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AN APPROACH TO EVALUATING "NON-PROJECT" ASSISTANCE

FINAL REPORT

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PREFACE

This study was intended to determine whether the agency's "non-project" activities have been evaluated adequately. Our conclusions are that relative to project activities, "non-project" activities receive little evaluation attention, and there are methodological flaws in the evaluations that are done. These points are spelled out in the following report, and recommendations are made to improve upon the situation.

INTRODUCTION

In 1974, AID contracted several studies [1] to determine the feasibility for expanding the evaluation system from concentrating exclusively on project assistance to the full range of activities funded by the agency. These investigations concluded that it was both feasible and desirable to extend the evaluation system to all agency-funded activities because it would result in better planned activities with more clearly stated objectives and performance indicators that could then realistically be assessed a priori and post facto. Although the studies recommended that evaluations of so-called "non-project" assistance were feasible and desirable, little information was provided by way of clearly defining what "non-project" assistance was, nor were methodologies for evaluating these activities discussed. The purpose of this report is to reopen the discussion about what "non-project" assistance is and to provide information about methodologies that are appropriate for conducting evaluations of this type of assistance.

DEFINITION OF "NON-PROJECT" ASSISTANCE

The agency's official definition of "non-project" assistance as stated in Handbook 4 includes four types of aid: cash transfers, sector assistance, commodity import programs (CIP), and PL 480 Title I. But there are a number of other development activities in which the agency is currently engaged that do not fall under the rubric of project assistance if project aid is defined as an investment of assistance aimed at specific development objectives with fixed resources for a given timeframe. They include the American schools and hospitals abroad program (ASHA), the housing guaranty program, sector assistance, disaster assistance, PL 480 Title II, some institutional grants, and even so-called projects that are really commodity import programs or sector assistance. A review of the numerous activities that do not fall under the traditional project assistance mold reveals that the characteristics that have been used to distinguish projects from "non-projects" have not been clearly defined. In short, "non-project" assistance is a vague term that covers a wide variety of types of development assistance from cash to commodity transfers. The purposes of this form of aid are

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1. See, for example, Practical Concepts Inc., "Extension of Project Evaluation to All AID Projects," Report prepared for AID, August 1975.

numerous: on one level the objectives are to provide short-term economic relief or alleviate balance of payments or budgetary constraints; on another level they are to provide indirect general support for macro-economic reforms; on yet another level they are intended to influence specific policies, e.g., cereal price policies, wheat subsidies and so forth; and on still another level the objectives include the funding of specific activities or projects. "Non-project" assistance can be funded from development assistance monies or from the economic support fund, although most of it is funded from the latter, and it is normally considered the quickest mechanism for disbursing funds. Agreements authorizing this type of aid are called program assistance authorization documents (PAAD) and usually specify prerequisites or conditions precedent and covenants which the borrower or grantee agrees to meet. Often the aid is provided incrementally with a review required at the end of each tranche to determine if the covenants have been honored.

Although there is no unanimity in the definition of "non-project" assistance,[2] the broadest interpretation of the term would include all activities that are not discrete projects. Table 1 identifies the various types of "non-project" assistance funded by the agency in FY 1983.

Of these various categories of "non-project" assistance, this report will cover only four: cash transfers, sector assistance, the commodity import program and the PL 480 program, which is really a subset of the commodity import program.[3] Background information on the objectives of the aid and the mechanisms used to provide it will be discussed to provide a framework for developing evaluation methodologies. The other types of "non-project" assistance have been excluded from the study for several reasons. The disaster assistance program and the ESF Fund 337 are emergency relief programs;

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2. The Office of Financial Management produces a monthly report (Loan Activity Report W-244) that shows all project and "non-project" assistance broken down by country and region. The definition of "non-project" assistance used by this office includes the commodity import program, cash transfers, sector assistance and the ESF Fund 337.

3. There are legal differences between the PL 480 program and the commodity import program, and the former is funded from the budget of the Department of Agriculture. What is relevant in terms of this study is that both programs provide commodities to a less developed nation and local currency is generated for development assistance activities.

AID-FUNDED "NON-PROJECT" ASSISTANCE, FY 1983

($ millions)

Bureau/ Area	CIP	Cash Transfer	Sector Assistance b/	PL 480 Title I	PL 480 Title II	Disaster Assistance d/	ASHA	Housing Guaranty	ESF Fund 337	"Projects" e/
Africa	217.0	80.0	18.7	144.1	95.2	1.9		30.0	-	70.0
Asia	-	-	-	167.5	215.2	0.4		20.0	-	665.0
LAC	-	374.4	-	193.9	76.2	3.6		82.5	-	-
New East	300.0	1,050.0 a/	-	290.5	33.1	2.9		-	15.0	-
Europe	-	-	-	-	24.8	0.8		-	-	-
Pacific	-	-	-	-	-	1.5		-	-	-
Centrally Funded	-	-	-	54.0	-	-		-	-	-
TOTAL	517.0	1,504.4	18.7	849.5 c/	599.5 c/	11.1	20.0	132.5	15.0	735.0

a/ Most of this went to Israel.
b/ As defined in the accounting system used by Financial Management. Most sector assistance is classified as a project loa or grant
c/ Includes ocean freight.
d/ Emergency relief only.
e/ This column represents activities that are classified as projects, but are really sector loans and grants or commodity transfer. Because of the problems of categorizing projects and "non-projects" it is not a complete list.

the American schools and hospitals abroad program provides funds for the construction of facilities and support of activities that illustrate U.S. educational and medical techniques. Most of the activities funded by the housing guaranty program are in a project format, while in contrast most of the so-called projects listed are in fact sector loans or grants or commodity transfers which are listed in the agency's accounting system as a project and authorized by a project paper, although they have features commonly associated with "non-project" assistance.[4]

Cash Transfers

A cash transfer is defined as a "form of non-project assistance used to purchase local currency for budget support or to provide balance of payments support on an emergency basis when the particular AID purpose cannot be accomplished through other instruments."[5] This is the speediest and most flexible funding instrument the agency has, but in most cases, it is also the most difficult to justify.

The literature suggests there are three general types of cash transfers: those attached to some programmatic objectives, those that meet an emergency funding gap, and those provided for political purposes.[6] An example of a cash transfer associated with programmatic objectives was the $24.9 million loan to the government of El Salvador authorized on June 18, 1981. The purposes of the loan were twofold: to provide balance of payments support to the government and to strengthen the private sector by assuring access to foreign exchange to import raw materials and intermediate goods and access to credit to cover local operating costs. The loan was disbursed directly to the Central Reserve Bank of El Salvador

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4. At the request of the investigators, the Office of Planning and Budget produced a special report from their computerized data base to try to capture all those activities which had been assigned project numbers but were essentially "non-project" activities such as the Bangladesh Fertilizer Distribution Improvement Project. Interviews were then held with knowledgeable people in the appropriate bureaus to ascertain the accuracy of the list.

5. Handbook 4, Chapter 13, p. 3.

6. The summary table of all U.S. economic and military assistance included in each AID Congressional Presentation shows cash transfers to international organizations. These monies are not part of AID's appropriation.

which deposited the funds in U.S. banks to guarantee lines of credit for about one and one-half times the amount of the guaranteed deposits. Assuming the average letter of credit was for half a year, the $24.9 million loan was leveraged to finance the importation of approximately $75 million in raw materials and intermediate goods. The central bank was required to deposit the local currency equivalent of $24.9 million in special accounts to finance credit for the private sector and to strengthen public and private sector development institutions. Program oversight -- management, monitoring, evaluation and reporting -- was the responsibility of the government. Quarterly reports on all transactions -- including the type of imports, and the value and the names of the importers -- and monthly reports on the credit account were to be submitted to AID by the central bank. The Ministry of Planning reported to AID on the use of the institutional support fund. As is the case with other forms of programmatic assistance, cash transfers usually included conditions of precedent and covenants in the agreement which concern policy reforms.

A second type of cash transfer is illustrated by a $20 million grant to the Democratic Republic of the Sudan authorized on December 28, 1982. The purpose of the grant was to help ease the foreign exchange difficulties by bridging the gap between the announcement of difficult and sensitive policy reforms included in the International Monetary Fund (IMF) standby agreement and the generation of revenues from Sudan's own resources or disbursements from other donors. The agreement provided, upon the satisfaction of the conditions precedent, for the immediate disbursement of the full grant into the government of Sudan's account in a U.S. bank. The grant agreement contained seven covenants intended to influence policy changes and procedures. In addition, it included a covenant that stated that the government of Sudan would deposit the local currency equivalent of the grant in a special account to finance development activities mutually agreed upon by AID and the government, some of which would be used to administer the U.S. foreign assistance program in the country. All records of the grant were to be kept and maintained by the government and submitted to AID on a regular basis.

The last and largest type of cash transfer is one to countries of particular security and political importance to the U.S. such as Israel. Funds are transferred to meet balance of payments shortfalls, and foreign exchange expenditures. In this category there is very little in the way of covenants or other requirements the recipient must meet.

Evaluations of Cash Transfers

No examples of evaluations of cash transfers were located and there is no official guidance on how to do one. In fact, one might argue in the case of cash transfers provided for political and security reasons there is no purpose in AID doing an evaluation.

Sector Assistance

The definition of a sector has varied throughout the history of the agency. At some times sectors have been defined by a technology or production process, at others by the scale of the activity ("small-holder sector"). The agency presently defines a sector "as a set of economic activities unified by a common output narrow enough to have an analytical identity and broad enough to contain significant investment and policy issues."[7] By this definition health, agriculture and energy are sectors. Sector or subsector activities tend to be subject to common resource and institutional constraints and policies. The objective of sector assistance according to the current definition, is to increase incomes or improve the delivery of services to the poor in developing nations by alleviating fundamental constraints inhibiting the growth of sectoral production. These constraints include, among others, inappropriate policies, insufficient resources and inadequate planning.

In this mode of assistance, foreign exchange is made available as a grant or loan to a developing nation. In some instances, uses of the money are designated (goods are imported then sold on the local market and the local currency generated is deposited in special accounts for stipulated programs); in other cases the foreign exchange uses are unspecified and programmed at a later time. Likewise, the uses of local currencies generated by the loan or grant are specified in some agreements but not in others. The degree to which the use of local currency is specified in agreements seems to depend on the constraints being addressed. If the basic objective is policy reform the use of local currency is

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7. Cable on Program Sector Assistance Guidance, August 11, 1983.

often not stipulated. If, on the other hand, the main objective is institutional development or increasing sector resources the programming of local currency is discussed.[8]

Sector assistance programs should include an analysis of the sector covering the following areas:

1. the role of the sector or subsector in the overall development strategy of the host government and the assistance strategy of AID;

2. sectoral problems including policy issues, investment levels, recurrent resources and institutional capacity;

3. a strategy for eliminating sectoral constraints in order of importance;

4. an assessment of social costs and benefits of the program to different groups of beneficiaries;

5. an assessment of the government's ability to carry out the sectoral strategy;

6. a discussion of other donor activities in the sector and how they complement this program; and

7. an implementation plan providing a list of accomplishments to be achieved and a plan for tranche disbursements keyed to these accomplishments.[9]

Two types of sector assistance have been attempted by the agency: program sector assistance and projectized sector assistance. Both focus on an analysis of development problems at the sector or subsector level and link the assistance to sectoral policy reforms. But they operate differently. Program sector assistance [10] generally tends to leave the design, implementation and evaluation of local currency accounts to the host government. Projectized sector

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8. GAO, "Political and Economic Factors Influencing Economic Support Fund Programs," August 1983, p. 23.

9. Cable on "Program Sector Assistance Guidance," August 11, 1983.

10. Program here refers to different inter-related activities in one sector. The term is also used to refer to all the development assistance activities in a country, e.g., the Peruvian development program.

assistance is really a broadly defined, multi-faceted project with a lot of subactivities involving AID in the design, implementation and evaluation of the program. They are often recorded as projects in AID's financial reporting systems.

The Mahaweli sector support loan of $50 million to the government of Sri Lanka is an example of program sector support. The purpose of the loan was to provide a non-inflationary means for continued financing of the Mahaweli development program, a large integrated rural development effort aimed at increasing rural production and employment. The funding mechanism was a little unusual: dollars were provided to the government by means of unrestricted special letters of credit upon receipt of invoices for expenditures of rupees made by the government on the Mahaweli program. In other words, it was conceived as a cost reimbursement program that provided sorely needed foreign exchange. All resources for this program -- government funds, donor contributions, both in local currency and foreign exchange -- were mingled. The Mahaweli Authority of Sri Lanka was responsible for preparing quarterly reports showing expenditure of funds by line item and status of accomplishments toward physical implementation targets. The only monitoring required in the agreement was receipt of these quarterly reports.

The Senegal agricultural development assistance program is more typical of sector assistance. This $5 million grant provided foreign exchange for the importation of fertilizer and for technical assistance to undertake a comprehensive agricultural sector assessment and study of the credit and savings subsector. Local currency generated from the sale of fertilizer was to be used to strengthen village-level cooperatives and support the national agricultural credit bank. The covenants in the agreement related to national and sector policy reforms. The government had to:

1. provide written confirmation that it agreed to the IMF standby agreement;

2. produce a plan to reduce fertilizer subsidies;

3. reorganize fertilizer marketing systems;

4. ensure that village-level cooperatives and producer groups would have access to credit; and

5. agree to provide meetings with AID staff to discuss progress on these reforms.

Monitoring of the local currency account was done by the central bank and reviewed by the mission.

As can be seen, sector loans and grants vary immensely in terms of the amount of money provided, the funding mechanisms used, the commodities imported, the uses of local currency generated and the covenants and conditions precedent written into the agreement. As one reviewer commented:

> The term sector loan covers a disparate array of activities. Often it includes simply a number of projects in one sector that appear to be interrelated, e.g., basic grains, diversified crops, agricultural education and rural artisanry. In some cases general agricultural self-help conditions were included in the sector loan; in other loans, the conditions only dealt with issues that pertained to the activity or subactivity of the loan. In one sector loan, the money was allocated to seven separate and distinct projects involving several government ministries and departments. Other sector loans did not deal specifically with projects but rather, somewhat like program loans, were justified on balance-of-payments grounds and the local currency generated by the loan was allocated to specific sectors in the economy. Another variant consisted of the direct conversion of dollars into local currency for utilization in the recipient's development plan budget.[11]

Evaluations of Sector Assistance

A number of efforts have been made to evaluate sector assistance. Because of the disparate nature of the assistance, the issues considered by the evaluators varied and the methodologies used ranged from impressions to complex econometric models, surveys and statistical techniques. Despite this diversity most of the early sector analyses prepared by the agency shared some features: they began by defining the sector and describing the structure, organization, budget and composition of various aspects of the sector (in education this would include the number of schools at different levels, the number of teachers and students, the curriculum, etc.). The developmental goals and objectives of the sector and the problems and constraints impeding the attainment of these goals were identified and then the various activities were assessed in terms of costs and benefits.

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11. Allen Goldstein, "Sector Loans and 'More with Less'", April 23, 1981, ASIA/DP/PL.

Most of the sector evaluations reviewed for this study used one of the following methodologies to assess the impact of the assistance.

Case Study. This approach is normally used when comparing sector activities in various countries. The sector program is described and analyzed to elicit particular information about timing, policy and objectives, administration and organization, participants, inputs, costs, etc., and the major "lessons learned" are provided. The approach is information-intensive; the analysis is qualitative.

Tracer Study. This methodology is most frequently used in evaluating the education sector. The function of a tracer study is to analyze the relationship between the learning environment and the working environment by following the work experience of people once they have finished their education. Data are gathered through questionnaires and interviews on how jobs are acquired, and trends are charted on the benefits of various educational and training programs.

Input/Output. This methodology recognizes sequential relationships among inputs, outputs, purposes and goals. Goals are stated in quantifiable terms and outputs are identified with specific indicators. Since sector programs involve a variety of activities, the sequence of inputs to outputs to purposes and goals is more complex than in simple project analysis. A primary input passes through many stages in the process to achieving the ultimate objective. Yet many of these types of evaluations are nothing more than the sum of several project evaluations. They often mistake the attainment of isolated intermediate targets with progress toward the ultimate sectoral objectives.[12]

Borrower/Grantee Reports. Many sector programs are implemented by the host country and one of the obligations usually stipulated in the loan or grant agreement is that the recipient provide regular reports on the progress and financial status of the various activities funded. These reports consist of brief histories of the loan or grant with lists of equipment and materials purchased and work executed.

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12. Although it would seem obvious that sector evaluations should be different from project evaluations, the evaluation plan in a recent program assistance authorization document stated that the evaluation process for program sector assistance need not be different substantially from that used for projects.

If the loan or grant is provided in tranches, the agreement normally stipulates that the reports be reviewed by AID before the next tranche is authorized to assure compliance with the contract and to assess if some progress has been made in policy reforms. For the most part these tranche evaluations are perfunctory and descriptive: causality between the loan/grant and reforms is implied.

Audits. A number of sector activities are not really evaluated; they are more precisely audited. The purpose of an audit report is to review records tracing the arrival of commodities or foreign exchange and documenting the uses of local currency accounts in compliance with AID statutes and regulations and the loan or grant agreement.

Past evaluations of sector assistance have been, for the most part, incomplete. The focus has been on monitoring the arrival of commodities and the use of local currency accounts to confirm that they are in compliance with AID regulations and the agreement. And most of the evaluations do not present evidence to support a position, but state an opinion as if it were fact. This is understandable: it is not easy to attribute causality to any change particularly when the consequences of a program are multifaceted including economic, sociological, technological, institutional and attitudinal changes, and the maturation point of different activities in the program are not the same. Most of the evaluations present a voluminous amount of unanalyzed data with little attempt to separate the effect of different factors. Sector goals are rarely related to overall development objectives of the country and their appropriateness is assumed. No priorities are assigned to the impediments to achieving sector goals. Regional differences are ignored. Financial analyses describe the flow of monies rather than the way costs might affect program decisions and results, nor is it common to find a discussion of competing demands on the government budget from other sectors. The structure of policies, incentives and other conditions external to the sector that might influence it are neglected. The commitment of the government to making the policy reforms is not examined, and the appropriateness and structure of the conditioning system is seldom investigated.[13]

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13. Obviously, many of these issues are discussed prior to implementing the sector assistance. The effort of achieving certain priorities and the problems associated with ignoring other issues should be discussed in evaluations.

But the history of sector evaluations is not all bad. In 1970, the evaluation staff of AID reviewed sector loans in eight countries asking some fundamental questions concerning the effectiveness of this mode of assistance in influencing policy. They asked: Do sector program loans influence policy? What factors affect the degree of influence? How do program loans compare to other aid vehicles in terms of influence? Their attempts to respond to these questions in a thoughtful manner stands today as a model of both the potentials and limitations of evaluation work in the field of development assistance and will be discussed in more detail later.[14]

Commodity Import Program

The Commodity Import Program is used "primarily for emergency (or near emergency) balance of payments or budget support, often justified on political or security grounds, or to focus on a particular sector requiring commodity inputs".[15] The program usually requires that the recipient nation undertake certain policy reforms as part of the agreement. This mode of assistance makes dollars available to a country to finance commodity imports under grant or loan. The commodities can then be sold by the recipient nation to private importers and the local currency generated from these sales can be used for development activities jointly determined by AID and the recipient government. The Foreign Assistance Act stipulates that local currency generated from the sale of commodities must be programmed if the CIP is grant funded. In general, CIPs take longer to disburse than cash transfers -- goods must be identified, ordered and shipped -- and they require more documentation.

The Sudan commodity import program ($20 million grant approved on December 16, 1982) illustrates how a CIP operates. Since 1978, the Sudanese government initiated a number of macro-economic measures to improve the economy including devaluations and significant increases in the prices of some sensitive commodities such as wheat. Despite austerity measures, the country continued to experience severe and chronic foreign exchange crises which by 1982 amounted to $853 million. The debt service ratio had grown to 150 percent

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14. PPC/Evaluation Staff, "The Use of Program Loans to Influence Policy," AID Evaluation Paper 1A, March 1970, p. 22.

15. GAO, "Donor Approaches to Development Assistance: Implications for the United States," May 4, 1984.

and gross foreign exchange reserves averaged less than one week of imports. The country had no foreign exchange reserves to pay for essential imports without which the economy would further deteriorate.

The purpose of the Sudan CIP was to provide foreign exchange for essential imports until a new standby agreement could be signed with the IMF. Goods imported under the program were to be used directly in development efforts and counterpart funds generated by the sale of commodities were to be deposited in a special account and their use jointly determined by AID and the Sudanese government. The Ministry of Finance and National Planning and the Ministry of Cooperation, Commerce and Supply were responsible for administering and implementing the importation of commodities and allocating and administering the grant proceeds. The agreement had several conditions: 1) that the Sudanese government sign the IMF stabilization program; 2) that it continue other economic reforms; 3) that it provide a list of essential import requirements and the proposed procurement; and, 4) that it provide a status report on the counterpart special accounts generated by previous commodity programs.

Evaluations of Commodity Import Programs

Few commodity import programs have been evaluated. One evaluation that is available concerns the agricultural commodities and equipment program in Pakistan. This program represented the second tranche of a proposed $300 million program spanning the period 1982 to 1987 and consisted of a $60 million loan and grant designed to increase agricultural productivity and provide balance of payments support. After nine months of implementing the first tranche of the CIP an evaluation team from AID/Washington reviewed its progress. (See Appendix A for their scope-of-work.) They made several recommendations to improve implementation and procurement in the second tranche. They also suggested that special studies to review policy options that would increase agricultural production be examined in the next evaluation to determine their quality and usefulness. Lastly, they concluded that activities financed under the first tranche had basically conformed to the design plan and had progressed on schedule. In short, "the program has made significant progress in achieving the primary objective of the first tranche -- providing balance of payments support."

The evaluation was perfunctory; it measured what could be measured easily and did a brief audit of the records. It did not measure the effect of the program on agricultural productivity. In fact, the evaluation team was told "that because this is a commodity import program, impact of this program on agricultural sector productivity would not be measured."[16]

Recently, the General Accounting Office initiated several studies to evaluate AID's programmatic and financial controls over the commodity import program. After reviewing the majority of CIPs financed in FY 1982 they concluded that:

1. there was lack of monitoring of the arrival and disposition of AID-financed commodities to see that funds were disbursed in accordance with statutory requirements and that goods and services financed were used effectively to produce intended benefits;

2. local currencies generated were not adequately monitored and as a consequence were not always being used for mutually agreed upon development purposes;

3. mission responsibility for the CIP program was fragmented and staff were not well informed about its status;

4. there was insufficient planning for the procurement and delivery of commodities resulting in waste and additional expense; and

5. CIP evaluations "fall short of providing information for comparison of the actual results of CIP assistance with those anticipated when the program was undertaken."[17]

In short, it would appear that evaluation of the commodity import program has been unsatisfactory. Missions have had different attitudes about monitoring and evaluating these programs and have employed different approaches. Some missions seem to have concluded that CIPs should not be evaluated at all since the provision of foreign exchange accomplishes the primary objective of the program and actions occurring after the arrival of commodities are incidental; others appear to believe they should be evaluated in the same way projects are assessed. Still others apparently feel CIP evaluations are difficult to design and a brief description of the previous CIP performance should suffice as criteria for the next tranche.

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16. PAAD 391-0468, Annex A.6, pp. 5, 9.

17. GAO, "Agency for International Development Needs to Strengthen Its Management of Commodity Import Programs," Draft Report, October 4, 1983.

PL 480 Program

PL 480 was authorized in 1954 to provide funds for the purchase of food and other agricultural commodities by developing nations on a concessional basis. The main purposes of the legislation are to: expand U.S. agricultural markets; facilitate U.S. foreign policy goals; provide humanitarian assistance; and, support the economic development of poor countries. Appropriations for this program come in the form of commodities from the Department of Agriculture. AID is responsible for administering activities which utilize PL 480 resources and for assessing the program's contribution, but it doesn't have complete control over the distribution of resources: this is determined in collaboration with the Departments of State and Agriculture.

Title I. This legislation authorizes concessional credits on a yearly basis for the sale of U.S. commodities to developing nations which can be sold to generate local currency. Before entering into an agreement for the sale of commodities, a review must be done of the "self-help" measures being undertaken by the purchasing country to: 1) increase per capita production; 2) improve the means for storage and distribution of agricultural commodities; 3) contribute to development progress in poor rural areas; and, 4) enable the poor to participate actively in increasing agricultural production. These "self-help" measures that the country agrees to undertake must be described in specific and measurable terms. To the extent possible these measures are to be additional to measures the country would have undertaken without the agreement.

Section 106 states that the proceeds from the sale of commodities be used for purposes that directly improve the lives of the poorest people. The proceeds accruing to the importing country from the sale of commodities are used to finance both the "self-help" measures and the development program. Over the years the proceeds have been used to fund a variety of activities to primarily assist the rural poor including projects to improve food storage facilities to programs to stabilize price fluctuations of agricultural commodities. The credits are repayable in dollars on concessional terms. At a minimum 75 percent of the volume of Title I food assistance must be allocated to countries below the poverty level as defined by the International Development Association.

Title III. Up to 15 percent of Title I food assistance must be set aside for Title III which functions essentially the same way as Title I. The difference is that Title III agreements provide for "loan forgiveness" so long as the commodities or local currency are used for agreed upon development purposes. Under this title, food assistance can be provided up to five years, but it is provided in one year increments that are reviewed annually and subsequent commodity transfers are based on those annual evaluations. Only countries below the poverty level are eligible for Title III assistance.

Title II. Under this title, food assistance is donated to developing nations for humanitarian purposes. The program provides food for emergency and disaster relief, refugees, malnurished children and includes the maternal and child health and food-for-work programs. The food is given through voluntary agencies, the World Food Program and a variety of government programs.

Section 206. This section of Title II provides for the sale of donated grain in developing nations. The local currency proceeds must be used for activities to obviate food problems in the future. Only chronic food deficient countries are eligible for this type of assistance.

Evaluations of the PL 480 Program

The Bureau for Food for Peace and Voluntary Assistance (FVA) has an evaluation officer who is responsible for preparing annual evaluation plans for the different programs in the bureau including the PL 480 program.

Title I agreements stipulate several reporting requirements. Missions are required to review all local currency expenditures annually; host countries are responsible for providing quarterly to annual reports on the "self-help" activities to the missions for review. They are then to be forwarded to AID/Washington with comments. In addition, shipping and arrival reports are supposed to be prepared quarterly and submitted to the Department of Agriculture.

Compliance with these reporting requirements has been mixed. According to the most recent evaluation plan, "In 1981...only 8 reports on local currency generations were received in FVA (less than 33 percent). While more 'self-help' reports were submitted (15 out of 25 in 1981 and 12 out of 27 in 1982, approximately 60 percent), the quality of those reports could be improved considerably," particularly regarding the relation between "self-help" measures and the objectives and constraints of the overall program. Because many Title I agreements lacked specific "self-help" measures -- sometimes the wording was unchanged for years -- a new amendment to Section 109 of PL 480 was passed by Congress requiring that Title I "self-help" activities be more specifically defined and measured. To comply with this legislation the bureau is currently reviewing all "self-help" measures included in last year's Title I agreements to determine their appropriateness to host country development strategies and the adequacy of the reporting system. Based on this review countries will be selected for in-depth assistance to improve the design and reporting of these measures.[18]

An attempt was made to assess the impact of the Title I program by the staff of the Office of Evaluation in 1981. They did five impact studies to evaluate the effect of activities funded from local currency proceeds from Title I programs. The approach taken was a comparative review of socio-economic effects of the program in each country. In essence, these were historical case studies that reviewed various documentation of the programs. The findings were compared and some recurrent themes formulated about the overall effectiveness and problems associated with the program. The study found that it was generally impossible to trace the use of local currency sale proceeds because the wording of the agreements lacked specificity and the funds were mingled with the general revenue. It also concluded that the program's impact on policy changes was imperceptible because there appeared to be no consistent indication of what policy changes were desired.

Congress stipulated in 1978 that at least five evaluations of Title II programs be completed by 1983. Several methodologies were developed for the evaluations depending on the kind of program being assessed. Impact evaluations were carried out in countries where the programs were operating reasonably well and data were available. Where programs were operating less successfully, process evaluations were conducted "in order to identify constraints to more effective delivery of food and other program services...." Evaluations of the Food for Work Programs have focused on implementation and management issues "and, to a lesser extent, on the employment and consumption benefits to program participants."

The legislation requires recipient governments to submit an annual report on Title III activities and that it be reviewed by the mission. Although these annual reports have become rather elaborate, they have concentrated on assessing program compliance and progress, not impact.

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18. Food for Peace and Voluntary Assistance Bureau, "FY 1984/1985 Evaluation Plan," June 1983, pp. 10-12.

In summary, after reviewing past attempts at evaluating "non-project" assistance one is "struck by the paucity of evaluation materials," to quote another person investigating this subject.[19] And most of the available evaluations are of sector assistance undertaken in the 1960s or more recent PL 480 activities.

METHODOLOGICAL CONSIDERATIONS FOR EVALUATING "NON-PROJECT" ASSISTANCE

This section will discuss various methods that have been or might be used to assess the influence of "non-project" assistance on the recipient. It will also point out some of the difficulties in evaluating this type of assistance and suggest the key factors that should be the focus of evaluations of all "non-project" assistance.

A review of the different examples of development activities presented above suggests that the categories used to distinguish different types of "non-project" assistance are not useful. Mahaweli Sector Assistance is in fact a straight transfer of resources; the Senegal Agricultural Development Assistance Program is the same in all important aspects as the Sudan Commodity Import Program.

These are important findings, because they mean that the evaluation methodology that should be applied to "non-project" assistance will only have to focus on certain common core activities. These common activities are:

1. the effect of a resource transfer (this could be either dollars or commodities);

2. the use of currencies resulting from the sale of commodities (this would only apply in cases where commodity sales were involved);

3. policy changes called for in the grant/loan agreement.

In fact, most of the "evaluation" work that has been done on "non-project" assistance has focused on other areas. To assess has been and should be AID's evaluation role. To demonstrate this, it is useful to distinguish between

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19. Donald S. Brown, "Commodity Import Program as a Development Tool," Memorandum to the Administrator, October 19, 1982, p. 35.

monitoring, accounting or auditing and evaluation.

Monitoring is an on-going management activity that occurs during implementation to ensure that intermediate/ultimate development objectives will be achieved. It should be carried out for all of AID's development activities.

Accounting or auditing is an exercise that occurs both during and after the grant/loan period to determine whether U.S. monies and other inputs are being or have been properly used.

Evaluation is an *ex post* analytical exercise to determine whether intermediate or ultimate development objectives of the assistance activity have been achieved.

Most of the "evaluations" of cash transfers, commodity assistance and sector assistance have been either monitoring or accounting exercises; indeed, this is a conclusion that holds for most of AID's "evaluation" activities. For example, consider what AID usually does to "evaluate" a resource transfer program, regardless of whether it is categorized as a cash transfer, sector assistance, or commodity assistance. The simplest case is one in which commodities are imported for a particular use. In typical "evaluations" of these activities, little more has been done than to determine whether or not the commodities were being used as intended. This is really nothing more than an accounting activity. An evaluation would, at the very least, examine what development impact the commodities had.

Consider now an example that includes both items one and two from the list of common activities set forth above. In this case, imported commodities are sold for local currency which is then supposed to be used in certain ways. The main mechanism to guarantee that the local currencies are used as intended has been to establish a special account through which these currencies are disbursed for the intended uses. "Evaluation" activities of these programs have usually involved tracing the commodities to the point of sale; in addition, they usually make some effort to determine whether or not a separate account was established for the receipts of the commodity sales, and whether these receipts were used as intended.

These are not evaluation activities in any real sense of the term. An evaluation would firstly attempt to determine what the development impact of selling the commodities was. For example, did the sale tend to reduce the price of locally produced commodities, and what did this do to local farmer incentives? Indicative information on these questions is usually readily available in developing countries. For example, commodity price information of the sort required is usually collected monthly to serve as the basis for the consumer price index; the effects on farmers' incentives can often be inferred from time series data on agricultural production.

Secondly, a true evaluation exercise would not accept the establishment of a special account and the disbursements of funds from that account as being in any way a guarantee that AID funds were spent as intended.

This last point needs to be amplified. Suppose that a loan agreement says local currency proceeds should be used to increase [20] the country's agricultural extension efforts, and suppose it can be demonstrated that all of the local currency generated was spent on extension. If the local currency generated was $20 million, and if the government reduced expenditures on extension activities financed out of its own funds by $20 million, would it be correct to conclude that the local currency was spent as intended? In a limited accounting sense, perhaps so; but clearly the local currency generated from the sale of the commodities imported simply substituted for funds the government had already decided to spend on extension. Overall extension outlays did not increase as a result of the assistance. To understand what really happened, one would have to determine what the government did with the $20 million of its own monies that it previously spent on extension.

Developing countries frequently get involved in playing offshoots of the "shell game" described above, and rarely do the evaluations or other inspections of the uses of commodity monies go beyond determining whether a special account was set up and whether the monies in the account were used as intended. A general rule on this issue can be stated: whenever a government is already spending monies on something that is also to be the target of local currency disbursements from a commodity assistance program, one must check on what happens to the level of the government's own expenditures before concluding that the commodity program monies were actually contributing to the intended development activities.

Of course, ensuring that monies were spent as intended is an accounting or auditing activity. An evaluation would entail determining the development impact resulting from the

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20. That is, to complement and not substitute for current government extension outlays.

money expenditures. In a comprehensive evaluation of a commodity import program, this impact should be combined with the impact of the sale of commodities discussed above.

In other words, what we are suggesting is that there usually is considerable fungibility between a specially designated account and the overall government budget, and that accounting exercises should be carried out in recognition of fungibility opportunities. While this is not a report on auditing procedures, a recent effort of the Urban Institute sheds some light on the sorts of accounting procedures that should be employed when they looked at the effects of block grants on various states. In 1981, the Omnibus Reconciliation Act created nine block grants in the areas of health, education and human services. As a consequence, instead of the federal government funding numerous narrowly focused highly regulated projects it provided a block of money to be used in a generally defined area leaving the programming to the discretion of the state. If one were to make an analogy with AID, the federal government moved from funding projects to providing sector grants.

Among other concerns, the study undertaken at the Urban Institute investigated how this funding change affected programs. For their analysis they needed state expenditure data. The researchers developed an instrument to collect data on alternative funding sources for each of the activities that fell under the umbrella of one of the block grants. In other words, they prepared a map of the state budget to find out what the different funding sources were for a particular activity and how those resource allocations changed over time. Obviously, this was a laborious and time-consuming undertaking that required a lot of detective work. Many AID employees would argue that such an exercise is not possible in Third World settings either because the data are not available or because it constitutes unnecessary meddling in national affairs. We disagree. Appendix B provides an example of the instrument used.[21]

Another problem in evaluating "non-project" assistance concerns attributing causality. Of course, this is always a difficult methodological problem when one moves from the

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21. Eugene C. Durman, Barbara A. Davis and Randall R. Bovbjerg, "State Fiscal and Programmatic Responses to Block Grants in Health and Human Services: The First Year," Washington, D.C.: The Urban Institute, September 1982; Telephone conversation with Eugene Durman, October 27, 1983.

specific focus of a project to more general development objectives of the activities being discussed in this report. For these activities, there are no feasible methodologies to employ that can ensure appropriate causality attribution.

As an example of this conclusion, consider an evaluation which attempted to assess the "leverage effect" of U.S. sector assistance. This evaluation concluded that there was no definitive way to determine whether a government's policy reforms were attributable to leverage exerted by the U.S. through the provision of sector assistance. Other possible explanations for the reforms were that:

"(1) the host government was planning to do it anyway;

(2) the U.S. simply persuaded the host government to do it (i.e., we were the cause of the action, but we could have achieved it without a loan);

(3) the U.S. directly financed it;

(4) other donors or international bodies brought it about, through persuasion, leverage, or direct financing."

Although policy reforms have occurred in countries that received sector assistance, it is extremely difficult, the report concluded, to assign causality to any one factor since all the "causal forces are often so tightly intertwined...the analyst cannot possibly unravel them." In short, the best evidence that sector assistance influences policy reforms is still circumstantial.[22]

However, there are more and less sensible ways to proceed in attempting to assess the impact of such activity, and it is important that sensible procedures be adopted so these important policy questions are addressed. Just how this should be done will be discussed in the following section.

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22. PPC/Evaluation Staff, "The Use of Program Loans to Influence Policy," AID Evaluation Paper 1A, March 1970, p. 22.

CONCLUSIONS AND RECOMMENDATIONS

Development is a complex business and there is no wholly adequate methodology for analyzing the interaction of all social, political and economic factors that contribute to the process. The problem of evaluating development activities has led some researchers to develop elaborate criteria against which to assess the assistance. Others have restricted their definition of development to one dimension such as economic growth and ignored the social and political aspects of development. And some researchers have given up in despair, limiting their analysis to a description of activities and conjectures on possible impacts.

There is no simple formula for evaluating development projects, and the evaluation of development programs presents more serious problems. The belief that a "cookbook" can be written to provide the potential evaluator with a list of development indicators and how to measure them is simply wrong. Every situation requires discretion and good judgement. The point that needs stressing is that a formula or recipe can not substitute for clear thinking about complex problems.

Recommendation 1. The finding that "non-project" assistance is not evaluated with the frequency of project assistance does not lead immediately to the conclusion that more resources should be devoted to the evaluation of "non-project" assistance activities.

Recommendation 2. Regarding cash transfers, AID should limit its evaluation efforts to assessing their leverage effects.

Recommendation 3. Regarding the evaluation of commodity assistance (of which PL 480 programs are a sub-set) and sector assistance, attention should be focused on:

- identifying the immediate effects of the resource transfers, who benefits from their sale and how the resulting local currencies are used;

- the possible fungibility with existing government programs; and

- leverage.

<u>Recommendation 4</u>. One would like to have more precise definitions so as to better distinguish project from "non-project" assistance. However, at the margin, there will always be an ambiguity between these two categories. Hence, policy-makers should be left with the discretion to classify these activities in a manner that will best suit their needs.

<u>Recommendation 5</u>. There is evidence that "non-project" funds are sometimes used in unintended ways. Before calling for improved audit procedures, it should be recognized that these forms of assistance by their very nature are more difficult to control than project assistance. It should also be recognized that developing countries already feel excessively burdened by the reporting requirements of donors.

APPENDIX A

Evaluation

This PAAD covers only the first tranche of several anticipated tranches of funding for a proposed $300 million program. The mission plans to

> undertake an evaluation in November 1982 to assess activities covered by the first $60 million tranche and to identify any lessons learned which can be applied to the design of activities and the selection of commodities, mechanisms and procedures under subsequent tranches. Since the PAAD amendment for the second tranche will be due early in FY 1983, there will be, at most, 9 months of experience with this activity before the next PAAD amendment is prepared. By that time, the Mission will have had only a limited amount of experience with this program. However, based on the proposed implementation schedule, by November 1982, fertilizer deliveries to Karachi will have been completed and awards will have been made to suppliers by the selected PSA(s) for all the equipment.
>
> The proposed evaluation will include a critical review of the following:
>
> 1. Progress made toward achievement of the purposes of the activity (actual compared with planned performance);
> 2. Procurement arrangements, including the performance of PSA(s) and the conduct of the fertilizer tendering and award process at the Pakistan Embassy in Washington, D.C.;
> 3. Shipping arrangements and timeliness of deliveries;
> 4. End use of commodities (this may be possible for fertilizer);
> 5. Rapidity of disbursements;
> 6. Potential areas for improving program implementation schedules, funding arrangements, and procurement procedures;
> 7. GOP and A.I.D. collaboration and the role of various organizations; and,
> 8. Unanticipated problems.

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Two consultants for three weeks each, working in collaboration with appropriate Mission and GOP personnel, should be able to undertake an adequate assessment of this program. Approximately $20,000 which is available under the Project Design Fund (391-0470) will be required for this purpose. Evaluations in subsequent years will be more intensive in scope and are likely to focus on such issues as the estimated impact of imported commodities on the performance of the agricultural sector and the estimated marginal contribution to GNP of the foreign exchange provided under this program.

APPENDIX B

Table 1. HHS BLOCK GRANT EXPENDITURE DATA, continued

Block	Expenditures by Program, Service/Provider	(1) Pre-82 Federal Categorical Programs (81, 82, 83)	(2) Federal Block Grant (82, 83 only)	(3) Transfers from Other Blocks (82, 83)	(4) Other Federal Programs (XIX, IV) (81-82, 83)	(5) State Expenditures (81, 82, 83)	(6) Local, Other Expenditures (81, 82, 83)	(7) Total (81, 82, 83)
Preventive Health/ Health Services	A. Total							
	B. By Program Area							
	1. Health Incentive Grants (314-d)							
	2. Urban Rat Control							
	3. Emergency Medical Services							
	4. Home Health Services/Training							
	5. Fluoridation							
	6. Health Ed./ Risk Reduction							
	7. Rape Crisis Svcs.							
	C. By Service Provider							
	1. Expenditures on State Provided Services							
	2. Expenditures on Services Provided by Local Health Departments							
	3. Expenditures on Services Provided by Non-Governmental Agencies							

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