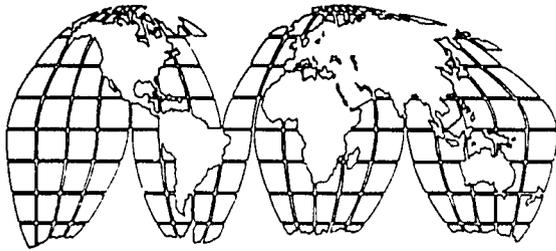


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EVALUATION OF NON-PROJECT ASSISTANCE

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General Conclusions

Non-project aid (NPA) is a flexible instrument for quickly and efficiently transferring resources to an LDC. It can be and usually is highly fungible so it can be used to support a wide variety of development, maintenance and operating imports and to generate local currency to fund either general development and operating costs or specific institutions and programs. It has often been used - and still is in some cases - simply to provide flexible support to the general development program of an LDC. When available aid exceeds requirements for conventional projects an NPA component may be essential if all available aid is to be used effectively.

In recent years economic crises have beset or threatened many developing countries because of misconceived and ineffective development programs and policies, adverse changes in the world economy or both. NPA can alleviate the impact of such crises, but unless the faulty policies and programs are corrected and reoriented to the new international economic environment it will serve only as a palliative. Only if the necessary reforms are adopted can solvency be restored and sustainable progress achieved.

At the sector level too, the effectiveness of projects has often been found unsatisfactory because of an inappropriate policy environment and ineffective supporting services.

In such circumstances NPA can be highly productive - even decisive - when it supports the necessary policy reforms and institutional restructuring. Donors have increasingly used NPA to encourage and support LDCs in adopting and implementing such reforms. Typically the World Bank, usually in the context of a basic stabilization program negotiated by the IMF, works out a comprehensive program of policy reorientation and program restructuring and provides substantial NPA support. Bilateral donors also provide NPA, often sectorally focused and including support for sector policy reforms as well as funding for sector inputs and services.

The critical role NPA can play in such programs to help hard-pressed LDCs restore solvency and get back on the path to progress, the danger that it may prove merely a palliative and the difficulty and delicacy of the task have magnified the need to learn rapidly from experience with such programs. Evaluation is counted on to contribute. Evaluation studies of NPA programs have expanded rapidly and interest in their results is keen.

Evaluation of such programs presents special difficulties. Fungibility of the resource transfer is usually high so the determination of ultimate impact involves comprehensive macroeconomic analysis and can not produce definitive quantitative cause and effect answers. This is particularly true when the results of policy and institutional reforms

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are the main targets. The dichotomy between the nature and timing of results of the resources transferred and of the related reforms is difficult to integrate convincingly.

Nonetheless, ingenuity and perseverance can yield useful conclusions, and some important lessons have been learned. Among those relating particularly to NPA programs supporting major policy and institutional reform, the following are fundamental:

-- Thorough, in depth analysis and experienced expertise are indispensable in planning important reforms. It is imperative that the host country authorities understand and agree that the reforms are necessary and feasible. The analysis must consider not only the goal but the practical sequence of steps by which it is to be reached. It must identify likely political and social dangers and difficulties and how best to deal with them.

-- Plans for reform and particularly their timing must be flexible. Implementation must be closely monitored. Emerging problems and changing conditions must be promptly identified and dealt with. Continuing analysis of refinements and next steps is often critical as well as studies of early indications of good or bad response to reforms and the reasons therefor. Overoptimism on feasible timing of policy changes and institutional development is common.

-- It is highly desirable for host country institutions to be engaged in the analysis and program planning from the start and to internalize this work as rapidly as possible.

-- Evaluation and essential policy analysis and monitoring are to a considerable extent indistinguishable in dealing with the impact of such programs. Evaluators should be somewhat pragmatic and modest in deciding how far to try to go, but there is much room for useful work and its results can be very important.

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EVALUATION OF NON-PROJECT ASSISTANCE

Introduction

1. For many years donors have provided a large volume of non-project assistance (NPA). Recently, however, NPA has increased and now plays a critical role in support of stabilization, restructuring and development programs of a broad range of developing countries, including many of the least developed. It has assumed special importance in supporting major reorientation and structural adjustment programs and has increasingly been linked closely to policy dialogue and reform.
2. Over the past several years the importance of careful review of experience with such assistance has been recognized and evaluation efforts have expanded. The DAC and particularly its Expert Group on Evaluation have recognized the importance of the subject, the special difficulties involved and the limited relevance of evaluation techniques developed for evaluation of project aid. The Expert Group included a number of comments on NPA in its July, 1984 "Lessons of Experience" report [DAC(84)11] while noting that "The bulk of formal evaluation work has tended until now to concentrate on evaluations of individual projects." The 1984 Joint Review [Summary Record - Dac/M(84)7] concluded that the Expert Group "should focus its work on non-project aid ...". At the 1986 DAC High Level Meeting several members reemphasized the importance of the subject, particularly in relation to the role of NPA in supporting policy and institutional reform, structural adjustment and the use of policy dialogue and conditionality.
3. The Experts Group has considered the subject several times. A questionnaire was developed to assemble the members' policies, experience and problems on NPA use and evaluation. [DAC/EV(85)7] Ten bilateral donors and the World Bank responded to the questionnaire. The answers varied greatly in comprehensiveness and in the approach taken to the subject. Based largely on the experience and thinking of the members as reflected in these responses plus the important work which has been reported by the World Bank and a number of other studies, this paper attempts to itemize a number of important aspects which are of concern to members and approaches which have been taken in dealing with them.

I. Scope and Distinguishing Features of NPA.

4. NPA accounts for a significant and rising share of official development finance. The following table, drawn from the 1985 and 1986 Chairman's Reports ["Twenty-Five Years of Development Cooperation", OECD, 1985 and "Development Cooperation", OECD, 1986??], probably understates the total because it excludes sector assistance.

Table 1

| Non-Project Assistance | | |
|--|-------------|--------------|
| Percentage Share in Official Development Finance Commitments | | |
| DAC Member Bilateral ODA | | |
| Financial Assistance | 12.5 | 14.7 |
| Program Assistance | na | (5.3) |
| Special Country Support | na | (9.4) |
| Debt Relief | 1.0 | 1.4 |
| Food Aid | 6.9 | 7.4 |
| Total DAC Bilateral ODA | <u>20.4</u> | <u>23.5</u> |
| Multilateral Development Finance | | |
| (includes non-concessional lending of the international development banks) | | |
| Program Assistance | 8.9 | 7.3 |
| Food Aid | 5.1 | 5.5 |
| Total Multilateral | <u>14.0</u> | <u>12.8.</u> |

5. Assistance other than project assistance covers a wide range of diverse of activities. The essential function of aid is to provide an incremental flow of goods and services from abroad and to allocate these resources to a particular developmental or other use. In the case of NPA, unlike project aid, the resource allocation aspect can be detached from the imported resources. The incremental imports may be converted to a local currency claim on the nation's resources, e.g. by sale of the imports or by budgetary policies and practices. The flow of outside resources is fundamental, but the local resource aspect can be of considerable importance depending on prevailing fiscal and monetary institutions, laws and policies.

6. In both respects there is a spectrum of specificity that may be involved in the aid package. With respect to the goods and services imported, at one extreme the agreement may specify precisely what is to be financed, e.g. equipment and services for a fully specified project; at the other - e.g. in the case of cash transfers or debt relief - the

foreign exchange may be blended into the total resources of the recipient and its use left entirely up to the country, helping to finance a portion of total foreign exchange outlays. Between the extremes it may finance the needs of groups of related projects, equipment for a range of types of project - e.g. via intermediate development banks or funds, specific raw materials, a range of intermediate products or components, food and other consumer goods or a broad range of general imports. A fairly common type of NPA, particularly in programs of relatively small donors, provides selected commodities needed in agricultural production (e.g. fertilizer) or sectors of industry (e.g. dairies or soapmaking). The prime purpose is to assure income and employment for the users of the imports and supplies of their products for consumers.

7. With respect to the local currency aspect, again, there may be very specific provisions for allotting the proceeds to specific projects or programs or they may flow into the general fund of the government and lose identity completely. Between these extremes the local currency can be used to fund local costs of specific aided projects or programs, to expand specific programs or institutions or to support the national budget or those of certain agencies.

8. The line between project and non-project aid along these spectra is somewhat arbitrary. The numerous types of non-project aid are not uniformly defined, are often mixed and can overlap. Moreover the foreign exchange aspect of an aid operation and the local currency aspect may be handled quite differently; the sales proceeds of a general CIP may be used for general budget support, a broad sector program or one or more specific projects. The chief factors are a), the objectives, which are often mixed, and b), the form in which resources are transferred - generally cash or commodities but sometimes including technical services. Discussion in the Expert Group suggests that it is not fruitful to labor over precise terminology; there will always be enough differences to require individual consideration of purpose, form and circumstances in evaluating such aid.

11. The Importance and Difficulty of Evaluation of NPA

9. Non-project aid can serve a number of very important purposes:
- In the context of severe foreign exchange shortage it can provide imports - inputs, spares, raw materials and components - resulting in increased agricultural or industrial production which may be worth several times the value of the aid
 - It can sustain imports and development priorities during reform efforts involving trade liberalization, financial stabilization and restructuring when acute austerity and loss of confidence might otherwise endanger political morale and public support
 - It can efficiently increase and accelerate well conceived, efficiently implemented development programs - general or sectoral
 - It can supply key inputs for priority sectors such as tubewell pumps or medical equipment and supplies
 - It can tide over short to medium term shortfalls of foreign exchange availability, obviating expensive delay and disruption of priority programs and preventing needless hardship
 - It can offset special burdens on a country's economic and financial resources such as the assimilation of an influx of immigrants
 - It can provide relief and rehabilitation needs to overcome famines and other natural and politico-military disasters.
10. NPA can also be used less fruitfully, however:
- It can make it easier for a recipient to live beyond its means and avoid or delay necessary and reasonable measures to raise savings and revenue for financing investment and development programs
 - It can help perpetuate subsidies and unrealistic foreign exchange and price policies which distort market incentives, deter export growth and perpetuate dependency.
11. The foregoing is by no means a complete catalogue; it merely illustrates the fact that NPA can be either a powerful development tool or a major waste.
12. In present circumstances particularly, the importance of the positive purposes which NPA can serve argues for readiness to use this instrument widely and flexibly. Many LDCs face the need for major policy reform and restructuring. They need to shift to more realistic policies and more productive patterns of development and to adjust to radical changes in the world trade and financial environment. The danger of ineffective use of NPA or even negative results largely accounts for the general reluctance to expand it. Sound and convincing evaluation of such aid is therefore especially important to help improve its effectiveness and build up public confidence.

13. Establishing the effect of an aid package is made difficult by a number of problems including the fungibility of resources; the importance of the country's economic structure, institutions and policies; and the extent to which results may depend on a range of other influences that may be difficult to determine or may change in unforeseen ways.

14. In principle these problems are involved in dealing with project aid as well as NPA. They must be considered in country program planning and it is essential to consider the economic and policy context in planning and appraising any major project, but it is not usually necessary to dwell on the fungibility problem and consequent issues. The individual project is usually relatively small in macroeconomic terms, and in any case timing, specific planning and effectiveness of execution are important and heavily dependent on the donor's participation. For most NPA, however, these considerations are paramount. Fungibility is usually major and obvious, particularly in the case of budget support, cash transfers and debt relief. Where it is desired to overcome it, specific understandings are essential. NPA impact is usually critically dependent on the economic policies and institutions of the country; in many cases the intent is to support sound policies and institutional and policy reform. To provide a reasonable basis for judgment as to whether such aid will achieve its goals it is therefore routinely necessary to have a thorough understanding of the general country economic scene and policy framework and, when appropriate, agreement on the needed policy and institutional reforms.

15. Even when the rationale and intended results of NPA are relatively narrow its scale and ramifications often involve other consequences - positive or negative. A thorough evaluation would have to consider these possibilities and whether they were adequately assessed in program planning.

16. Evidently the problems involved in evaluation of NPA depend on the specific features of the NPA operation in question. The following section identifies common NPA evaluation issues reported by DAC members.

III. Policies and Practices in Use of NPA and Evaluation Issues.

17. The key features of NPA programs are their purpose and the form in which the aid resources are transferred, including whether special provision is made for programming local currency. Interaction with programs of other donors is likely to be particularly extensive and important in relation to NPA, particularly when it is linked to policy and institutional change.

Development Objectives, Criteria, Justification of NPA

18. There are considerable variations in the purposes sought by donors in providing NPA, though the differences may often seem greater than they are in fact.

19. Legal and Policy Constraints. Aid agencies have considerable discretion in providing NPA; legislative and over-riding policy constraints generally do not preclude use of NPA when it is considered well justified. Debt relief is a somewhat special case. It is regarded as abnormal. Several members note that official debt is less of a problem for low income countries since completion of the UNCTAD-stimulated retroactive terms adjustment. While aid agencies feel free to use NPA when their analysis indicates that it will best serve program and foreign policy objectives, there is clearly a preference for project assistance or sector assistance of a substantially project-like character. For most donors there is a presumption that NPA will not normally exceed a more or less explicit share of the aid agency's program. In some cases, including France and the US, parts of the aid program are funded from several appropriations or administered by separate agencies. NPA is often not regarded as appropriate for funding from one or more of these sources.

20. Purpose of NPA. There is near unanimity that the basic immediate function of NPA is to transfer resources rapidly and efficiently to the recipient to meet urgent short term needs. There is wide variation in the specific needs targeted and the results expected - in the criteria and justification of NPA.

21 Some donors as a matter of principle focus strictly on provision of foreign exchange in the context of acute balance of payments difficulties, usually in the form of import financing. Others may be primarily addressing a range of additional goals. In some cases the local currency aspect is the principal concern - provision of supplemental non-inflationary resources for the development budget or important segments of it. A number of respondents note that it is not efficient to force all priority needs of a sound development program into the project mold. One cites achieving of best "value for money" as a justification for using NPA in some cases. Correcting imbalance in

overall aid availability is also mentioned by the UK. Finally, in the case of several of the major donors the primary rationale for the use of NPA in many cases is to support policy and institutional reform and to provide leverage in policy dialogue.

22. Sectoral Focus. There is a widespread and apparently increasing preference for giving a sectoral focus to NPA programs even when the basic objective is to provide general support. Several donors consider that it is easier to avoid difficulties and demonstrate positive effects of the assistance when it is concentrated to a reasonable extent. This consideration is relevant particularly for NPA provided in the form of import financing.

23. Policy and Institutional Reform. The use of aid generally - and of NPA in particular - to promote reforms has been sensitive and controversial and to some extent still is. When policy reform is involved it becomes one of the most important and difficult aspects of aid evaluation. On the face of it there appears to be wide variation in the extent to which respondents use NPA in this way. Some respondents, particularly among the smaller donors, state that their assistance is too small to provide leverage for policy reform. Denmark has indicated that it does not consider policy dialogue (or coordination) as appropriate for consideration in relation to NPA but only in relation to the whole aid program for a recipient country. Several donors assert categorically that they do not consider such use of aid compatible with respect for the sovereignty of aid partners. Others, while emphasizing their respect for their partners' responsibility for policy decisions, also stress the importance of policy dialogue and the need for the donor to satisfy itself that the policy context and responsible institutions are such as to give reasonable assurance that NPA will be effectively used. Finally, some donors, including two of the largest, the US and the World Bank, often make NPA explicitly conditional on major reform and frequently provide in their agreements that the funds committed will be released in tranches contingent upon phased implementation of specified measures.

24. The difference in substance here is surely less than appears. Even donors which do not stress policy reform generally limit their NPA to target countries with an orientation and basic development approach they can endorse. Some link their broad policy discussions more exclusively to their country program planning exercises rather than to individual NPA agreements. France, emphatically does not attach conditions to its NPA. Nonetheless it insists on the need for full and detailed understanding on the policies and institutions needed to make the assistance effective; in discussion with recipients of successive annual operations a major focus is on the progress made in implementing the measures discussed the year before. When donors are in position to discuss their program plans for several years ahead, as Sweden and

Norway do, policy dialogue with the recipient in that context is found to be particularly appropriate. Indeed, the heavy emphasis of some donors on explicit conditionality and tranching releases of NPA may reflect in part their inability to make firm program plans over a longer time frame with confidence and credibility.

25. To some extent too, these apparent differences in approach may represent differences in tactical style rather than substance. It may sometimes be the case that formal agreements on reforms to be undertaken as explicit conditions of aid commitments make it easier for recipients to undertake belt tightening, reduction of subsidies and other unpalatable measures. In other circumstances it may be easier for a government to take such measures if it is seen to be adopting them on its own initiative; it may be preferable - and more effective - to keep discussions and undertakings informal, tacit and confidential. Appearances may also be important on the donor side; in some cases spelling out the reforms being supported and embodying them in firm agreements may help gain public and legislative support while in others a less intrusive image works better. Even after allowing generously for these qualifications, however, it is apparent that there are substantial real differences between donors in their practice and policy in this regard.

26. It should be noted that the practice of individual donors is not uniform. The US, for instance, exacts no policy commitments in relation to its largest single NPA program; Sweden, which generally avoids any appearance of conditionality reports that on occasion it has insisted on changes in price policy considered essential to the achievement of agreed program objectives.

27. Macroeconomic Policy. The areas of policy emphasis vary widely. At the macroeconomic level donors almost universally support IMF stabilization agreements and World Bank structural adjustment loan conditions, e.g. by insisting that the recipient of their NPA be in good standing with respect to agreements with the Bank and Fund. In some cases donors make aid contingent on achievement by the recipient of a new agreement with the Bank or Fund. Sometimes they go further and include in their own NPA agreements specific undertakings on reforms that are the same as or complementary to those included in the multilateral agency programs. A number emphasize, however, that they do not automatically support all IMF or World Bank policy conditions; usually they consider the validity of the policies in light of their own analysis. US legislation precludes automatic linkage to the multilateral institutions' agreements. An important category of France's NPA must be tied to a Bank structural adjustment program, but requires special interagency review and approval.

28. Bilateral Donor Policy Concerns. For the most part the institutional and policy reforms supported individually by bilateral donors are sectoral. They aim at improving the policy environment and strengthening the institutions needed to motivate and support increased investment, production, efficiency, equity and welfare in a specific economic or geographic sector - usually one in which the donor has other project and non-project activity.

29. While there appears to be considerable congruence in the types of reform supported by most respondents, several mention particular concerns which they seek to advance whenever feasible. Several, including the UK and the US, look systematically for opportunities to open up areas to the private sector and improve its incentives. Others, like France, stress improving responsibility, incentives and autonomy of important agencies and enterprises whether public or private. Canada has special concern for the impact of its programs on women and several have an overriding commitment to ensure that all of their programs, including NPA, promote the welfare of the very poor. Most donors recognize the encouragement of developing country exports as a collateral objective of aid generally, including NPA, by including LDCs as eligible sources of procurement in aid otherwise tied to exports of the donor. Norway considers this objective so important that procurement is limited to developing countries in about 40% of its NPA.

30. Non-development objectives. Political and commercial objectives are often involved in NPA. Political objectives are sometimes very important - even primary; evaluation of NPA effectiveness from the standpoint of such objectives is beyond the scope of this discussion. Commercial objectives are seldom if ever primary, but they are pervasive collateral objectives of much NPA. They are detailed somewhat more in the following section. In both cases these objectives may conflict with NPA effectiveness in attaining development objectives and the extent to which they do so is an important area of inquiry in NPA evaluation. Effectiveness in promoting commercial interests is frequently regarded as an appropriate evaluation issue. One way of looking at it is as a way of reducing the real cost to the donor of the aid, thereby increasing its benefit-cost ratio.

Size of NPA Programs.

31. One significant issue which appears to have been little considered in evaluations, except when utilization has been unexpectedly slow, is the nature and validity of the analysis on the basis of which the size of NPA programs is established. It is evident that there is little consensus on any standard formulae. A number of diverse approaches can be relevant and have been considered.

32. In one way the issue is often not very important. The utility of a marginal input of resources in cash or fungible imports is likely to be practically constant over a considerable range. In some cases the size of NPA programs is determined quite frankly residually. A total annual program level is fixed and what is left when the agreed projects have been taken care of is provided as NPA.

33. In some circumstances, however, the issue may be important. When a narrow range of materials or supplies is provided for specific reasons - e.g., to permit capacity operations by industries depending upon them - the margin between insufficient and excessive may be narrow. A sector program may be designed to provide supplies and budget support for expanding programs and institutions and meet key input needs in the sector. Whether the intended costing and phasing of programs and estimated demand for inputs were realistic can be usefully assessed. Even the estimates and forecasts underlying the level of general balance of payments or budget support designed to sustain a minimum target level of economic activity or development spending can be reviewed ex post, though here the margin of error is wide both because such forecasts are themselves subject to great uncertainty and also because such programs are usually related to assumptions or understandings about parallel contributions by other donors which may be quite uncertain.

34. Where support for institutional and policy reform is the donor's principal objective determination of the appropriate minimum NPA level becomes problematic. Donors' thinking on this question seems inconclusive. Where there are quantifiable short run costs or risks they are certainly relevant, but they do not often seem to be sufficiently clear and substantial to provide a basis for decision. The idea that NPA is a "price", established by bargaining, "buying" the recipient's agreement to adopt reforms considered necessary by the donor is generally rejected. That approach becomes totally untenable as it is increasingly recognized that the success of reforms is unlikely unless the host government is genuinely convinced that they are necessary.

35. Probably the most plausible measure of the amount of NPA needed to promote reforms - beyond any direct costs and risks - is the amount needed to support a minimum level of economic activity considered necessary from an economic, social and political standpoint to enable vigorous, sustained implementation of the reforms by the host government. While far from a precise measure, it is one that can be analyzed ex ante and reviewed ex post.

36. No doubt in practice several considerations influence decisions on the size of NPA programs. It will often be appropriate in evaluation to endeavor to identify them and consider whether in retrospect the analysis was sound, whether the estimates were fulfilled and whether other approaches would have produced better results.

Form of Transfer

37. The two main ways in which NPA resources are transferred to the recipient are by financing specific imports of goods and services and by transferring foreign exchange directly to the recipient. A third method of some practical importance is debt relief. As noted above, debt relief is not discussed in the questionnaire responses or in this paper. It accounts for a very small percentage of DAC ODA. Other possibilities exist but are seldom if ever used. The selection of form is made primarily on the basis of what will best serve the objectives of the program.

38. Other things being equal most donors prefer import financing. The use of the commodities financed generally contributes directly to the objectives of the program, but need not necessarily do so. Depending on the NPA objectives the specific commodities selected may vary widely. Where the specific commodities are not directly related to program objectives a broad range of general imports may be eligible. In some cases any product not explicitly excluded (the negative list) is authorized. Where the commodities imported do relate directly to program objectives there may be agreements ensuring that the commodities financed will be additional at least in part, e.g. requiring that total imports of the commodity in question reach a target level in excess of the amount financed. Traditionally it was often considered that CIPs should not include capital goods, being limited to raw materials, semimanufactures and perhaps spare parts and maintenance requirements. Most respondents now indicate, however that they are prepared to include capital equipment as well when justified, particularly when required for rehabilitation and modernization or expansion of existing plants, especially for private companies.

39. CIPs are also favored and used for collateral reasons. Canada considers that having specific goods brought into the market as a result of its financing increases favorable public awareness of its aid. More important, virtually all DAC members want their NPA to improve the market for their own exports. In almost every case more or less formal agreements ensure that a considerable proportion of CIPs finances supplies from the donor country. Most countries report that they endeavor to ensure that such procurement will be at international market prices. Several state that they do not require tying when the excess cost will exceed ten per cent.

40. As DAC members are well aware, use of aid to promote the donor's exports is not limited to the immediate commodities financed. Sometimes account is taken of the need that may be created for followup imports, e.g. specialized spares and maintenance supplies for aid-financed

equipment. This possibility is mentioned specifically by the UK and Canada. The UK notes that financing of such requirements arising from earlier equipment sales can be an efficient use of NPA. Aid is also used in mixed credits to increase the attractiveness of non-ODA export credits. This device is more applicable in equipment financing under projects but NPA is apparently used in this way by several donors.

41. A number of other considerations frequently listed as factors in selection of CIP commodities relate to efficiency of implementation and avoidance of difficulties. Firmness of the requirement and competence of the likely importers and users, speed, avoidance of confusion and controversy in procurement and minimization of management complexity and staff demands are all mentioned.

42. Finally, collateral development objectives can be promoted by use of the CIP mechanism. The encouragement of developing country exports and inter-LDC trade was mentioned in the previous section.

43. The cash transfer form is clearly the most flexible, quickest and least demanding in terms of staff and management complexity. It avoids the costs and time involved in complying with aid authorization, procurement and accounting procedures which are almost inevitably considerable and are often substantial. It avoids the costs and difficulties of tied procurement. It is the most attractive form of aid to the recipient and therefore provides the greatest leverage in gaining acceptance of any measures the donor wishes to encourage and support.

44. Its pure flexibility can, of course, be limited by restrictions and agreements. It is often used in providing aid of which the basic purpose is budget support; particularly in such cases it often includes substantial undertakings on broad fiscal policy and specific budgets and expenditures - both domestic and foreign. One respondent mentions requirements dealing with the settlement of commercial arrears, for example.

45. The fungibility of such aid is patent and undisguised. It focuses attention on the soundness of the entire development and economic program and policies of the recipient. It appears to be used most often in cases in which political relations between donor and recipient are close and when the donor is thoroughly familiar with or even has a measure of control over the recipient's policies and programs. NPA use by France and the UK is reported in such conditions to their former colonies. It is also reported in some cases in which a primary objective is to support political and security cooperation and the donor has confidence in the ability of the recipient to make appropriate use of the resources provided. USAID has recently undertaken a number of NPA programs in which cash transfers are linked to carefully specified and scheduled policy and institutional reforms. These involve

"performance disbursement"; funds are transferred in tranches as reforms are implemented. They provide for detailed progress reporting and evaluation.

Local Currency Programming

46. Utilization of local currency (LC) corresponding to the foreign exchange provided is much more likely to receive special consideration under NPA than in the case of project assistance. Whether an NPA operation involves separate treatment of such local currency and if so its importance in relation to the objectives of the NPA will affect the extent to which it must be specially considered in evaluation. Practices in this respect vary greatly, both between donors and often within a donor's overall program.

47. Some indicate that their normal CIP programs provide for no accounting or limitations on the discretion of the recipient with respect to sales proceeds or other local currency flows resulting from the imports financed. Most require some form of accounting for the local currency counterpart. Sometimes this involves only general attribution to the budget or to the development budget or to broad sectors of the development budget, but often more substantive control is involved. Agreed uses of local currency may be quite unrelated to the principal aims of the NPA or they may be integrally involved. In a few cases they are considered the primary instrument for achieving NPA sector objectives. At the extreme a cash transfer or general import CIP can become little more than a channel for local cost financing of projects and project-like sector programs. When LC use is important to the NPA objectives the agreement may specify its use, e.g. to provide financing for specified projects and programs, or it may provide for establishment of a fund to be programmed subsequently for agreed purposes more or less narrowly defined. Under the often-preferred sectorally oriented CIP programs most include agreement on the use of sales proceeds to provide funding for agencies, programs and projects in the sector. It is often agreed or understood that such programming will be at least partially incremental and it can protect against delays, uncertainty and possible cuts in funding for the agreed purposes.

48. The procedures for determining the amount of local currency and its accounting and control also vary. The amount may be measured by the amount actually received for those imports actually sold in the market. Or it may relate to the value of all the imports financed regardless of whether they are sold or not. The official rate may be used to convert the foreign exchange value to LC or some other rate may be specified.

49 The LC may be merged into the general accounts of the recipient government with its accrual and utilization being simply reported or a special account or accounts may be required. If there is a special account donor approval of actual payments or releases to programs may be required or they may merely be reported in accordance with more or less detailed prior program agreements. At the extreme the LC may become the property of the donor and be released to the recipient; that used to be a common pattern for some US food aid programs but seems not to be used now.

Coordination

50 Coordination among donors with respect to NPA can have a number of special features. For some types of NPA it is likely to be of great importance and hence merits special attention in evaluation. Coordination needs can be significant in relation both to the goals and objectives and to the implementation of NPA programs. It is important in dealing with macro-economic and major sector policies and objectives; sector plans, institutions and programs; and some aspects of implementation procedures, particularly for CIPs.

51. Donors generally accept the desirability of coordination, though there is considerable variation apparent in the urgency and importance they attach to it. Without exception they consider that the aid recipient should take the lead in coordination. It appears, however, that some are disposed to wait for such leadership to emerge while others want the donors to press for it and if necessary provide support to the responsible agency and share a good bit in the initiative. One has observed that the most desirable but, at the same time, the most often unworkable form of coordination is that afforded by the host government. France notes that sometimes a major donor can recognize incipient or actual program or policy contradictions among donors and initiate discussions to reconcile them.

52. Because NPA is normally relatively flexible in content and highly fungible the danger of conflict or inconsistency on the foreign exchange side is relatively slight. This is especially true, of course, with respect to cash transfers. Collateral export promotion objectives might produce a tendency toward competitive overlap between CIP programs.

53. Macroeconomic policy concerns could produce incompatible pressures and undermine NPA effectiveness, particularly when policy commitments are sought. In most cases now, and apparently increasingly, when such reforms are the major goal of NPA it is in a context in which the IMF and World Bank are actively engaged. For the most part bilateral donors accept and support the measures agreed upon in stabilization and structural adjustment programs worked out and supported by the multilateral institutions and make their own NPA contingent on continued

compliance with such agreements. They may not automatically accept the multilateral agency policy prescriptions as entirely correct or adequate, however, leaving open for consideration in evaluation whether issues should have been raised or were adequately pursued.

54. Perhaps more likely than direct disagreement on macroeconomic policy is failure to mesh and coordinate subsidiary and sector policies and programs in areas in which macro and sector policies interact. Sector policies on prices, budget levels and institutional development, for instance, and general policies on trade, exchange rates, budget reform and government reorganization can reinforce, conflict with or be ineffectively redundant with each other. Where such interaction is in fact significant, the evaluation process can usefully consider whether NPA planning took it adequately into account.

55. Probably the most important area in which coordination with other programs is often likely to affect NPA effectiveness is in sector oriented programs. Uncoordinated donor pressures can result in multiplication of implementation institutions, overloading institutional capacities, policy indecision or inconsistency and confused program and budget priorities. Several members emphasize the importance of coordination at this level. Most comment that such coordination is most likely to be successful when conducted in country with active country government participation.

56. Implementation of NPA programs also involves coordination problems. CIP programs particularly require meshing of donor procurement and programming requirements with the general policies and procedures of the host country. Differences between donor requirements can complicate the host country's problems, overload limited administrative capacity and reduce overall efficiency and program effectiveness. DAC reports have often pointed to the significant gain in efficiency that could be achieved if donors could agree on common or at least easily compatible procedures for import financing.

57. Local currency program implementation procedures could also be standardized to some advantage, but the main need here is to integrate them with host country budget and fiscal systems.

Staffing and Manpower Needs

58. It has been assumed that NFA is less staff intensive than project aid and in that sense an efficient way of transferring resources when that is a principal objective. On the face of it this assumption is valid. Even for the simplest CIP designed essentially to ease balance of payments stringency, however, experience has shown that some care in deciding on commodity allocation among end-users and procurement and marketing arrangements can forestall difficulties and assure speedy and

effective procurement and use. For cash transfers, of course, the manpower needs for the actual transfer are minimal.

59. When more specific objectives are involved and particularly when important policy and institutional reform is an objective, the requirement for substantial analysis, planning and negotiation becomes much greater. The adequacy of staff for NPA program planning must be a serious concern in evaluation. Substantial macroeconomic and sector analysis is required. When policy reforms are part of the package input from high quality, experienced professional experts is needed.

60. To some extent the analytic and planning work involved in NPA overlaps that required in general program planning. There is also scope for meeting much of the need for expertise and analysis via technical assistance. In any case, whether the burden falls heavily on administrative staff or not, the basic fact is that substantial high level manpower is almost always essential and the specialties needed are largely quite different from those for project operations. The World Bank reports that manpower needs per NPA operation are on the same order as for project aid; because of the larger average size of NPA operations the manpower per dollar committed is lower.

61. The individual donor can considerably economize on its staff input if it provides NPA in support of a program largely planned and negotiated between another donor and the recipient as in the case of World Bank structural adjustment programs. The supporting donor might want to monitor and appraise the analysis and planning involved, but would not need to go to the same lengths and would not need high level technical expertise in all areas covered by the program.

IV. Evaluation Experience

62. In view of the wide variation in types of program falling under the NPA rubric, in the extent to which NPA is provided by different donors and in the character and breadth of the objectives they seek to achieve it is no surprise that they vary considerably in their approach to evaluation and the focus of their lessons learned.

Evaluation Activity

63. It used to be a truism that NPA had been neglected in the evaluation of aid effectiveness. It may still be true in quantitative terms overall, but there is now a considerable body of accumulated NPA evaluative studies and a substantial and increasing amount of such work is being done. The level of interest in the lessons from such evaluation among aid policy makers has become impressive. The level of interest and effort remains very uneven, however. Donors which rely on NPA to support major program objectives - particularly when policy reform is at issue - are now bringing to bear a considerable evaluation effort with an eye to improving program realism and effectiveness.

64. The World Bank was among the first to undertake systematic evaluation of NPA programs. The pathfinding nature of the Bank's work was recognized by the 1985 DAC Joint Review which urged the Expert Group to take special note of it. The Bank has been following closely its structural adjustment operations and has produced recently a major synthesis report on the first fifteen structural adjustment loans/credits in ten countries.

65. Donors now not only carry out many evaluations of individual NPA activities; they frequently give high priority to synthesis or cross section studies which pull together or conduct de novo evaluations of a selected or representative group of NPA operations, looking for lessons that are recurrent and comparing results when differing approaches have been taken. The UK has done a desk study based on existing reports covering nine examples of NPA and followed it up with a more intensive field evaluation of four of them. USAID has completed a study covering four recent CIP programs and another dealing with five PL 480 food aid programs. The Federal Republic of Germany inspection unit has increased its emphasis on cross section evaluations as a basis for policy review. These have included studies of its aid to development banks, food security programs and regional development. Canada recently completed a major corporate review of its line of credit and commodity aid programs. This list is illustrative, not a complete tabulation.

66. Other donors, particularly those which use NPA mainly for a simple resource transfer and do not emphasize policy dialogue and conditions, lay much less stress on NPA evaluation and generally focus more narrowly on the simple efficiency of import programming and implementation. In several cases, however, they do attempt to target the imports financed to benefit particular groups, e.g. the poor or small farmers, and in their evaluations try to determine whether the effort succeeded.

67. Cash transfer NPA appears as yet to have been subjected to little or no formal evaluation. Even though it is a substantial part of total NPA it figures in the programs of only a few donors. Hitherto they have provided cash transfers mainly to countries with which they have intimate historical links or close political and security relations. In some cases they consider that their knowledge of the recipients' policies and programs and influence or control over them is so intimate and day to day that formal evaluation would be redundant. Where the main reasons for the aid are political the donor presumably would find a formal economic evaluation irrelevant if not counterproductive. USAID has not yet reached the point of ex post evaluation of its recent "performance disbursement" NPA cash transfer programs.

Problems and Guidelines

68. The Expert Group's 1985 Compendium, "Methods and Procedures in Aid Evaluation [OECD, 1986], noted that one reason why relatively little evaluation of NPA had been done was that the objectives of such assistance are often ill-defined.

69. The U.S. note on "Guidelines for Evaluation" [DAC/EV(86)5] highlight the special aspects often involved in NPA evaluation: commodity selection and procurement, balance of payments effects, effects on capacity utilization and employment, budget and financial aspects including local currency counterpart programming and control, sector focus and the especially important linkage of NPA to policy and institutional reform. It discussed at some length two pervasive factors that particularly bedevil efforts to determine even the immediate results (outputs, in Log Frame terms) of NPA and even more its important impacts. The first is the intrinsic fungibility of NPA in terms of the recipient's foreign exchange budget and internal resource allocations. Fungibility is often complete, and efforts to limit it are inevitably partially ineffective and often largely so. At best estimates of additionality are educated guesses. The second is the virtual impossibility of establishing convincing cause and effect relationships between NPA and its macroeconomic or even sectoral impacts, which are often its principal objectives. Changes in impinging policies, global and domestic market conditions, action by other donors, weather, etc. are not merely sometimes but almost invariably paramount in determining results in any absolute sense. This does not mean that the NPA and

related policies do not make an important difference but only that it is very difficult to factor out this difference with any certainty and precision.

70. The recent experience reflected in responses to the questionnaire reinforces those observations and suggests areas of special concern in evaluation of NPA - not so much guidelines as issues to consider in framing guidelines for an NPA evaluation. It suggests special aspects of NPA bearing on the timing of evaluation and the feasibility and utility of some kinds of assessment.

71. Objectives of Evaluation vs Objectives of NPA. Evaluation should always emphasize the original objectives of the activity being evaluated. Particularly for NPA, however, that is seldom the whole story. As noted above, objectives of NPA are often remarkably vague. One respondent noted that decisions on NPA operations are often made at very high level in an atmosphere of urgency with a minimum of normal documentation. One respondent commented that the objectives are sometimes deliberately left tacit or imprecise. Beyond that, political and security objectives are also often important in relation to NPA. Moreover even where development objectives are clearly identified they are often multiple and disparate.

72. None of this qualifies the need to make every effort to pin down as firmly as possible the objectives of the NPA and to assess the degree of success in reaching them. As noted above, however, NPA can contribute to many kinds of result. NPA operations are often relatively large in relation to a donor's program for the recipient. In planning and carrying out NPA evaluations, therefore, it is appropriate for a development assistance agency to consider, in addition to the specific objectives of the NPA, such questions as the following: How effectively does it contribute to the donor's overall program objectives for the recipient? What other significant developmental results did it have? Could these have been improved?

73. The Effects of Aid vs the Effects of Institutional and Policy Changes. When support of policy and institutional reform is an important aspect of NPA the relationship between the aid and the reforms may be tenuous. In the case of sector oriented NPA the imports financed may contribute directly to sector objectives. They may include fertilizer, pesticides and other supplies for an agricultural or rural development program, for instance. Local currency counterpart may also provide funds for sectoral institutions and programs.

74. When general policy and institutional reform is a major objective there is often much less direct connection. In some cases institution of reforms may entail costs or risks which aid can offset. For instance, a surge of imports may occur when trade policy is liberalized,

but be expected to taper off when backlog demand is exhausted and to be offset as production and exports respond with some lag. More often, however, the rationale for the aid is that it will sustain a level of income and consumption while adjustment and reform are taking effect. Typically the recipient country is in a crisis situation in which severe disruption of production and privation has occurred or is imminent. Policy and institutional reform is designed to restore balance and a framework for reduced dependency and feasible progress. The main role of the aid component is to ease the severity and abruptness of the necessary belt tightening and sustain imports and production until the effects of the reforms can take hold.

75. The effects of the aid and of the reforms are very largely distinct. The aid has its effect mainly in the short run, the reforms over a longer period. They do interact: the cushion provided by the NPA contributes to the political and social feasibility of the reforms by tempering the necessary severity of deflation, wage restraints and other reform measures; the reforms contribute to recovery and growth of output and exports and make the aid a bridge rather than a palliative. But they remain distinct and disparate in timing.

76. Aid in these circumstances typically comes from several donors more or less formally coordinated. The direct effects of a donor's input and the general effects of the total aid input on the balance of payments, imports, use of capacity, employment and output can be assessed quite soon after its expenditure. The effectiveness of the reforms can only be assessed after a substantial lapse of time.

77. Evaluation vs Operations Management. Typical time phasing of many NPA operations and the importance of implementation monitoring considerably limit the scope for mid-term evaluation distinct from operations management when the one year CIP is taken as the unit for evaluation. The commodities are often delivered and the funds largely expended within two years. Any problems and delays encountered should normally be identified and dealt with as part of the normal implementation monitoring and management process.

78. Evaluation vs Country Economic Analysis and Program Planning. At the other end of the evaluation spectrum in the assessment of ultimate results and impact of NPA operations there are serious questions in relation to many operations as to how far it is realistic and worthwhile to try to go. To the extent that the NPA objectives are narrowly related to the imports financed - with fungibility not at issue - and any policy considerations involved focused on a narrow sector or region, it may be possible to make plausible estimates of output and impact. To the extent that the inputs are fungible or when major policy and institutional reforms are an important element in the NPA operation and when it is in the context of or even linked to a stabilization or

structural adjustment program dependent on the participation of other donors, the attempt to assess impact becomes illusory. What is needed is a very broad assessment of the LDC's economy, the success of its policies and programs and the role of aid from all donors over a period of time that realistically allows for the implementation of policy and institutional reforms and the working through the economy of their effects. Such analysis is important. To attempt to get at it from the point of view of one donor's NPA in isolation is not likely to be fruitful. Whether such studies should be considered "evaluation" technically is not important. Who should do them and how they should be done are important questions. The evaluation or inspection units of some donors have apparently undertaken them. It would be artificial and even misleading to put them under the rubric of NPA evaluation, however.

79. How far to attempt to go how soon in evaluating a specific NPA program becomes a serious issue. Most respondents at the minimum look into the immediate outputs to which their CIP inputs contribute even when they know the additionality involved is limited. In the usual case in which an important objective is to ease a tight balance of payments situation they commonly consider how the results compare with the forecast in light of which the aid was committed. Such analysis is feasible quite soon after disbursement is completed.

80. Where reforms of policy and institutions are objectives of the activity the focus for some time must be on progress in instituting the reforms and effectiveness in implementing them. It is clearly appropriate to look for early evidence that reforms are beginning to produce the results intended - or that they are having unintended results - favorable or unfavorable. But final judgment must usually wait for years and then is likely to be subject to the problems noted above.

81. Conflicting Objectives. When there are multiple objectives involved in NPA it is always important to consider whether and to what extent they conflict and at what cost to the various objectives, particularly developmental ones. When CIP procurement is tied to imports from the donor the cost and delay involved should be analyzed. When aid intended to help ease balance of payments stringency is narrowly limited in order to try to prevent wasteful use or for cosmetic reasons any costs in terms of delay, administrative burden or price should be identified if possible and weighed against the risks.

82. In the area of policy and institutional reform, of course, conflicting objectives can be particularly damaging. In the rather typical case of an NPA activity designed both to support a structural adjustment program with important trade, investment, budget and administrative organization and management components and also to support sectoral objectives, the danger can be considerable that

approaches to sector problems will be taken which conflict with rather than reinforcing structural reforms.

83. Output from Commodity Imports. When CIP imports are intended to produce specific outputs such as increased use of capacity and employment or increased supply of wage goods for low income groups - and even when such objectives are considered secondary to balance of payment support and the resources are believed to be fungible - donors generally seek to determine the outputs and effects to the extent feasible. In this connection it has been found that not only what commodities are imported but also the donor and recipient rules and procedures applicable can have effects - positive and negative - worth considering. The procedures may conflict with trade liberalization reforms; the exchange rate and pricing may impede use of the aid or, more commonly, when the local currency is overvalued, bestow undesirable windfall profits on importers and encourage excessive use and misallocation of imported commodities.

84. Local Currency Counterpart Programming. Whether or not the donor exercises any control over LC counterpart it is useful to consider the impact of NPA-financed imports on internal resource allocation. In particular, when such imports go to government institutions and are not charged in some way to their budgets, the imports may subvert budget discipline and provide a hidden subsidy. When sales proceeds or counterpart of the imports are subject to agreed use it is significant to consider whether the allocations are mainly cosmetic or whether they are considered to affect resource allocations. Again the question of whether the gains are worth the cost in administrative burden and delay arises. There is some danger that pursuit of sector or project objectives via this channel may undermine broader policy, especially in the context of stabilization and structural adjustment reform programs.

85. Coordination. The adequacy of coordination with other donor programs is an important but difficult area for evaluation. Currently most NPA programs are in countries involved in agreements or negotiations with the IMF and/or the World Bank on major policy and institutional reforms. In effect NPA in such situations supplements the assistance provided by the Bank and Fund. It may be linked more or less firmly to adherence to stabilization and structural adjustment agreements. If not so linked, however, it can reduce the recipient's sense of urgency in adopting and implementing needed reforms. Other donors may also be in the picture. Whether the degree of linkage between an NPA program and Bank and Fund negotiations and agreements is appropriate is important to consider. On what basis was the importance and validity of the Bank/Fund conditions determined? Are sectoral and other separate NPA policy and institutional provisions well integrated with the broad reform program? Was there adequate consultation with the

Bank and Fund and effective coordination with other donors involved in sectoral programs?

86. Given the diversity of NPA programs in terms of objectives, form and degree of policy involvement, no standard guideline or outline would be useful. The terms of reference for any NPA evaluation must be tailored to its individual characteristics and surrounding circumstances. The following outline is intended more as a checklist indicating subjects frequently relevant in the evaluation of NPA for consideration when appropriate in light of the special features of an individual case.

SUGGESTED OUTLINE FOR EVALUATION OF NPA

Introduction

Summary

1. Background of the program
 - 1.1 Underlying economic conditions
 - 1.2 Specific objectives of program
 - 1.3 Assumptions and design of program
 - 1.4 Summing up overall relationship between the economy and the program
 2. Methodology of evaluation
 - 2.1 Sorting out issues of fungibility, additionality and causality
 - 2.2 Distinguishing between macroeconomic and sector effects
 - 2.3 Defining ways of establishing the effects of program
 3. Effects of NPA
 - 3.1 Policy changes (when linked to NPA)
 - 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 the costs of inputs
 - 4.2 Measures of effectiveness relating efforts to change policy or institutions to changes actually carried out
 - 4.3 Measures of effectiveness of local currency programming
 - 4.4 Ensuring feedback into design of future programs
 5. Lessons learned and recommendations
- Appendices on methodology, statistical analysis, tables, reference materials, etc. as appropriate.

Lessons Learned

87. In its 1984 report on the "Lessons of Experience" the Experts Group included a summary of lessons with respect to NPA based on evaluation work which had been done until then. This summary was widely endorsed. Cassen in his 1985 study for the Development Committee, "Does Aid Work" [Clarendon, Oxford, 1986], commented that it "...can hardly be improved upon." The following paragraphs quote the eight lessons on NPA identified in the 1984 report [pp 15,16] and then consider what modifications and additions may be appropriate at this time in light of the responses to the questionnaire and various related reports, particularly those referred to in the previous section.
88. 1. "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."
89. This conclusion is confirmed by recent studies. Tying of aid and targetting of NPA on sector or particular beneficiary needs have often been found to conflict with fast, efficient transfer of resources. Policy reform objectives in particular have sometimes been found to have been ill defined casting doubt on their utility and making them difficult to monitor and evaluate.
90. 2. "Non-project aid should be fully incorporated as a part of a multi-year country programming process."
91. The incongruity between the fast-acting NPA resource and the much longer time required for realization of many of the results sought has been emphasized in many studies and in the questionnaire responses. Particularly when NPA is intended to support important policy and institutional reform the year to 18 months time frame over which the resources flow contrasts sharply with the longer period realistically needed to design and phase in major policy and program changes and the even longer time required for the effects of these changes to work their way through the economy. Essential institutional development and strengthening may be even more difficult and time-consuming than policy measures. The World Bank's structural adjustment lending program was established with the idea that the process should be substantially effective over a period of three to five years. The Bank's evaluation studies of its early structural adjustment programs found that this is often quite unrealistic. France suggested that a 12 to 15 year time frame would be more normal. Together with intensive, high quality country and sector analysis, more selective and realistically phased policy emphases make for more successful policy dialogue and conditions. NPA loaded with too many simultaneous conditions has resulted in overload, backlash and delay in key reforms, intensification

of imbalances and ultimately deterioration in the situation. Any major restructuring program should be thought of as a process involving a sequence of measures or phases supported by a series of annual increments of NPA. One respondent concludes that the main lesson to be drawn from experience with NPA is that "quick" and "good" are mutually exclusive, at least in situations in which long term restructuring is needed to achieve a sustainable fiscal and international payments balance.

92. While NPA support for major policy and institutional reform should be planned on a multi-year basis it should not be too rigid. Flexibility is needed in dealing with the timing, political and administrative problems in introducing major reforms. Unpredictable changes in world markets, weather and other decisive external factors can call for changes in schedule and programs. Continuous monitoring of the progress and impact of reforms in close cooperation with host country authorities is essential.

93. 3. "Program aid 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."

94. This prescription suggests a link between sectorally focused NPA and a very broad policy framework. It is feasible and often desirable for sectorally focused NPA to support policy reform attacking the underlying causes of economic deterioration, but the danger of mixed objectives coming in conflict, noted in the first of these findings, is real. Thorough analysis is needed of sectoral interactions with the rest of the economy and of potential conflict and complementarities between sectoral and macro-economic reforms. Effective coordination, particularly with donors (e.g. the World Bank) working with the host government on general policy reforms, is important.

95. Some studies suggest a minor caveat on combining disparate elements in a single package. Recent reports endorse strongly the desirability of bringing to bear complementary inputs on sector problems. In particular NPA and technical assistance can be synergistically associated. Some respondents have found, however, that merging them in a single financial and administrative package can be counter-productive. It can create needlessly cumbersome management problems and awkward funding and planning rigidities.

96. It is worth mentioning here that some donors have found that in some cases the programming of LC accounts has provided an effective context for working with the host government to ensure necessary funding for sectoral project implementation, institutional development and priority programs. In one case at least it was considered the most useful single input.

97. 4. "Procurement-tied programme aid seldom proves to be as rapid in terms of disbursements as expected. The cumbersomeness 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 of such assistance and the rapidity of disbursements."

98. Recent experience does not cast doubt on the general tenor of this finding. Most respondents report, however, that in most cases tied NPA has been used with reasonable dispatch and efficiency, even when sectorally focused. No doubt the problem is much more severe for some donors in some host countries depending upon the fit between what the recipient needs and what the donor can economically supply. Careful planning and management in terms of determining need for products, procurement channels and procedures, internal allocation and marketing and accounting requirements often pays off in forestalling delay and problems. Donors emphasize the need for verifying requirements, finding that the recipients often exaggerate their needs.

99. One complex of issues which donors identify as meriting careful attention relates to the rules and procedures affecting internal pricing and counterpart LC deposit. If mishandled these can impede use of the NPA, provide importers with unwarranted windfall profits, distort utilization of supplies or conflict with policy and fiscal discipline.

100. 5. "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.

Consultant groups and other donor-recipient groups are necessary as constructive mechanisms for co-ordinating donors in providing non-project aid."

101. The general validity of this finding has been confirmed and the widespread need for reform has been increasingly recognized. Much room remains, however for more effective coordination and for positive cooperation of donors in support of Bank and Fund policy dialogue and negotiation with developing countries on reform programs. Some cases are mentioned in which availability of NPA may have contributed to collapse of IMF EFF stabilization program negotiations or with compliance with such programs or with World Bank structural adjustment programs. In the area of stabilization and structural adjustment close coordination by the Bank and Fund is, of course, the first essential. Their coordination and division of primary responsibility has been the subject of careful negotiation and is generally close and effective. There have been some tensions; in particular, the Fund has sometimes been less concerned about the development impact of its recommendations and agreements than the Bank thought appropriate.

102. Coordination is not always an easy or costless option. Several cases are reported in which donors with NPA programs linked to Bank/Fund agreements faced difficult decisions when IMF agreements disintegrated or failed to materialize. Their own NPA also had other high priority sectoral and policy objectives. Many bilateral donors are unwilling to tie their NPA rigidly to IMF/World Bank conditions worked out with the recipient without their participation. The Bank's report found that little effort had been devoted to enlisting major donor cooperation in support of structural adjustment programs, but that more was planned. It would appear that the effectiveness of such programs could be considerably improved if major donors had the will to undertake positive participation. One respondent commented that the traditional consultative groups have become unwieldy and not very effective in promoting serious coordination. It might require advance consultation among the participants and with the recipient in an ad hoc group or reconstituted consultative group more like the early consortia.

103. 6. "When urgent balance-of-payments assistance is required, tied program aid should focus on imported recurrent inputs rather than investment goods. Rapid disbursement could be ensured by minimizing restrictions, limiting bureaucratic intervention and increasing the flexibility of procedures. Sectorally oriented programme aid is more appropriate for longer-term assistance and provides a means for focusing development resources on broader sector issues which cannot be encompassed in standard project aid."

104. Comments by several respondents suggest that both halves of this conclusion are too narrow as general rules. Balancing, expansion and modernizing equipment needs not readily adaptable to project treatment may be urgent and important, particularly in the context of a restructuring effort. NPA may be an efficient way of supplying such

needs, especially for private concerns and other enterprises operating under market disciplines.

105. While most current NPA is designed primarily to tide over immediate balance of payment problems it can also be very effective in longer term support of development programs. Major NPA programs were important for many years in several donors' India programs. One donor mentions a current major program in which NPA is essential because the import needs of the development program can not be covered efficiently by project aid. Cassen [Op. cit.] is at pains to emphasize this point.

106. 7. "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 these 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."

107. This is the conclusion which comes through loudest and most clearly from most of the studies and responses. It is not peculiarly or primarily relevant for sectoral NPA. It applies with equal or greater force to programs supporting general policy dialogue and reform. Effective support of major reforms requires deep understanding of the structure and evolution of the economy and of the country's policies and institutions. Much more is needed than sound diagnosis and "textbook" solutions. Chances of success are much greater when reform measures and their phasing are tailored to the country situation taking into account not only purely economic factors but social and political impact and how to minimize hardship and dangers. Time phasing must balance urgency with realism. Such analysis will be most effective when it engages the participation of the relevant host country institutions and is internalized. Every effort to press in this direction should be taken even at considerable cost in time and effort. The need for analysis and study does not end with the NPA agreement. Most major reform programs will require additional studies to refine the major measures and programs involved and prepare second phase and follow-up measures and revisions in the light of problems and changing circumstances which develop.

108. This is not to down-grade the importance of good sector analysis. It is particularly important in the context of macroeconomic reform and restructuring. Sector and macro policies interact and can either reinforce or conflict with each other. It is important to select ways of achieving sector objectives that are compatible with and reinforce macro policy reforms.
109. 8. "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 to precede non-project aid."
110. The high quality country economic and sector work, the importance of which is stressed above, can be, though it need not be, provided in good measure via technical assistance. The important objective of internalization may be favored to the extent that the outsider input can be structured as technical assistance to the responsible host country institutions.
111. The Expert Group concluded this discussion of NPA by summarizing the foregoing eight points, emphasizing that it is an important advantage of NPA "... that it can enhance development impact by fostering an improved policy dialogue and more effective coordination." Comments by several respondents suggest the addition of one additional point of special emphasis. It relates to the importance noted above of internalizing the analysis and planning of major reform:
112. The prognosis is poor for the durability and effective implementation of policy reforms supported by NPA unless the host country genuinely accepts their desirability and takes responsibility for them. The most favorable pattern is one referred to as "positive" or "ex-post" conditionality" in which the donors are seen to welcome and support measures announced and adopted in advance by the host country.

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The following Expert Group Members responded to the questionnaire. The responses varied greatly in amplitude and emphasis, but all provided useful material:

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 Denmark, Danish International Development Agency
 Finland, Finnish International Development Agency
 France, Caisse Centrale de Cooperation Economique
 Germany (FRG), Ministry for Economic Cooperation
 Japan, Embassy to the United States
 Norway, Ministry for Development Cooperation
 Sweden, Swedish International Development Agency
 United Kingdom, Overseas Development Administration
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The 1985 DAC Chairman's Report covered a broad field - as always. It gave particular attention to the importance and difficulty of evaluating the effectiveness of aid. Recently each of these annual reports has had quite a bit to say about aid effectiveness and the relations between aid and reform.

The Development Committee, "Report of the Task Force on Concessional Flows", 1985, and the study on aid effectiveness commissioned by the Task Force: R. Cassen and Associates, "Does Aid Work?", Clarendon, 1986

The Task Force gave much attention to the evaluation of aid effectiveness and commissioned the major study by Cassen and Associates. Cassen's study combed the evaluation literature and undertook a number of fresh country studies. The report is full of valuable information and cogent analysis. It deals particularly with NPA and its evaluation in pages 155-'60 and generally with problems of policy dialogue in pages 69 to 100.

USAID, A.I.D. Evaluation Occasional Paper No.1, "Implementating Policy and Institutional Changes via Performance Disbursement", 7/85

This paper is not an evaluation but a detailed description of recent AID programs linking aid disbursement to progress in implementing reforms in the Philippines, Bangladesh and Niger. It discusses analytically the problems involved in such programs.