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DEVELOPMENT ASSISTANCE COMMITTEE

EXPERT GROUP ON AID EVALUATION

FUTURE WORK OF THE GROUP ON EVALUATION OF NON-PROJECT

ASSISTANCE: A PROPOSED QUESTIONNAIRE

(Note by the Secretariat)

The attached paper has been prepared by Dr. D. Bowles, of USAID's Center for Development Information and Evaluation, in connection with the meeting of the Expert Group scheduled for 12th-13th June 1985.

The proposal is submitted in pursuance of the instruction given by the DAC at the 1984 Joint Review. The conclusions reached in the Joint Review were stated in the Summary Record [DAC/M(84)7] as follows:

"The Expert Group should focus its work on non-project aid (i.e., balance-of-payments support, commodity aid, sector aid, food aid, etc.), drawing on World Bank experience to the maximum extent possible.

"The Group should focus on methodologies for planning the allocation of assistance within recipient countries.

"The Group should not launch a broad study of evaluation methodologies for assessing issues related to the policy and programming environment. It should first examine the methodologies used in existing studies and then seek further guidance on that basis from the DAC before undertaking a more elaborate consideration of methodologies in that area."

If the Expert Group agrees that a questionnaire along the lines proposed is feasible, it may wish to suggest points on which to concentrate in a review of existing studies. This in turn could lead to proposals for strengthening the evaluation of non-project aid, in terms of its economic effectiveness (Section IX of the questionnaire). Such proposals would need to take account of several recent developments in the programming of non-project aid, notably a closer linking with policy changes, the provision of non-project aid to relieve current emergencies, and the clustering of projects in a sectoral framework which has close affinities with broader forms of external support.

The Expert Group may also wish to comment on the coverage of the questionnaire, indicating whether it prefers a broad study or a more selective approach.

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I. INTRODUCTION

1. The minutes of the meeting of the Group held in January 1985 [DAC/EV/M(85)1(Prov.)] acknowledge receipt of the supplementary outline presented by Mr. North on a suggested study of methods and procedures for evaluating non-project assistance (NPA). It was agreed that Mr. North should circulate a questionnaire to find out how much analytical work had been done on NPA. It was also understood that work in this area was still exploratory.
2. This paper presents a questionnaire centred on the principal questions currently being asked about NPA. It is essentially a proposal for a self-study of DAC experience with this form of aid. Before we proceed to ask Members for their responses to these questions, we propose to discuss this approach and the specific questions at the June meeting to determine what is feasible and other possible aspects of inquiry on NPA.

II. TYPES OF AID FLOWS

3. Non-project assistance is a major component of DAC Members' aid programmes. There are many reasons to expect that such flows will be even more important in future development work. Efforts are currently under way within the DAC and elsewhere to understand such aid flows better -- their rationale, their benefits and costs, and the role they play in development assistance programmes as a whole. What is immediately apparent is that we need more information about each other's experience and activities in this important area. To this end, we present below a suggested questionnaire for gathering such information.
4. While our efforts at this stage are still exploratory, the questionnaire is constructed to stress functional aspects of non-project assistance rather than their procedural or management aspects.
5. In Table 1 we present a simplified schema which relates administrative classifications to functional classifications which are important in understanding the economic meaning of aid flows. The classifications indicated by a circle are those discussed in this paper on NPA.
6. In this DAC study of NPA we wish to concentrate our review on three forms of NPA in terms of their primary economic purpose.

- General balance-of-payments support.
- General budget support.
- Sector resource support for imported goods and/or sector budget requirements.

Table 1

FUNCTIONAL AND ADMINISTRATIVE CLASSIFICATIONS OF DEVELOPMENT ASSISTANCE

Functional Use of Resources	Administrative Classification				
	Non-Project Assistance				
	Programme		Sector		
	Cash Tfr. b)	CIP c)	Programme-type d)	Project-type e)	Project
1. Satisfy discrete development need					
a. Physical (road, building)				X	X
b. Training and instit. dev.				X	X
2. Provide additional resources with emphasis on shortrun					
a. Balance-of-payments support	(X)	(X)	(X)	a	a
b. Budget support	(X)	(X)	(X)	a	a
c. Prevent catastrophic fall in consumption (e.g., emergency relief, food aid)	X		X		
3. Improve efficiency by providing critical inputs for a sector or region, including local and recurring costs			(X)	X	

Note: Only the categories circled are considered in this paper.

- a. The effect here is incidental to primary purpose of project.
- b. Direct transfer of cash payment of foreign exchange not tied to goods or services. Generates local currency for budget support.
- c. Commodity import programme. Quick disbursing (less than two years as a rule) resource transfer with assistance in, i.e., 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.
- d. Quick disbursing resource transfer concentrated on imports of goods and related services for a designated sector, with a definition of sector based on the technology of production, degree of commercialisation, or scale of activity (e.g., agriculture, mining, etc., or a subsector thereof; private sector, or component thereof; small-holder sector).
- e. Same as (d) above, but "projectised" because it involves a detailed, multifaceted group of activities (local-currency expenditures, technical assistance, etc.) in its design, implementation, and evaluation.

7. NPA in these categories is often associated with policy reforms to be undertaken by the developing-country government.
8. This study excludes sector project-type assistance which is sometimes listed as non-project aid but is actually a clustering of development projects into a single sector programme agreement. It also excludes food aid and emergency aid which have special justifications and uses and are more appropriately covered in a separate study.
9. NPA for general balance-of-payments support can be in two forms: a) as imports of goods and closely related services (commodity import programme-CIP); or b) as direct cash payment of foreign exchange without restriction on its use.
10. NPA for general budget support can be in the same two forms as for balance-of-payments support but with the objective of easing a predetermined budget deficit with local currency generation.
11. NPA as sector programme support can be in the form of a) goods and closely related services, or b) cash transfers. In both instances, local currencies may be generated for sector budget support.
12. It will be useful to note at this point the lessons of experience concerning NPA from "limited existing evaluation work and past experience" cited in the "Report of the Expert Group on Aid Evaluation on Lessons of Experience Emerging from Aid Evaluation" [DAC(84)11(1st Revision), drafted 12th July 1984, Paris].

- The objectives (including political and commercial ones) of programme aid often tend to be diffuse and need to be better focused and defined. Potential conflicts between the various objectives can also mean that none will be achieved.
- Non-project aid should be fully incorporated as part of a multi-year country programming process.
- Programme aid (NPA) is most likely to be effective when it is concentrated on a sector, when it is combined with complementary inputs and when it is provided within an appropriate policy framework. Experience has shown that non-project aid without policy reform is likely to be only a short-term palliative often obscuring the need to address the underlying causes of economic deterioration.
- Procurement-tied programme aid (NPA) seldom proves to be as rapid in terms of disbursements as expected. The cumbersome nature of procurement procedures may reduce the effectiveness of programme aid for dealing with urgent balance-of-payments needs. Furthermore, there is usually a trade-off between the degree of concentration (targeting on sectors or beneficiaries) of such assistance and the rapidity of disbursements.
- Individual donors are rarely effective in promoting economic reform through non-project assistance. They should therefore work in concert with other donors and the international financial

institutions. Decisions on the mix of project and non-project aid should also take into account the programmes of these other donors and institutions. Non-project aid should normally be provided as part of a multi-donor effort to ensure that sufficient resources are available to support objectives agreed with recipients. Consultative groups and other donor-recipient groups are necessary as constructive mechanisms for co-ordinating donors in providing non-project aid.

- When urgent balance-of-payments assistance is required, tied programme (NPA) aid should focus on imported recurrent imports rather than investment goods. Rapid disbursement could be ensured by minimising restrictions, limiting bureaucratic intervention and increasing the flexibility of procedures.
- Sectorally oriented programme aid (NPA) is more appropriate for longer-term assistance and provides a means of focusing development resources on broader sector issues which cannot be encompassed in standard project aid.
- Non-project aid would considerably benefit from strengthened preparation and appraisal and a more consistent approach to implementation. There is at present considerable imbalance in the areas between project and non-project aid. Sectorally oriented non-project aid in particular, in order to be effective, requires rigorous technical and economic analysis to determine the policy, institutional and other reforms which may be required. Special studies, carefully integrated with the local agencies involved in policy-making, are often necessary to define and integrate the needed policy actions.
- Sectorally oriented non-project aid would usually benefit by being associated with technical assistance for institutional strengthening. In some cases, technical assistance may even have preceded such non-project aid.

13. Sector aid, a type of NPA, has been studied by Mr. Tore Rose of the OECD Development Centre ("Aid Modalities: A Brief Review of Donor Views, with Special Reference to Sector Aid", discussion paper, 13th-16th November 1984, Paris). He divides sector aid into five types, ranging from programme-type to project-type assistance. The definitional aspects of these distinctions need not concern us here. What is important is his suggestion that there are seven "main drawbacks of sector aid, from the donor viewpoint". Since these drawbacks apply in varying degree to NPA generally, they are cited below (paraphrasing and quoting):

- The lack of visibility and assessability of such aid makes it difficult to pin down the synergistic effect of the group of activities engendered by sector assistance as a whole; hence, comparison of ex ante and ex post situations is methodologically difficult.
- There are increased demands on donor staff related to the need for a deep and sophisticated analysis of the economy, and the relevant macroeconomic linkages.

- The staff time required during implementation can be greater than for project aid because of the need for continuous consultation with the recipient and constant review/updating of developments in the sector or economy. This would apply chiefly to projectised sector assistance, not a concern of this paper.
- Since a single operational ministry in the recipient country rarely covers the entirety of the sector under consideration (much less a region), this can cause very serious difficulties in reaching a meeting of minds on the diagnosis of constraints and in the discussion of policy alternatives, and even greater difficulties in following up on the implementation of agreed policy adjustments.
- Policy dialogue, even at a sectoral level, more often than not cannot avoid addressing politically sensitive issues such as urban-rural income distribution or the proper role of government.
- Where projectised sector aid involves significant institution-building activities, donors may be committing themselves to a long and often difficult process.
- A large bilateral donor will (may) find it difficult to pull out of a kind of intimate relationship fostered by sector aid, should things go seriously wrong.

14. Taking a slightly different perspective, but with some overlap, the Chairman's Summary for the Development Committee's Task Force on Concessional Flows [DC/TF/CF/83-4, 7 February 1983] cites the following concerns raised by the renewed interest in NPA within the aid community (quoting and paraphrasing).

- What is the relationship between the effectiveness of NPA and the degree to which its end use can be stipulated; that is, is NPA as accountable as project aid? If not, how can it be made more accountable, and will such increased accountability make it more effective?
- How can the effectiveness of NPA be ascertained if this form of aid is particularly vulnerable to being preempted for other than agreed uses (the "fungibility" issue)?
- How can one gauge the effectiveness of "structural adjustment" assistance as a vehicle for encouraging policy reforms at the sectoral or country level?
- How can one gauge the effectiveness of the linkages between NPA and other flows, including IMF and private financial flows to developing countries?
- How can the effectiveness of sector support be gauged?

15. On the basis of both the stated accomplishments of NPA and the issues raised by NPA, we present below a list of questions clustered to cast light on the more important issues currently being discussed concerning NPA. Some have

been adapted from questions presented in the Meeting Room Paper of 16th-17th April 1984, and distributed for information as illustrating the kind of questions that evaluators may need to raise if they are to widen the focus of their work along the lines suggested in the 1984 DAC report on aid evaluation cited above. A compilation of answers to these questions from DAC Members will do much to further understanding of non-project assistance in DAC efforts. In all cases, the questions should be considered as "open-ended", with the expectation that the respondents will tell us what we should know about their programme. In some cases, the answer to a question might vary with the host government being considered; nevertheless, the general conditions under which an answer might apply should be stated. At the end of each question grouping, the respondent is requested to present information deemed important about that country's programme assistance that is not otherwise elicited from the questions.

16. While the questions are presented separately, they are all closely related. It is therefore more important to have a reasoned discussion around the issues raised by the questions than to have answers to each question separately. The more detail that can be provided, of course, the better.

17. The questions presented below are grouped under the following major headings:

- I. Toward a Functionally Oriented Taxonomy
- II. Selection of NPA Flows
- III. Criteria for Non-Project Assistance
- IV. Non-Project Assistance and Policy Reform
- V. Donor Co-ordination
- VI. Effects of Tying Aid
- VII. Management of Local-Currency Accounts
- VIII. NPA and Host-Country Institutions
- IX. Evaluating the Economic Effectiveness of NPA
- X. Size of NPA Flows by Category

QUESTIONNAIRE

I. TOWARD A FUNCTIONALLY ORIENTED TAXONOMY

Donor agencies must live of course with the formal terms of reference established by their parent governments. Aid practitioners, in contrast, must wrestle with the functional meaning of definitions as they design aid projects and programmes. At the operational level, therefore, we need some common understanding of the meaning of the terms we use and some guide to the practical importance of the various kinds of aid flow.

1. Using the formal definitions provided in your government's current official documentation, list and define all the NPA forms of aid (not only those circled in Table 1) financed by your government. Highlight briefly any differences between those definitions and the definitions suggested in this paper for NPA flows.
2. Explain the difference, if any, between definitions in current official documentation and current practices.
3. Describe any discussions currently under way suggesting that official definitions need to be changed in some way to accord with current practice or with expected future practice.
4. Considering possible future practice, does your organisation have any suggestions on what might constitute a preferred classification system for NPA, one which would transcend administrative or purely budgetary classifications and highlight instead the economic role and effects of various non-project flows?

II. SELECTION OF NPA FLOWS

In some measure, the provision of NPA by the donor agency is conditioned by legislation, while in other cases there is broad latitude in selecting programmes within this category. In principle, aid is directed toward areas of highest return in terms of national socioeconomic development. In practice, a wide variety of economic, political, and institutional considerations determines the precise mix of aid flows. We need a better understanding of how each of us approaches this question conceptually, makes decisions on this matter, and carries out those decisions.

1. What legislative requirements are placed on the selection of the foreign aid mix, especially on NPA?
2. Beyond the restrictions noted above in (1), what are the most important factors considered in the initial selection of the mix of NPA? Does your agency have guidelines or policy determinations which control the use of NPA?

3. How are these selected programmes identified or communicated to the host country to ensure that they fit into their planning and programme priorities?
4. What are the positive and negative aspects of the current process for identifying and selecting NPA?

III. CRITERIA FOR NON-PROJECT ASSISTANCE

There is a wide variety of non-project assistance. Our concern here is chiefly with a) balance-of-payments support, b) budget support, and c) NPA related to a sector of the economy (e.g., agriculture). In each case we are most interested in the economic criteria for programme selections, although other criteria may be important as well.

1. What are the requirements for providing support under one of the three programmes described above? If there are other kinds of non-project assistance, describe them and explain their requirements.
2. What are the advantages and disadvantages of greater concentration of aid in one of these forms for your country and for your recipient countries?
3. On what basis do you decide on the commodity mix related to the economic purposes of a) supporting the use of existing capacity, or b) providing for new investment in fixed plant and equipment?
4. How is non-project assistance "justified", given well known problems of accountability and fungibility? That is, what analysis is used, if any, to defend non-project assistance against the common legislative concern that NPA is too easily diverted from intended uses?

IV. NON-PROJECT ASSISTANCE AND POLICY REFORM

Attempts to move the developing country toward economic decentralisation and greater reliance on price signals established in markets are sometimes associated with NPA. Policy instruments for achieving these objectives include changing government practices in price-setting, budgetary allocation and discipline, and removing various administrative controls in marketing and distribution of products and inputs. Donor practice varies widely in pushing for these objectives, however. Moreover, the underlying analysis supporting discussions intended to change policy ranges from World Bank and IMF reports to independently generated donor studies. What, then, does "policy dialogue" mean?

1. Is your non-project assistance programme contingent in any way upon policy changes by the host government? Explain. Can you provide examples?

2. If policy dialogue is on your agenda, describe the kind of economic analysis underlying your approach (e.g., "back of the envelope" sketch of the economy, World Bank country study or SAL requirements, detailed econometric macroeconomic projections). Countries with the worst problems often have the worst data base. How do you compensate for this?
3. Who takes the lead in policy dialogue? What are the various settings for such dialogue?
4. What guides the formulation of conditionality? Can you generalise about the various types of condition associated with the major types of non-project assistance we are concerned with here (see Table 1) (e.g., agricultural price reform and aid to that sector, exchange rate adjustment and balance-of-payments support)? Can you provide examples?
5. What is the potential of aid as a vehicle for policy reform, and under what conditions is it usually thought to be most effective as "leverage" in policy discussions?
6. How does your approach to policy discussions change, if at all, when approaching questions which are politically sensitive? For example, in drawing up your analyses, do you omit the politically sensitive portion, or "classify" it in some way for limited distribution only? What other changes would you credit to political sensitivity?

V. DONOR CO-ORDINATION

The phrase "donor co-ordination" has many meanings. In some cases it means following the leadership of the IBRD or IMF. In other cases it suggests donors discussing country needs and shaping programmes accordingly in a concerted way. In common usage, the phrase even contains the hint that developing-country governments might play a greater role in bringing the various donor programmes to focus on the needs of the country as defined by the host government itself. Everyone seems to agree that there is too little such co-ordination, and that the role of the host governments in such co-ordination is often modest indeed. Such co-ordination is especially important for NPA because such large "chunks" of the economy are under consideration that often one donor's efforts will be relatively insignificant.

1. What does your agency understand to be the role, if any, of "donor co-ordination" of NPA? Is such co-ordination of high or low priority in your programme?
2. As a matter of policy, are your country programmes shared or co-ordinated with other donors? How does either occur? Many LLDCs have consultative groups. In addition to such groups, does donor co-ordination take place in the developing country? What role, if any, does the developing country play in these efforts?

3. Since policy dialogue is most frequently related to NPA, describe any efforts to co-ordinate such dialogue.
4. In the light of your own programme, what kinds of donor co-ordination seem most feasible? If these are not at the same time the most desirable, explain.

VI. EFFECTS OF TYING AID

Host governments repeatedly have objected to various "ties" and regulations attached to aid. Donor governments, on the other hand, view tying as a way of ensuring that some of the benefits of the aid programme accrue to domestic producers of the donor country. The choice of commodities and host country target beneficiaries is also important. While there are procedures for waivers of donor requirements in many cases, developing-country governments frequently complain that they are cumbersome and ineffective.

1. How are commodities selected for inclusion in NPA to a developing country?
2. What are the principal "ties" attached to the three kinds of programme assistance we are concerned with here? Is any thought being given to reinforcing or relaxing any of these ties?
3. What impact (positive or negative) does tying have on programmes with respect to implementation, procurement of materials, implementation of schedules, and provision of appropriate and cost-effective materials which may be needed for the projects?
4. Does tying have any impact on the availability of or access to spare parts or repair services for purchased equipment and materials?

VII. MANAGEMENT OF LOCAL-CURRENCY ACCOUNTS

Most local-currency funds originate as payments by private importers or the developing-country government for commodities imported under one of the programmes being considered here. Once established, such funds give rise to a natural tension between the donor, which might wish allocations from the fund to support development initiatives in accordance with its own priorities, and the host government, which might wish either not to spend the money at all ("sterilise" the funds, thus reducing demand pressure on prices), or to spend it on projects of its own choosing.

1. Under what conditions are counterpart funds resulting from non-project aid programmed for specific uses by joint agreement?
2. Are there any policy or legislative restrictions on the use of local currency to finance recurrent expenses of the host government, in activities funded either solely by the host government or by the donor?

3. What are the "mechanics" of programming local-currency funds? For instance, are they placed in a separate account of the host-government treasury or operating entity such as a ministry of agriculture, or are they simply co-mingled with general treasury revenues? What degree (and what kind of surveillance is provided by the donor on the use of these funds?

VIII. NPA AND HOST-COUNTRY INSTITUTIONS

Programme aid often represents a new and large flow of resources relative to host-country institutional absorptive capacity. Such aid must therefore rest upon an analysis of the means of effecting the flow as well as the economics of the flow. This means that analysis justifying NPA must include institutional considerations. At the same time, there is a growing understanding among donors that where possible the private sector should be permitted to function to its fullest capacity. In effect the critical question becomes one of gauging the respective capacities of private and government institutions managing the aid flow, allowing each to do those things it can do better relative to the other.

1. In your NPA, what formal consideration is given to the adequacy of institutions to absorb effectively the aid flow? How is such analysis carried out (i.e., what form of "institutional analysis" is brought to bear on the question of adequacy)?
2. Are there specific aid activities that are thought by your government to be best implemented by the private sector? Explain. Are there specific aid activities that are thought to be best implemented by government entities? Explain.
3. In the analysis underpinning NPA, how do you approach the question of the "optimal" balance between reliance on public relative to private institutions?
4. The scope of NPA is often so large that no single operational ministry has sole jurisdiction in the matter. What has been your experience with the difficulties of co-ordination among developing-country ministries toward a given NPA objective? For instance, is there a preference for seeking co-ordination through a single superior developing-country ministry (finance for example), or is there a general approach favouring your own co-ordination among ministries? How would you characterise the central difficulty encountered in attempting such co-ordination?

IX. EVALUATING THE ECONOMIC EFFECTIVENESS OF NPA

Economic rates of return to projects can in principle guide future allocation of aid between projects. Methodologically, there are so many

variables to be considered in non-project assistance, many of them unknowns, as to preclude rational calculation of rates of return. For example, changes in the weather, export prices, or in "investor confidence", will mean that evaluations must rest on indirect measures, or what might be called "tests of appropriateness". (For example, were the commodities imported appropriate to the developing country's resource endowment?) In effect, it is sometimes more useful in NPA evaluations to focus data collection and analysis on agreed policy revisions and their short-term effects rather than to try to determine long-term macroeconomic and socioeconomic development impacts. For example, data can be collected to determine whether the developing-country government is producing a clear and consistent message concerning the reorientation of its economic policies. Conversely, it must also be determined whether the private sector is sufficiently organised to respond to that message, and whether sufficient competition exists in the markets to produce desired improvements.

1. How do you evaluate the economic effect of developing-country government use of the three kinds of programme assistance under discussion here? Explain for each programme.
2. How do you monitor host-government compliance with conditionality provisions?
3. What are the main "lessons learned" from the evaluations of these three kinds of programmes over the past several years?
4. How are these "lessons learned" brought back into the "design loop" to guide establishment of new programmes?
5. Where policy discussions are important, how do you gauge the success or degree of success of such discussions?
6. Where policy is shown to have changed, how do you relate that change to changes in macroeconomic or sector conditions? That is, how do you attempt to relate the two in a causal sense?
7. Is any attempt made to relate programme assistance to conditions of the poor? For example, do you encourage use of NPA to compensate for negative equity effects of emergency measures taken to improve the whole economy (devaluation, reduced government subsidies, etc.)?
8. What staffing problems have you encountered because of the need for continuous consultation with the host government, and the constant surveillance of developments in the target area of NPA?
9. Quite aside from the question of economic effectiveness, what are the major administrative difficulties you have had to overcome in managing NPA flows through to completion?

X. SIZE OF NPA FLOWS BY CATEGORY

We have provided in Table 1 essentially a check list of aid flows by administrative and functional classification. This typology does not include all of the variations in practice among donors tailoring their programmes to this or that circumstance in a given developing country. It does, however, permit discussion of all of the major groupings of aid flows, and thus may be a useful beginning as DAC studies in broad outline its aid practices. Our data base (OECD's Creditor Reporting System), may not lend itself to a quantification of these individual flows in the detail we might prefer. Nevertheless, it will be useful to attempt two brief exercises at this time which, if nothing else, will help define the limits of our quantitative knowledge about ourselves.

1. Using the definitions provided in Table 1, provide data for the most recent calendar year on the three major types of NPA which are the focus of this paper, namely, balance-of-payments support, budget support, and sector support through provision of critical inputs.
2. What have been the trends over the past five years in these aid flows? What have been the regional trends in these flows?