generates local currencies for budget support.

^cQuick-disbursing resource transfer concentrated on imports of goods and related services for a designated sector, with definition of sector based on the technology of production, degree of commercialization, or scale of activity (e.g., agriculture, mining, or a subsector thereof; private sector, or component thereof; smallholder sector).

^dSame as (c) above, but "projectized" because it involves a detailed, multifaceted group of activities (e.g., local currency expenditures, technical assistance) in its design, implementation, and evaluation.

^eThe effect here is incidental to primary purpose of project.

Nonproject assistance issues highlighted in this paper include its design (Section 2) and its implementation (Section 3). Methods for evaluating the impact of such assistance and problems encountered in evaluation methodology are discussed in Section 4. Finally, Section 5 presents a suggested outline for evaluating nonproject assistance.

2.0 DESIGN

2.1 Professional Judgments and Economic Theory

Before a nonproject assistance program begins, the economic theory underlying the program should be specified. Further, disagreements should be resolved between the donor and the host country, or between donors, over the program's applicability. Economic theory comes in waves, policy implications of theory come in cycles, and economists travel in herds. Recognizing these three conditions will help those advising on economic change in a host country. The larger and more complex the nonproject assistance program, the greater caution is required in providing economic advice. Grand designs for reform are never inexpensive, even when they work well. Thus, although an economic rate of return remains elusive, a summation of the anticipated costs and benefits of a program is nevertheless appropriate

at the design stage. This in turn requires weighing the costs and benefits by their relative importance. Although judgments will vary, by focusing on professional disagreements in economic and other theories in the early stages of program design, the likelihood is increased that the program's benefits will ultimately outweigh its costs.

2.2 Minimizing Program Complexity

A nonproject assistance program should be as uncomplicated as possible yet be compatible with the objectives, which themselves should be limited. Complex programs require long design times; for most nonproject assistance programs this time is not available because of the urgency of the developmental problems being addressed. If a design is taken "off the shelf," it will probably be too general to fit the specific circumstances. In the same way, complex programs grafted onto weak or inappropriate developing country institutional structures beg failure. Finally, if too many conditions are placed on the program, its design becomes enormously complicated and its effective execution unlikely (see Section 3.3).

2.3 Monitoring and Data Requirements for Evaluation

Monitoring devices and data requirements for evaluation must be built into the design of nonproject assistance. Because the calculation of the economic rates of return of nonproject assistance is so difficult (see Section 4.1), other measures of effectiveness must be adopted. Such measures, and the data requirements they generate, must be specified in the original design. Baseline data, where applicable, must be presented or provided for. Monitoring criteria and benchmarks must also be included, along with a design for establishing appropriate monitoring procedures.

2.4 Feedback Into the Design Loop

The design must allow for incorporating findings from an evaluation of a given nonproject assistance program into the design of subsequent programs. In reality, however, program designers can do little to ensure that future evaluations will be incorporated into the design of new programs. Clearly, donor offices with broader responsibility for the entire nonproject assistance program must provide a mechanism for feedback into the organization's "memory," as well as guidelines to ensure the commonality of data requirements for such feedback.

2.5 Staffing Requirements

Careful planning is needed for the extensive staff requirements inherent in nonproject assistance planning and execution. These requirements address the numbers of personnel needed and the high degree of professional skill required. These points raise the question of whether nonproject assistance is an inexpensive way to move large amounts of resources, as current "folklore" in the donor community suggests. Once one moves beyond a "simple" cash transfer, a typical nonproject assistance program involves large parts of a host country's economy, thus requiring expertise in coordinating detailed and complex relationships between sectors, host institutions, and policymakers. Moreover, an asymmetry exists between the level of personnel involved from the host government (typically very high for a program of importance) and the level of those who direct the donor's program. This means that those personnel who are most "scarce" in the donor's program (i.e., top officials) will have the greatest demands placed on their time.

2.6 Distributional Aspects

Evaluating the distributional aspects of nonproject assistance is at least as difficult as gauging the effect of the program on production and growth. On the one hand, evidence suggests that improvement in standards of living requires sustained medium- or long-term growth. On the other hand, pressing economic and social problems may demand attention in the short run. In sum, although long-term growth and development is the objective, nonproject assistance must be designed so that it does not worsen the short-term situation.

Employment levels are important surrogate measures of the spread effects of a nonproject assistance program, because employment in developing countries is the major link between growth and equity. Inappropriate policy settings in some cases have lowered employment and income levels (notorious examples include payment of below-clearing-level food prices to farmers, overvalued exchange rates coupled with below-market interest rates, and relatively high minimum wages). Policy-related conditionality requirements are often stipulated in nonproject assistance programs to effect changes in these policies.

Measuring employment effects of nonproject assistance is therefore both a short- and a long-term problem. In the case of commodity support, an evaluator, using internal data or data from

comparable economies, can try to estimate employment coefficients attached to commodity flows. Current employment data will almost always be inadequate, so imaginative methods of evaluating employment effects are important. Short- and long-term employment effects will differ of course, and nonproject assistance can also affect informal-sector employment and on-farm agricultural employment.

The central issue is to identify the beneficiaries of nonproject assistance and those whose incomes might have decreased as a result of the program. Quantitative estimates may be possible in some cases, although they will always be very difficult to make and perhaps beyond the resources of the evaluation team. In all cases, the evaluators will need to assess who lost from a nonproject assistance program.

When quick disbursement is the objective, less attention can be paid to targeting individual beneficiaries or sectors, although economic assistance should always be designed to reach the poor. Sometimes donors attempt to affect specific sectors or to control commodities imported under a nonproject assistance program. However, such arrangements work against rapid execution of the program. Because this tension between timeliness and equity is inherent in assistance programs, their design should reflect a clear choice, and subsequent evaluations should be based on this choice.

3.0 IMPLEMENTATION

3.1 Donor Coordination

Donor coordination is an implied requirement of all large nonproject assistance programs, and more explicit efforts must be made to ensure such coordination. Although it is common for some donors to use International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) conditionality as guidelines for their own programs, such conditionality may be inappropriate for an individual donor under some circumstances. Yet, in designing programs on their own, donors often fail to provide alternative mechanisms for coordinating their efforts. Host countries commonly complain of the uncoordinated demands placed on them by donors. To the extent that nonproject assistance programs will become larger in the future, appropriately greater donor coordination must be provided. There is no set formula or model for such coordination beyond the consultative group concept or donor roundtable.

3.2 Overvalued Exchange Rates

An overvalued exchange rate in a developing country will create resource misallocations and windfall profits for traders who bring the commodity in and then sell it to end-users. An overvalued exchange rate distorts economic decisions. It may, for example, induce importation of machinery into a country in which labor supplies suggest the substitution of labor for machinery. For this reason and the case of windfall trader profits, efforts over the long run are appropriately directed to reducing the degree of overvaluation. In the unlikely case of an undervalued exchange rate, or one so low that it does not compensate for the high import costs of donor commodities, some form of subsidy may be required to induce the importation of commodities under a nonproject assistance program.

3.3 Policy Conditionality

Many nonproject assistance programs carry conditionality provisions, which sometimes are extensive. Evaluators should conduct a three-step analysis of such provisions. First, the precise changes required should be noted and examined for consistency (both internal and according to the economic theory [model] that guided the program design). Second, the suggested changes

should be compared with the changes actually made. Finally, the quantitative results of macro- and sector-level economic policy changes must be compared with the changes anticipated on the basis of the policy reforms.

In effect, policy conditionality is based on an essentially market-oriented behavioral model of the economy. The changes implied in the conditionality are intended to move the economy of the developing country closer to the kind of economy found in the model (i.e., toward greater reliance on clearing prices and the free play of market forces). Even enterprises within the state sector will be expected to act on the basis of such forces.

This approach suggests that evaluators will need to consider at least the following policy-related effects of the program: (1) macromanagement and the trade regime, (2) efficiency of resource use, and (3) mobilization of resources. In effect, this section of the evaluation will concentrate on a comparison of policy changes stipulated in the program and those changes actually made. However, no formal attempt can be made to establish a causal link between the two (see Section 4.1.2).

The number of conditions attached to nonproject assistance must be minimized because the complexity of the effects of their interrelationship increases with the number of conditions. The assumption is that greater "leverage" attaches to nonproject assistance because of its size, and that therefore greater condi-

tionality can be attached to nonproject assistance than to project assistance. Although the leverage assumption is open to question, it is true that increasingly heavy conditionality seems to be the trend. Disregarding discrete and very limited conditions, this situation raises problems for the nonproject assistance designers, the host country, and the program evaluators. The essential problem is that as the number of conditions increases, the number of factors to be assessed increases exponentially because of the increased number of potential interrelationships among the conditions and the changes that are expected to result from them. Management of the nonproject assistance, therefore, becomes more costly and problematic, and its evaluation more dubious. Because experience with conditionality is still limited and because many of the conditions attached to policy reforms are subject to debate, conditions must be carefully selected and their numbers minimized.

3.4 Institutional Changes

Institutions stand between people and natural resources and determine how well people will use the available resources and generate new resources through technological change. An institution can be an organization (a ministry or development bank), a way of organizing activities (markets, systems of land tenure), or an abstraction (religious belief, standard of ethics). Non-

project assistance often provides for a flow of resources that is large relative to host country institutional absorptive capacity. Institutional analysis is therefore a necessary ingredient in the design and evaluation of nonproject assistance.

A variety of institutional changes suggested by previous IBRD experience is presented in Section 3.5. When many such changes are part of a nonproject assistance program, evaluators will need to select those that are most important to their evaluation. Even this limited number will present challenges, because there is debate on how institutional analysis should be carried out. However, in the time ordinarily available to evaluators, the focus should be on the changes specified in the nonproject assistance design, and the evaluation should be limited to a consideration of whether those changes were carried out. Even with this limitation, however, there will be questions of long- and short-term effects. Furthermore, positive change in one institution may be nullified by negative or no change in another.

Institutional "reform," although sometimes suggested as a subject of conditionality, should be attempted largely through provision of technical assistance and training, and possibly gentle persuasion. An institution has a structure and momentum of its own, and it carries out processes that are part of a larger institutional and cultural system. For example, while establishing a training program for accountants might be easily done, changing the leadership style so that accounting receives serious

consideration requires changes that extend beyond the institution. It is these culture-bound behavioral patterns that are the most difficult to touch with conditionality. Because nonproject assistance generally has a short time frame, it may not be the best vehicle for achieving longer range institutional reforms in developing countries.

3.5 Targeting Policy and Institutional Reforms for Evaluation

Numerous policy and institutional changes have been sought through nonproject assistance. Table 2 lists such changes (based on IBRD experience with structural adjustment loans) and serves as a reminder of the wide variety of approaches to policy and institutional change and as a guide to factors an evaluation team should consider in conducting an evaluation of a nonproject assistance program.

Table 2. Policy and Institutional Changes Sought
Through Nonproject Assistance

POLICY CHANGES

Trade policy

- Tariff reform and import liberalization
- Export incentives and improved institutional support

Resource mobilization

- Budget policy
- Interest rate policy
- Institutional capacity to manage external borrowing
- Public enterprise financial performance

Efficient use of resources

- Public investment program revision and review of structural priorities
- Pricing policy
 - Agriculture
 - Energy
- Incentive system (energy)
- Energy--conservation measures
- Energy--development of indigenous sources

INSTITUTIONAL REFORMS

General targets

- Institutional capacity to formulate and implement public investment program
- Institutional efficiency of public sector enterprises
- Institutional support in agriculture (e.g., marketing)
- Institutional improvements in industry and subsector programs

Economic and financial management

- Economic policymaking bodies
- Planning process, mechanisms, institutions
- Public sector investment program management
- Budget process institutions
- Tax administration
- Accounting and auditing systems
- Debt management systems, institutions

Public administration

- Government employment, pay, and incentives
- Civil service management and reorganization

State economic enterprise performance

- Government enterprise framework
- Enterprise-level reforms

Nonfinancial sector institutions or ministries

- Agriculture
- Energy
- Industry

Trade administration reforms

- Tariff/import licensing procedures
 - Administration of export incentives
-

3.6 Creation, Use, and Programming of Local Currency

Local currency is generated through the sale of commodities imported under nonproject assistance or by the differences between the concessional terms fixed by the donor and the terms actually given to the final user of the resources. Some donors commonly set conditions on the use of such funds, requiring either establishment of separate accounts for specific purposes or allocation to specific agencies. In either case, the donor is expressing its own sense of priorities in the use of these funds. Experience suggests that positive results can be achieved in this way, but there are important qualifications. For example, if in addition to tying the use of counterpart funds to specific purposes, it is specified that counterpart-funded expenditures should not conflict with IMF or IBRD conditionality, this might be viewed as "double conditionality," and therefore might be politically unacceptable. Second, unless it can be ensured that expenditures tied to the use of counterpart funds are additional to those that would have been made otherwise, then the tying will be meaningless or ineffective. This suggests a third concern. Unless the payoff from programming counterpart funds is expected to be high, the cost of establishing and monitoring such a fund may exceed the value (however measured) derived from the use of the funds.

Evaluation of the counterpart funds requires a clear distinction between administrative aspects of the fund (for example, were accurate accounts kept?) and functional aspects (were the funds clearly additional to what would have been spent by the host government?).

3.7 Management of the Program

A wide range of managerial aspects of the nonproject assistance program could be suggested for evaluation. These could include efficiency of commodity distribution, size and composition of staff, and relations with host governments. Each donor will have its own managerial concerns, which will be reflected in the program evaluation.

It is likely, however, that all donors will be concerned with the following managerial aspects of nonproject assistance: (1) the efficiency with which the program was carried out; (2) the policy "payoff," by which efforts at policy change are related to such change; and (3) the efficiency of local currency programming. Donors will also want to ensure that lessons learned are captured so that they may be used to guide the design of future programs.

4.0 IMPACT AND EVALUATION

Despite the prominence of nonproject assistance, it has only recently begun to receive systematic evaluation, and some donors do not attempt such evaluation at all. The following guidelines set forth considerations that DAC donors have found important in performing their nonproject assistance evaluations.

Because these programs are typically very large, it would be easy to suggest evaluation procedures requiring many people and much time. Usually, however, this is unrealistic. Therefore, the guidelines below are designed for a three- to five-member evaluation group working for no more than 1 month.

4.1 Two General Problems of Methodology

Before proceeding to specific aspects of the economic part of the evaluation, two issues should be clarified: the fungibility of all assistance and the methodological difficulty of establishing causal links between the assistance and observable changes in the economy. Each issue is important, and the issues are interrelated. What follows may appear esoteric, yet these issues lie at the heart of any economic impact evaluation. They should be considered in the initial stages of planning an evalua-

tion because they are fundamental to the design of the evaluation and to the selection of appropriate data.

4.1.1 The Problem of Fungibility

The central problem that arises from the fungibility of assistance is the difficulty of tracing the end-use of resources. A donor may specify that certain commodities are to provide support for a particular sector, for example, and audits may show that these commodities were indeed used in that sector. Although it might then be inferred that this assistance was the basis for increased resource availability in that sector, this inference is usually not warranted without further information. For example, a developing country whose economy is not distorted by "rigged" price signals, or by a multitude of parastatals not subject to market forces, would not unreasonably have been expected to supply resources to the very sectors now supported by the donor. That is, the donor would attempt to place resources where the returns are highest just as would a market-oriented developing country. The economic assistance in this case would be used to free a developing country's own resources for use in sectors that would not otherwise have received them.

There is a corollary. To the extent that the developing country economy is distorted in a market sense and consequently

allocates resources to unproductive ventures, or has insufficient resources to satisfy even priority needs, the donor will be in a better position to suggest market-oriented priorities to the host country. For example, if a stadium were going to be constructed instead of a much-needed port facility, the donor's intervention could secure the port facility. Of course, the stadium might still be built, barring specific conditionality to the contrary.

Another fungibility problem involves the provision of food aid. One must determine whether the donor is providing commodities in addition to those that would have been imported in the absence of the program or commodities that would have been imported under any circumstances. If the donor is providing commodities in addition to what would have been imported in the absence of the program, then the evaluation can properly focus on the effects of such increments on the sectors affected. However, if the donor is providing commodities that would have been imported anyway, then the donor is in effect providing additional foreign exchange, not additional goods. In the latter case, it is virtually impossible to trace the specific impact of commodities. Rather, the evaluation will need to examine whether the host government policy environment was conducive to the most productive use of foreign exchange.

The importance of the fungibility issue, then, is that it determines which approach is most appropriate for the evaluation team. At the outset, then, evaluators will need to clarify the

"additionality" issue, as delineated above. In-country interviews with officials and others will help resolve the matter, as will a review of the level of imports. Decisions on this issue, however, will sometimes be subjective. For example, the team will have to infer from circumstantial testimony about host government intent what the level of imports would have been in the absence of the nonproject assistance program. The basis for the team's decision on the additionality issue must be noted in the evaluation.

4.1.2 Problems in Determining Causality

If the donor finances resource transfers to a developing country's industrial sector to provide much-needed inputs, and output in that sector increases, can it be correctly assumed that the transfer was responsible for the growth? Perhaps, although no clear causality can be established in most cases because of other factors at work simultaneously. For example, the marketing system for inputs might have been improved; labor market conditions might have changed, resulting in a lower unit labor cost of production; or the exchange rate might have been reduced, resulting in increased export markets to which industry responded by increasing output.

Consider a different situation. Policy changes often are suggested or required by the donor as conditions precedent or in covenants specified in the loan document, and sometimes disbursements are made in tranches on the basis of specific policy changes. Assume that there is a condition precedent stipulating the freeing of agricultural prices, which is expected to lead to a producer price increase and, in turn, to an increase in farm output and agricultural incomes. Perhaps it can be established that the policy changes would not have been made in the absence of donor conditionality. What else can be attributed to the resource transfer?

Although standard economic theory suggests the chain of events cited above, there is no way to establish a causal relationship between the policy change and the subsequent changes hypothesized. In most cases, the evaluators can cite with certainty only specific policy changes. The direct effect of these changes will be indeterminant. At most, the evaluators will be able to argue only that the policy changes were possibly a factor contributing to observable improvements in the sector. Their quantitative effects are uncertain, will work themselves out over the long run, and are probably part of other changes being made in the economy or occurring in the international economy.

In sum, the evaluators will not be able to establish links between policy changes and subsequent events in a statistically

satisfying way. The best that can be done is to follow up on benchmark indicators of changes suggested by economic theory.

4.2 Establishing the Framework of Evaluation

This section presents considerations that are important in relating the program to economic events. Also discussed are two ways of evaluating how well a program was executed in terms of its design and expected actions of the host government.

4.2.1 Relationship Between Nonproject Assistance and the Economy

Ideally, evaluation of nonproject assistance programs must meet two objectives. The program must be examined for its effect on the growth and stability of the economy and for its impact on beneficiaries. The evaluation also must compare institutional and related changes with changes anticipated in original program documentation. Both perspectives require an overview of the economy--its size, structure, and growth rate by broad sector and as a whole. These salient economic facts must then be related to their policy context. Further, important long-term forces in the economy (e.g., population change, natural resource constraints)

must be noted and related to the economic structure and changes cited. Often a program is part of a donor-coordinated "package" of assistance designed to fill the gap between the resources necessary to sustain a desirable growth rate in the host country and the resources (domestic and external) available. In effect, the program is intended to be responsive to the broadest considerations underlying the growth of the host country's economy. Program evaluation, therefore, must examine the program in the context of all donor assistance to that country. Key macroeconomic policies would at minimum include monetary and fiscal policies, the trade regime, and price interventions. Key microeconomic policies would include at minimum those designed to stimulate specific industries, labor market interventions, and group-specific income policies.

Having established the nature of the host country economy and the policy context, it will then be possible to analyze how the program ties into the overall economic structure. This would include at least an analysis of the composition of gross domestic product and industrial and agricultural production, the composition of imports in relation to specific industrial and agricultural needs, budgetary needs of the host country, and balance of payments requirements.

For reasons noted above, it is difficult to relate a given nonproject assistance program to overall effects on the economy. Nevertheless, it should be possible at a macro level to analyze

the structure of the developing country to determine the appropriateness of the program. Also, below the macro level, the effect of the program can be great in a particular sector. If that sector is critical to the overall economy (e.g., agriculture or energy), then the macro effects may be pronounced.

4.2.2 Evaluation Based on the Logical Framework of the Program

Program documentation may be detailed or otherwise, depending on donor practice. In all cases, however, the basic rationale will be apparent, either explicitly in a formal logical framework presentation, or informally in the structure of the program. An ex post examination of how well the terms of the framework were met would then form the basis of the evaluation. At a minimum, for example, these terms might stipulate inputs (provision of foreign exchange), outputs (increase in bank reserves), purpose (substantial increase in short-term credit), and goal (improved credit markets). Evaluation beyond this would become more subjective and statistically difficult.

4.2.3 Evaluation Based on Performance Disbursement Benchmarks

Some programs provide for detailed ongoing evaluation of performance. In its most developed form, there is an ongoing monitoring of the execution of the nonproject assistance program by establishing performance disbursement benchmarks to accompany the tranches. Funding would be divided into a series of tranches, which are disbursed on the basis of satisfactory progress in implementing policy and institutional reforms. Policy and institutional changes would be similarly divided into a sequence of revisions. Benchmarks would then be established to track progress toward achieving ultimate policy and institutional objectives. In effect, because the program is evaluated throughout its life under this approach, a final evaluation would include a summary and analysis of previous tranche benchmarks and an update relating completion of the program to the original purposes of the program. Evaluation beyond this level would be subject to the same qualifications noted in Section 4.1.

4.2.4 A Note on Anecdotal Evidence

Anecdotal evidence is rarely permissible in a formal evaluation. Yet, because neither approach suggested above answers the question everybody wants to ask of a nonproject assistance pro-

gram (what was the broad economic impact of the program?) there will be continued reliance on less formal methods of evaluation (i.e., on the experience and indeed wisdom of aid practitioners). Although this can hardly provide a basis for policy, it could inform policy in ways not touched by more formal methods.

4.3 Effects of Nonproject Assistance on Selected Sectors

In cases where nonproject assistance provides for importing agricultural commodities, raw materials, and manufactured products, and where the additionality criterion is met (see Section 4.1.1), the impact of these flows can be evaluated. Also, technical assistance and studies may be provided as part of the package to ensure that (1) the most significant subsectors of the economy are targeted for imports; (2) the correct materials and quantities are obtained; (3) they are used in the most effective and productive manner; and (4) possibly related problems (e.g., policy bottlenecks, misuse, counterproductive practices) are identified and explained in a way that demonstrates to recipients that these problems should be addressed and that provides guidance on how that might be done. An evaluation would appropriately look at the effectiveness of this technical assistance package as well as the impact of the imports.

When the sector receiving assistance is very important in the economy (e.g., agriculture or energy), the impact on the economy can be great as well. Also, if the donor uses the commodity inflow to introduce discipline in the use of a key targeted commodity and if services are provided through the non-project assistance program to ensure that the commodity is used correctly or maintained properly, then the program has an impact beyond the mere procurement of goods. The quick-disbursement quality of nonproject assistance also allows for an emergency procurement of essential items that might otherwise be foregone because of a foreign exchange bottleneck (e.g., key agricultural inputs at planting or harvesting time).

Suggestions for analyzing sectoral impact may require more time and resources than are available for the evaluation. Of course, considerable detailed information will be available through work performed previously by other donor countries, the IBRD and IMF, the United Nations Development Program, or by host governments, local universities, industry associations, and chambers of commerce. In evaluating the broad impact of sector aid, the following common variables might be found in existing studies:

- Import coefficients for the economy, industrial sector, and selected industries

- Capita/output ratios for the economy and selected industries
- Employment generation resulting from different types of investment
- Employment effects of different rates of capacity utilization

Such measures are difficult to derive but valuable in assessing the impact of commodity inflows. They therefore should be sought by the team early in its investigations.

In all cases of commodity assistance, two key economic questions must be asked. First, if the commodities were additional to those that would have been imported anyway, the disincentive effect such flows may have had on indigenous producers must be studied. Second, if the commodities are intended to supply critical inputs to specified sectors, a judgment must be made on the comparative advantages of those sectors. Although a determination of the comparative advantages might be difficult, the effort will identify the more extreme cases.

4.4 Impact on Balance of Payments

The balance of payments is an accounting device for recording merchandise and financial flows beyond national borders. A nonproject assistance program grant or a cash transfer will appear in the current account, whereas loans will be part of the capital account. If a country has a merchandise deficit of \$10 million, then a grant of \$10 million wipes out this deficit on the current account. However, if it receives a loan of \$10 million, then the current account will remain \$10 million in deficit, and the capital inflow will be recorded in the capital accounts along with an increase in equal amount of capital liabilities. The process of accounting for this transaction is conventional, yet it is difficult to derive economic meaning directly from the figures. Therefore, the evaluation team must be clear on the economic questions it is asking of the nonproject assistance program and then proceed quickly beyond the veil of balance of payments accounts to answer those questions.

One might, for example, want to gauge the program disbursements as a percentage of the portion of the current account deficit directly associated with the importation of goods and directly related services such as shipment costs. This, then, becomes a way of judging the effect of the nonproject assistance on reducing the deficit. If other items of the current account were included, however (travel or repatriation of profits), this

simple ratio would measure not only the contribution of the program to the goods deficit, but also its contribution to luxury travel and return of profits, perhaps to firms in a third country. In effect, this would be a measurement of very different economic relationships.

There is yet another aspect of the balance of payments that might bear evaluation. In some cases the nonproject assistance program will so increase liquidity in the short run that the host country will find commercial terms eased. This change alone may be important, aside from other longer term effects.

In brief, the problem for the evaluator is not so much a matter of how to calculate the impact on balance of payments, but rather how to assess the meaning of that impact. In those cases in which the program is not a major factor in a country's import totals, the impact will be small and unimportant. The exception is a situation in which program imports displace regular free foreign exchange imports. The result in those rare instances would be a buildup in that country's foreign exchange or a reduction in its foreign exchange debt. Here the task for the evaluator is to evaluate the policies affecting productive use of the increased foreign exchange.

No single method of analysis can be suggested for every evaluation of balance of payments effects. Peripheral issues may also require attention. For example, if program disbursements

were slowed in any year, what were the negative impacts; to what extent did improvements in the current account affect the host government's ability to meet IMF requirements; are there fewer restrictions on the use of foreign exchange; what has been the program's impact on the banking system and how it does business? These merely illustrate the variety of issues that may accompany balance of payments changes stimulated by a nonproject assistance program.

5. SUGGESTED OUTLINE FOR THE EVALUATION OF A
NONPROJECT ASSISTANCE PROGRAM

The following outline delineates an effective approach to evaluating nonproject assistance.

Introduction

Summary

1. Background of the program
 - 1.1 Underlying economic conditions
 - 1.2 Specific objectives of the program
 - 1.3 Assumptions and design of the program
 - 1.4 Overview of the relationship between the economy and the program

2. Methodology of evaluation
 - 2.1 Sorting issues of fungibility, additionality, and causality
 - 2.2 Distinguishing between macroeconomic and sector effects
 - 2.3 Defining ways of establishing the effects of the program (not the impact)
 - 2.3.1 Use of logical framework
 - 2.3.2 Use of performance disbursement benchmarks

3. Effects of nonproject assistance
 - 3.1 Policy changes (when conditionality is attached to nonproject assistance)
 - 3.1.1 Macromanagement and the trade regime
 - 3.1.2 Efficiency of resource use, with emphasis on sector level where appropriate
 - 3.1.3 Mobilization of resources

 - 3.2 Comparing quantitative changes in the economy with those anticipated in the program
 - 3.2.1 Macro changes
 - 3.2.2 Sector changes
 - 3.2.3 Balance of payments
 - 3.2.4 Distribution and equity

 - 3.3 Institutional changes

- 3.4 Local currency programming

- 4. Management of the program
 - 4.1 Measures of efficiency relating value of outputs of the program to costs of inputs (where applicable)
 - 4.2 Measures of effectiveness relating efforts to change policy or institutions to changes carried out
 - 4.3 Measures of effectiveness of local currency programming
 - 4.4 Ensuring feedback into design of future programs

- 5. Recommendations and lessons learned

Appendixes

- A. Description of methodology
- B. Statistical analysis
- C. Tables
- D. Reference materials