

PA-ABE-744
ISA 65257DEVELOPMENT ASSISTANCE COMMITTEE
EXPERT GROUP ON AID EVALUATIONFuture work of the Group on Evaluation of
Non-Project Assistance: A Draft Summary
of Donor Experience

The attached paper was prepared by the U.S. Agency for International Development (AID), Center for Development Information and Evaluation. It is being submitted for discussion at the upcoming meeting in January. The paper is not intended, at this time, as a synthesis of donor experience. It is simply a summary of the material that has been provided as of November 15. Rather than postpone any discussion of this subject until contributions have been received from all the interested donors, we believe there is merit in having a preliminary review of NPA issues based on the considerable information we have now. The January meeting will provide us an opportunity to clarify our understanding of the several points in the questionnaire, address areas of major gaps in information and consider together the use, form and substance of a final synthesis report. AID would then, with any additional donor submission, prepare a synthesis report for the Evaluation Group's examination and approval at our June meeting.

RESPONSES TO THE DAC QUESTIONNAIRE ON NON-PROJECT ASSISTANCE

In July 1985 a questionnaire (DAC/EV(85)7) of 23 May 1985, was sent to the membership, and observers, requesting their responses on ten areas of interest concerning DAC experience with non-project assistance (NPA). As of November 15, there have been 14 responses, nine of which provide information related to the questionnaire (see appendix). Among the latter group, the level of treatment of detail varies widely. The result is a data base for this review of DAC practice which is limited in scope and uneven within the areas covered. Nevertheless, interesting matters are discussed by respondents, and some important implications of the responses suggest questions which may merit future investigation by the Expert Group on Aid Evaluation.

The replies fall into four conceptual categories, and this summary report is organized as follows:

- Part 1 Summary and Implications
- Part 2 Taxonomy and the Dimensions of NPA
- Part 3 Legislative, Policy and Program Considerations (Conditionality, Policy Reform, Tying, Local Currency Use, New or Old Capacity, Public or Private Sector, and Poor)
- Part 4 Evaluation Methodology and Lessons Learned
- Part 5 Three Operational Problems (Donor Coordination, Staffing, Institutional Analysis)

Given the nature of the substantive replies, summarizing the material becomes something of a puzzle. It would be misleading, not to mention pretentious, to suggest broad generalizations which would rest on these replies. Instead, the words of the respondents themselves (quoted or paraphrased) are used to present the various positions of the writers.

Two qualifications are in order. The Swedish note stresses that its views are "an informal response on the part of SIDA's evaluation group," and therefore:... "cannot be seen as reflecting SIDA's official policy." Secondly, the French response possibly reflects the thoughts of other DAC members in

noting that there was relatively little time allowed for the completion of the questionnaire, especially in light of their own on-going studies of NPA.

In short, since we do not have all the material, and since the members will not have the time to read all of the individual country submissions, we present this report to give the "flavor" of the members' reactions to the questionnaire. Following this report, more formal and detailed papers may be prepared by the Group on aspects of NPA which are of special interest to the members.

1. Summary and Implications for Further Study

Definitional practice with regard to NPA differs widely among the DAC membership. This prevents meaningful quantitative comparisons of aid flows. Since DAC members have a wide range of NPA it may be difficult to develop a universal NPA definition.

Legislative and policy constraints are noted by the U.S. and Canada, including the provision that aid be consistent with and promote other interests of the donors. Beyond a wide variety of individual differences there are common guidelines to promote the interests of the poor. Sweden notes its government's preference for project aid but because of various restrictions on both the donor and recipient, aid has increasingly been disbursed as commodity aid.

The U.S notes that policy dialogue and reform are central to most NPA programs. A common requirement of U.S. NPA has been country adherence to a sound stabilization program, such as those of the IMF. Practice among other respondents varies. The British link general program aid with IMF conditions, while sector aid is linked to specific sectoral changes. The Canadian program requires an agreement with the IMF before emergency assistance is provided for balance of payments support. The Germans engage in policy dialogue in general, while the Japanese, Danish, and Norwegian programs are not specifically related to policy changes.

Tying under various principles is widespread among respondents. Program and sector aid in U.K. practice is used solely to finance the provision of U.K. goods and services, with waivers possible. Selection of goods and services will usually be made on the basis of a "positive list" although sometimes greater leeway is provided the recipient, depending on the degree of confidence held in its policies and administration. For the U.S., cash transfers are free from

commodity restrictions. The U.S. is the procurement source for all grants (except to countries on the U.N. list of Least Developed Countries), Economic Support Funds, and PL-480. At the same time, the U.S. and certain LDCs are authorized sources for grants and Development Assistance loans to countries on the U.N. list of least developed countries. In Canada, 80 percent of bilateral assistance is tied to Canadian suppliers of goods and services (excluding shipping costs). In Sweden, tying occurs with import support, but not formally in sector support. Norway partially ties aid in that provisions are made for purchases from other developing countries to encourage commercial ties between those countries.

Usage of local currency funds generated by aid programs varies widely. In British practice, program aid goods are normally expected to be paid for in equivalent local currency, although no designation is made of the use of these counterpart funds. In U.S. practice, all Commodity Import Program and PL-480 food assistance agreements include requirements on disposition of sale proceeds. Such funds are used primarily for general budgetary support. Canadian assistance may lead to generation of local currency accounts, depending on the regard to which CIDA believes the local currency account will operate as a development tool, i.e., the commitment of the recipient. The Germans view earnings from the sale of food aid as an important financing base. Japan may or may not request establishment of local currency accounts. Danish commodity assistance does not require such funds.

Little notice is taken in the responses to the question of support to build new capacity or to better utilize existing capacity. The U.S. requires evidence that recurrent costs can be met in supporting the building of new capacity, while Denmark and Norway noted that their program is aimed at supporting the use of existing capacities. Sweden apparently has begun recently to emphasize use of existing capacity.

The U.K. notes that it is important to ensure that the private sector is not discriminated against. The U.S. expressed a clear interest in furthering the vitality of the private sector. While not generally a consideration in Swedish programs, in two cases (Mozambique and Ethiopia), Sweden was concerned that the governments' agricultural and economic policies as should not discriminate against the private (family) farming sector.

The Canadian response notes the emphasis in their program on helping the poor. The Danish provide an interesting example of targeting commodity assistance to the

poor. Inputs for Tanzanian soap production were contingent on the soap being produced under specifications such that it would be used by the rural poor; also, distribution directly to village shops was required. The German and Norwegian responses openly expressed concern that NPA is difficult to target on the poor.

The IBRD suggests that the impossibility of using the economic rate of return technique makes evaluation of the economic effects of NPA programs difficult. The IBRD is continuing to refine its techniques. U.K. budgetary aid has not normally been subject to evaluation, while evaluation is made of program and sector aid. The U.S. has developed guidelines for such evaluation and did CIP evaluations in Zimbabwe, Somalia and Egypt. Denmark carried out only two evaluations of its commodity assistance (Tanzania and Bangladesh), and concludes that the results were satisfactory. Japan began evaluations only five years ago, but there have been no evaluations of non-project assistance.

One of the most interesting aspects of the responses was the variety of lessons learned presented by respondents. Thus, while evaluation methodology varies widely, some NPA practices can be recommended while warnings can be cited with regard to others. This makes it especially important that the design loop include these findings. While it is reported for several countries that findings were indeed used in new project and program design, the suggested routes for such feedback are from Canada, where lessons learned are brought back into the design loop via an automated information feedback system. Even here, however, details are lacking.

Three operational problems received some attention. All respondents favored donor coordination. Britain coordinates with other donors to the extent possible, while suggesting that the real scope for such coordination in cooperating with recipients is at the sectoral level. The U.S. suggested that the best type of donor coordination occurs through a combination of broader coordination mechanisms, such as a consultative group or Roundtable discussions and an in-country donor coordination group. Canada has increased the amount of consultation with other donors with regard to specific management procedures. Also, CIDA has attempted to increase consultation with donors outside the OECD, i.e., ARAB/OPEC institutions. In the Canadian view, the most feasible and useful forums for donor coordination (other than international institutions and DAC) would seem to be country or regionally focused consortiums which specifically address the development needs of certain regions/countries and possible development

strategies. For Sweden, involvement of the recipient is most desirable, while Norway's official policy is that the host country must coordinate all aid.

Denmark notes that institutional capacity is one of the most important issues investigated when considering an aid program. The British suggest that if used in imaginative ways, sector aid might itself be a tool to improve policies and institutions within the sector. The U.S. and Sweden note that while it is important, formal analysis is not required for NPA. Norway reports that institutional capacity is important but seldom analyzed, and that they have not as yet developed a standardized test of the adequacy of host country institutions.

In the area of staffing relative to the size of NPA flows, the efficiency of NPA was questioned. It is recognized by the U.S. and Germany that NPA requires analysis of great complexity, and that the personnel complement was being strengthened to reflect the growing emphasis on NPA. Norway suggests that NPA is useful in a period of rising aid budgets and limited administrative capacity. At the time, the Canadians raise the provocative question in this regard of whether NPA is really administratively less expensive than project aid, and note that this assumption will be tested during an evaluation of NPA generally.

Five Areas for Further Investigation:

1. It might be useful to share existing evaluation methodologies among the DAC membership, along with some attempt to define commonalities and differences more specifically than was possible in the brief and few responses to the questionnaire.
2. While comments were limited, every aid agency would prefer to have a good system for ensuring that the results of evaluations are considered in the design of future projects and programs. Practice within DAC varies widely. It might be useful to have this practice described in detail by the members, and to derive from this commonalities and differences which could inform the practice everywhere. The Canadian reference to an automated system surely lies in the direction which will have to be taken universal overtime, and that and similar practices might be studied in detail by all.

3. Given the importance of NPA, the question of its administrative efficiency becomes a question of central concern to all aid agencies. It might be useful for each member to investigate this question, and then to share with the others the methodology used in the evaluation of this question as well as the results.
4. While many informative lessons learned were presented by the respondents, the replies were too few to permit broad conclusions. It might be useful to request again from the members not heard from in this first round their lessons learned, and then to attempt a synthesis and analysis of the results.
5. Institutional capacity is widely regarded as important, but frequently is not considered systematically by donors. It might be useful to request detailed information from the members on whatever test of administrative capacity do exist, and then to attempt some suggested guidelines for evaluation of this important factor.

2. Taxonomy and the Dimensions of NPA

There is little commonality among respondents on taxonomy and the definitions set forth in the DAC note. The Canadian response suggests that the classification system used (i.e., general balance of payment support, general budget support, and sector resource support for imported goods and/or sector budget requirements) "... is not particularly useful from CDIA's perspective because the categories are not mutually exclusive. Non-project assistance often has multiple objectives, i.e., sector support and balance of payment support. For this reason CIDA has generally used an activity-based classification of NPA as follows:"

<u>Program Activities</u>	<u>Transfer Instrument</u>	<u>Objective</u>
Pure BOP support	Pure BOP support Budget support Debt relief	BOP support Budget support Debt relief
Commodity Assistance	Commodity assistance Commodity assistance with additionality	Development objectives
Lines of credit	General line of credit Sector lines of credit Institution aid	Sectoral objectives Development objectives BOP, budget support

The IBRD presented a detailed classification of all of their assistance forms (eight in number), noting "... that while conceptually these categories can be defined discreetly, in practice, operations may have characteristics which are common to more than one of these categories."

As the Canadian response indicates even within given categories of NPA there are various ways in which individual transactions may be recorded and interpreted. Moreover, there are assistance forms which may or may not be counted as NPA, depending on individual donor practice. For example, funding of development banks, debt relief, and technical assistance, fall outside the definitions used in the questionnaire. Also, the STABEX program, under which the EEC compensates certain countries if receipts from sales of a specified list of commodities fall below a given level, lies outside the definition suggested in the questionnaire. All of this is not to suggest that some definitions are correct while others are not, but rather to emphasize that definitions of NPA flows, as well as suggestions concerning what is to be counted as NPA, differ widely.

The variety of definitions raises serious questions about DAC's attempts to quantify its various aid flows. At any rate, there are only a few responses which provide, quantitative data, the most complete being that from the U.S. In the U.S. aid program in fiscal year 1985 NPA represents 52 percent of U.S. bilateral assistance, with cash transfers being the most rapidly rising component. It is not possible to collate the other (few) quantitative responses in any meaningful way.

In sum, there are important definitional differences over the very meaning of NPA as a concept, and over the meaning of various kinds of NPA. The responses for the most part do not treat the definitional issues, thus making it impossible to even present a systematic examination of the similarities and differences among donors in this regard.

3. Legislative, Policy and Program Considerations

Presented below are the following topics: legislative constraints, policy reform, tying, support for new vs. existing capacity, relative support for public or private institutions, and the poor.

Legislative Constraints

Canada's legislative guidelines may be summarized as follows. Aid is to increase from 0.5 percent of GNP in 1985-1986 to 0.7 percent by 1995. The geographic distribution of this aid is to be 42 percent of bilateral assistance to Asia, 20-21 percent each to Anglophone and Francophone Africa, and 16 percent to the Americas. Viewed from another perspective, up to 80 percent is to be directed to low income countries, 15 percent (grants or interest free loans) to the least developed countries, and 2 percent to "humanitarian" assistance. About 80 percent of all assistance will be bilateral, with emphasis on agriculture (including food production, fisheries and forestry), energy, and human resource development. In all cases, assistance will be relevant and sensitive to Canadian national objectives." (on tying in the Canadian program, see below.)

The U.S. response notes that NPA is often used to support U.S. political and security interests. U.S. NPA allocation decisions are guided by a variety of statutory mandates including the recipient's general alignment on international issues, the recipient's commitment to drug enforcement activities and human rights improvements.

Neither the Canadian nor U.S. responses note any legislative restriction on the composition of aid as between NPA and project assistance. In contrast, the Swedish response notes that, "traditionally the ambition has been that most aid should at least in principle be in the form of projects. But

due to administrative restrictions both on the donor and recipient side, aid has increasingly been disbursed in the form of commodity aid. In later years (starting in the late 70s) however, import support has increasingly been given in its own right, the motive being to increase the share of deliveries from Swedish industry. Today an increasing amount of Sweden's import support is formally (or informally) tied to purchases of Swedish goods. When it comes to sector aid, it will always defend its share of the aid budget due to the traditional Swedish aid policy of supporting the recipient country's own development programs. This is because sector support financing can be used more flexibly by the recipient government."

* Responses from Japan and Denmark note that there are no a priori guidelines on the relative proportions of NPA and project assistance.

Conditionality and Policy Reform

The Canadian response notes that "there are no unilateral guidelines applying to conditions for NPA. Each recipient is analyzed separately in the context of their individual needs and capabilities." In cases of severe balance of payments problems, "CIDA requires that the country concerned have an agreement with the IMF regarding an appropriate economic stabilization and adjustment program before emergency assistance is provided."

The most common requirement of the U.S. NPA program has been country adherence to a sound stabilization program, such as those of the IMF. On the matter of policy conditionality, the U.S. notes three criteria which govern. "(i) The formation of conditions must always be consistent with the purposes of the assistance and guided by familiarity with the recipient country's political, economic and social landscape. (ii) Conditions attached to NPA should be kept few in number to maximize the likelihood of success. They should be important to the success of the stabilization program and/or to long-term growth. (iii) Whenever feasible, the assistance should use tranches as a mechanism for compliance."

In terms of effectiveness in stimulating policy reform, the U.S. response notes two different kinds of problems requiring two different kinds of NPA. In balance of payments problems, cash transfers are most often used, "... and are considered to be most effective in influencing macro-economic policy." In contrast, "inappropriate pricing, marketing and subsidy policies in a particular sector, are best handled through a CIP or sector program." In addition, "past U.S. CIPS

have included covenants relating to review and phasing out of public enterprises, encouragement of foreign and domestic private investment, managerial and technical training and incentives, formation of a consultative group, and periodic consultation with AID.

In U.K. practice, policy dialogue may be viewed as a two tier exercise. "The linking of program aid in general to agreement with the IMF is intended to ensure that the macro-economic policy issues are addressed. The sector aid approach is intended to provide a sectoral/institutional focus for (U.K.) assistance so that one can address with the recipient sectoral policy issues and the strengthening of institutions."

In U.S. practice, "policy dialogue and reform are central to most NPA programs. In contrast, the Swedish response indicates that "only in a very vague or indirect sense could it be said that SIDA poses conditions of reform on its NPA. An exception are the programs in Mozambique and Ethiopia where it is stipulated that "... the government's agricultural and economic policies should not discriminate against the private (family) farming sector."

The German response indicated that, "for several years now the Government ... has been endeavoring, in the form of policy dialogue to engage more closely in an intensive exchange of opinions with the governments of the developing countries not only on the conditions a project itself must fulfill but also on the general frame of reference necessary to ensure that the funds provided can be utilized effectively. The policy dialogue ranged over general economic framework policy, economic questions with regard to the IMF's consolidation program, and the World Bank's structural adjustment loan as well as questions pertaining to various areas of policy." In contrast, Japan's "... NPA is not contingent upon policy reform on the part of recipient countries." Also, Denmark and Norway do not link policy reform to NPA.

Effects of Tying Aid

In the U.K. program, selection of goods and services for program aid "... will usually be made on the basis of a 'positive list' agreed between the ODA and the recipient government. On occasion they "... may agree on a 'negative list' approach which allows the recipient government discretion to decide the allocation of the aid, subject to certain specified restrictions. The choice between the two approaches

depends largely on the degree of confidence (held) in the recipient government's policies and administration and the nature of the particular problems which the aid is designed to alleviate."

U.K. program and sector aid is used solely to finance the provision of U.K. goods and services," with waivers possible for unavoidable circumstances. Budgetary aid, normally confined to "dependent territories and to ex-dependencies during the first few years of independence, is "... given in support of an overall deficit on recurrent account and no detailed controls on expenditure are exerted provided that adequate standards of financial control are maintained by the recipient."

The U.S. response notes that, "commodities are selected on the basis of the development needs and economic circumstances of the aid recipient, not for the benefit of U.S. exporters. The U.S. procurement policy can be described as follows: (i) Cash transfers, by their nature, are free from any commodity source restrictions. (ii) The U.S. is the procurement source for (a) all grants, except those to countries on the U.N. list of least developed countries, (b) Economic Support Fund loans and (c) PL-480 food assistance. (iii) The U.S. and selected LDCs are the procurement sources for (a) grants to the least developed countries and (b) Development Assistance loans. There are no plans to relax these restrictions.

In Canada, 80 percent of bilateral assistance is tied to Canadian suppliers (excluding shipping costs), and the Canadian content of bilateral projects must be two-thirds. In effect, for specific bilateral projects, untying of up to 100 percent of project costs is possible as circumstances warrant.

In Sweden, as in the U.S., aid tying does not relate to particular commodities since commodity selection "... under tied commodity aid is always done entirely and exclusively by the recipient country itself. Tying occurs with import support, but not formally in sector support." A rule of thumb applied by Sweden is that "... the price of a commodity purchased in Sweden shall never be allowed to exceed the international competitive price by more than 10 percent."

In Danish aid, "commodities are supplied either as tied or as untied aid. In both cases purchases are made at internationally competitive prices. As far as the tied part is concerned, this tends to limit the range of commodities which

can be supplied. Commodities under untied aid will be purchased either in Denmark or in the region where the recipient country is situated in order to speed up delivery or to save transport costs."

Japan applies "... a 'general untying' principle and uses a 'positive list' formula, listing, based on mutual agreement, items of capital goods and productive goods, which are directly useful for economic development of the recipient country."

The practical effect of tying aid, as noted in the U.S. response, is that it "... does not necessarily produce the least expensive or most timely procurement. Tying is a potential constraint, for if tied assistance were equally as efficient as other forms, there would be no need to tie. The rationale then is political rather than economic." Moreover, "it is clear that tying may create future problems with spare parts and repair services. Unless an LDC's foreign exchange earnings increase or the original aid source continues support, there may be a problem in maintaining aid financed equipment." In recognition no doubt of such considerations, the Canadian "... policy related to 'tied aid' is flexible enough to permit untying aid in order to best meet the specific needs of the recipient."

Norway's commodity assistance is not tied in principle, although in practice when the requested commodities are available in Norway at a price not more than 10 percent above world price, tying occurs. The most interesting feature of the Norwegian program is that "import support is particularly tied in the sense that provisions are made for purchases from other developing countries. The aim of this provision is to encourage commercial cooperation among developing countries.

Uses of Local Currency

For the U.K., program aid goods are normally expected to be paid for in equivalent local currency, although "as a matter of general principle the U.K. does not seek to influence the use of counterpart funds arising from NPA." "In the case of current imports ('consumables') the goods are usually sold for cash, so generating immediate counterpart funds for the recipient government. Capital goods may be on-lent or, in certain cases, also sold for cash if end-users are required to make their own credit arrangements with local banks. There is thus no difference in economic principle between the sale of program aid goods and on-lending in project

aid." Their view is that "... so long as program aid is broadly financing the import content of the government's desired pattern of total domestic expenditures of all kinds, the aid may be said to provide general budgetary support for the recipient government. It follows that where such budgetary support is the principal objective, the appraisal should concentrate on the government's general policies, priorities and economic management."

Counterpart funds tying is a way of influencing the recipient's budgetary priorities, although the British cite three important qualifications. "First, where counterpart fund problems exist (e.g., because of pricing rigidities in the parastatal sector) the aid may not generate genuinely free local currency resources -- the notational counterpart funds are effectively tied to the end-user (in the form of a subsidy). Tying the value of the aid to ODA-preferred uses would amount to altering the pattern of other budgetary expenditures -- in effect, double-tying the funds ... In general, tying is likely to be politically more acceptable where the program aid is in a flexible form." Second, it should be ensured that counterpart fund tying would not conflict with IMF or IBRD adjustment programs, such as reduced public expenditure or government borrowing. "In conjunction with IMF/IBRD conditionality counterpart fund tying would be likely to be viewed as 'double conditionality' and might on this count also prove politically unacceptable." Third, "unless the local expenditures to which the counterpart funds are to be tied have a high probability of being additional to those the government would otherwise have made, the tying may turn out to be either meaningless or ineffective."

For the U.S., all Commodity Import Program and PL-480 food assistance agreements include requirements on the use of sales proceeds. AID country missions use these funds in a variety of ways, but primarily for general budgetary support. "While some country missions do require the governments to show attribution of the local currency, this is often a paper transfer and does not influence the government budgeting process."

In German practice, "the earnings from the sale of food aid is an important financing base. It has not been possible yet to undertake extensive macro-economic studies of the impact of these programs. Studies were limited to evaluating the effectiveness and the tangible long-term impact of individual project measures." Japan has a "... policy of requesting whenever necessary, recipient governments to open local currency accounts which may be used to meet local costs of

other development projects in consultation with the Japanese Government." In contrast, "Danish commodity assistance is not contingent upon the establishment of identifiable counterpart funds or any specific use of such funds generated."

In Canadian practice, "in certain cases the loan or grant arrangement may lead to the production of funds in local currency ..., depending on the degree to which CIDA believes the local currency account will genuinely operate as a development tool (i.e., the commitment of the recipient)". These funds may originate from proceeds of a sale by an importer to an industrial or end user and the differential between the concessional terms fixed by Canada and the terms actually given to the user of the resources. Counterpart funds thus generated may be used in various ways: local costs of CIDA projects; on-lending to various institutions; general or developmental budget support. Generally, CIDA agreement fixes the intended uses of these funds, as well as the mechanisms to control their use.

Sweden does not have any general uniform rules. "In some countries (e.g., Bangladesh) the principle of 'counterpart funds,' have been stipulated by SIDA and the recipient country with good results. In other countries such a system has been seen as less useful."

Use of NPA for New Capacity or Existing Capacity

The U.S. response noted that "new equipment will only be provided when the host government has adequate resources to finance the additional recurrent costs that result from the investment." Norway and Denmark indicate that they support existing capacity. The Swedish response notes that, "recently SIDA has explicitly taken an interest in the use of already installed capacity by rehabilitating and repairing it, rather than investing in new capacity."

Relative Reliance on Public or Private Sector

The U.K. response notes that while LDC government departments and parastatals are often the major beneficiaries of program aid, "... it is important to ensure that the private sector is not discriminated against." The principle is that "program aid actions, like other forms of aid, should be directed to areas of greatest need with concern for value for money. Where the private sector is clearly disadvantaged the situation should be examined, e.g., if discriminatory taxes and duties are being imposed these may need to be removed, possibly as a condition of program aid assistance."

The U.S. response notes that it seeks ways for the fuller participation of the private sector as an engine of growth. "... Experience has indicated that -- with the exception of such areas as basic public administration, major transportation infrastructure, and certain aspects of agricultural research, public health and education -- private sector institutions are both less costly and more responsive to their clientele and are more innovative, dynamic, and efficient than public institutions."

From a different perspective, the Swedish response notes that in two SIDA programs (MONAPL -- Mozambique Nordic Agricultural Program, and ARDU -- Arssi Rural Development Unit in Ethiopia), "... an important concern of Sweden was that the government's agricultural and economic policies should not discriminate against the private (family) farming sector."

NPA and the Poor

The Canadian stance toward the poor is noted above. In general, "... CIDA's program is directed towards specific target groups, notably the poor and women. The project identification and approval process (which applies to NPA) ensures that target groups are identified."

The Danish response provides an interesting example of targeting the commodity assistance to the poor. For example, "the supply of technical tallow to Tanzania for the production of soap is made on the provision that the soap produced should meet certain specifications so as to ensure that the soap shall be purchased and used predominately by the rural population, and that the distribution of the soap should be made directly to village shops. "In addition, their evaluation of the Bangladesh fertilizer program found that the increased supply" ... among other things had had a (positive) effect for the rural poor, through increased production and employment."

The German response notes that food aid can help the poor during periods when stringent measures are taken to improve the economy; German policy, therefore, tries to channel food aid to certain selected target groups. More broadly, the response expresses concern for the poor in cases of regional development. For example, credit schemes may not reach the poor since they lack collateral typically required. (See the discussion on lessons learned for other aspects of the German concern.)

Similarly, "... Norwegian aid managers have increasingly come to doubt the poverty orientation of this form of aid (NPA) as currently practiced and thus raise the issue of its compatibility with fundamental principles for Norwegian aid giving. ... Current discussion concerns the wish to direct NPA more actively towards target groups for Norwegian assistance, to take on greater responsibility for training and follow-up related to NPA, and to the need for more formalized guidelines relating to NPA."

4. Evaluation Methodology and Lessons Learned

While the topics of methodology and lessons learned are closely linked conceptually, the presentation here is divided for clarity.

Evaluation

Evaluation of NPA is complex, and this complexity is mirrored in the responses. In its cover letter, the IBRD states the problem broadly. In effect, "... much more may be needed to overcome difficulties in evaluating some of the non-project loans, such as Structural Adjustment Loans (SALs), which are designed to be quickly disbursable on the one hand and to realize economic impacts at a later stage, on the other." Noting that the IBRD has completed evaluations of only a dozen SALs, the later states that the IBRD "... is as yet short of coming to grips fully with the outcome of the Bank's SAL operations." It notes that, "... many important questions (remain) unanswered, i.e., to what extent borrowers' action programs have contributed to improved economic conditions in sectors or economies, or what interactions and interrelations would exist between stabilization and structural adjustment programs." The difficulty relates essentially to the fact that the technique of economic rate of return analysis is not feasible in the case of NPA, and hence other criteria must be used.

The Bank's Operations Evaluation Department "... takes as a starting point the original NPA objectives as they were presented to the Board of Executive Directors by the Bank's management," which are often defined in terms of "policy and institutional changes which are expected to achieve over the medium term broad macro-economic or financial targets. For example, a structural adjustment operation typically embraces a time-phased action program including measures such as strengthening foreign trade policies, increasing the effectiveness of taxation, streamlining the public investment

program, eliminating price distortion or strengthening the public investment institutions. These actions, if maintained over time and complemented by additional programs under subsequent operations, are then expected to overcome within a period of three to five years existing economic difficulties and financial imbalances (internal and external) and to create conditions for sustained economic growth. Other NPA, such as program loans or sector adjustment operations, have more limited objectives but follow essentially the same approach."

The performance audits first ascertain whether actions were taken in a timely fashion. If delays were experienced, reasons for such are noted. The evaluator then tries "... to link the action taken (or not taken) by the borrower to the actual performance of the country economy or the key sectors which were to be influenced by the operation. In many cases, however, it is difficult to establish a clear causal relationship partly because relevant statistical data are unreliable, late or non-existent, and partly because ceteris paribus conditions are not met due to other important factors such as changes in terms of trade or adverse weather conditions which offset the impact of actions taken by the borrower under the program." Despite these problems, some interesting findings have resulted, as discussed in the section on lessons learned.

U.K. budgetary aid (given only to U.K. dependencies or recently independent countries) has not normally been subject to evaluation. On the other hand, while the U.K. "... does not in practice distinguish between program aid intended as general support for the balance of payments as against that directed to a particular sector," evaluations are made of these programs with emphasis being on either macro-economic or sectoral effects. Ex post evaluations are made of NPA, but they have no fixed criteria. They do not, however, "... regard the achievement or otherwise of targets set out in letters of intent in connection with IMF standby or other arrangements as a decisive indicator ... of success," although they would be noted. To date, the British "have not so far attempted systematically to make judgments about the effects of policy discussions in which (they) may have had a part (e.g., in Consortia or Consultative Groups), or to relate policy changes to changes in macro-economic or sector conditions. Nor have (they) specifically related program aid to particular social groups."

The U.K. response introduces two considerations related to NPA selection criteria which raise interesting evaluation questions. To some extent, U.K. NPA takes into consideration

the possibility that previous donor assistance may have been over-concentrated in certain types of projects or large-scale investments; the U.K. assistance, therefore, would tend to re-establish a balance. Also, in some cases NPA provides for a wider procurement scope, permitting aid recipients greater choice in their search for economical inputs and appropriate technology. In each case, NPA evaluation would include a review of the degree to which each of these objectives were achieved.

The German response shows by example the difficult nature of evaluation. "In Mali there has been a liberalization of the cereals market in the last few years such as the donor community had long been advocating. Since Mali has become increasingly dependent on food aid in recent years, it could not evade a dialogue with the donors. To that extent, the deterioration in the economic situation, that is to say, the decline in domestic food supplies, made the government more willing to participate in a dialogue aiming at freeing productive potential from administrative fetters. In this case the Government of Mali was ready to risk political change in exchange for a commitment from the donors to continue food aid." All this is to say, that it is difficult to know where to draw the causal lines.

The Danish response states that, "it is Canada's general experience that the economic effect of recipient governments' use of Danish import support has been satisfactory. So far, only two evaluations of Danish commodity assistance have been carried out: insecticides to Tanzania (1982) and fertilizer to Bangladesh (1984)." Japan began evaluations only five years ago, and all evaluations have been carried out on projects; none have been done on non-project or program assistance.

Until recently, the U.S. did not evaluate NPA in a systematic way, but has now published an evaluation methods report titled "Evaluation Guidelines for Non-project Assistance: Commodity Import Programs and CIP-like Activities." This report presents a "menu" of approaches and techniques that can be used in evaluations of NPA programs. Also, specific guidelines on evaluation of the economic impacts of NPA will be included in AID's Handbook on non-project assistance. Despite the absence of formal evaluation guidelines, AID did CIP evaluations in 1984 in Zimbabwe, Somalia and Egypt.

Based on these experiences, AID has developed the following economic impact issues as part of an outline scope of work for CIPs, and portions apply to NPA in general: (i) effect

of CIP on balance of payment, foreign exchange reserves, economic growth, imports, consumption patterns, U.S. share of market; (ii) effect of program on growth of the private sector; (iii) relevance of program to policy dialogue; and (iv) effect of program on IMF targets or negotiations.

Lessons Learned and the Design Loop

Following is a summary of the major issues and recommendations derived by the U.S. from its evaluations of CIP programs in Zimbabwe, Somalia, and Egypt:

1. Policy Reform. Policy dialogue and policy reform are central to most CIPs. However, CIP policy goals are often hard to pin down specifically. Thus, it is difficult to monitor the policy impact of most CIPs. If a "policy checklist" were included in the original Project Paper it could serve as a useful tool for Mission management.
2. Targeting: Commodities and Beneficiaries. There is a natural programming tension in any CIP between rapid disbursement rates and targeting commodities to the beneficiaries designated in the Country Development Strategy Statement (CDSS). The CIPs reviewed chose to emphasize disbursement rates. In future CIPs, it might make sense to more tightly limit commodity eligibility and imports to those that are most directly linked to AID's CDSS strategy.
3. Foreign Exchange Rates. When designing a CIP, U.S. AID should critically examine the spread between the official and free market exchange rates. If the difference is large, AID should consider including policy conditions to narrow the spread. Alternatively, AID should consider providing the CIP at a rate closer to the free market rate.
4. Local Currency Programming. A more activist approach to programming CIP local currency provides an opportunity to direct a portion of a developing country's domestic resources into areas that fit AID's developmental strategy. As demonstrated in the Zimbabwe CIP, AID can have a key impact on development budget priorities in developing countries. The extra management costs of such an approach should be carefully weighed against the opportunity for increased development impact.

Despite the difficulties recognized by the IBRD, the Bank's experience with evaluating NPA--including about one dozen structural adjustment loans--has "... led to some interesting findings. Very often it turned out that the action programs were insufficiently matched with the borrowers' implementation capabilities and institutional framework : too much was to be achieved in too little time. The administrative and political constraints frequently proved heavier than forecast and the impact expected from the programs on sector or overall economic performance was, in many instances, more limited than projected at the time of the program formulation. In some cases there were also some deficiencies in the design of specific action programs so that the expected impact could not possibly have been realized even if the program had been fully and timely implemented. All of these gaps between program design and implementation, however, can only be narrowed in the context of the Bank's continued dialogue with the borrowers, made possible in the course of a series of SAL operations which are geared towards longer-term objectives of policy improvement and institutional development. A relatively small number of countries, however, have experienced repeated SAL operations whose performances were evaluated on a post hoc basis."

The Bank response notes, however, that "failure to fully implement agreed action programs ... does not mean that the operation had been in vain. In the majority of the cases the evaluator concluded that the loan had been worthwhile and that substantial improvements in policies or institutional performance had resulted from them. The principal lessons emerging from these evaluations were that action programs attached to NPA operations should not be over-estimated. Other important lessons point to the need (i) for an active borrower participation in the design and preparation of action programs; (ii) for flexibility during implementation so that policy instruments can be quickly adjusted to changing world, country or sector conditions; and (iii) for a closer coordination with IMF operations and NPA from other multilateral and bilateral sources."

The Canadian response provides a rich source of lessons learned that may guide a wide variety of donors. It notes that " 'positive' conditionality (i.e., encouraging recipients to pursue a certain course of action by facilitating their efforts with /assistance/ may be more effective than the 'negative' variety." Here are the lessons as presented in the Canadian response:

1. Although provision of commodities under lines of credit provides important production inputs to high priority manufacturing industries, there is not necessarily any effect on availability of consumer goods and consumer prices.
2. Commodities financed by the program can have a greater impact when targeted on a limited number of industrial users.
3. Lines of credit can introduce Third World countries to Canadian goods and help to establish a Canadian presence.
4. Canada's influence is extremely limited. Even in concert with other major donors and ability to use ODA to influence developing countries behavior is limited.
5. Intervention in the sphere of domestic economic policies is likely to be more successful than attempt to change social or civil policy - let alone efforts to change foreign policy and long standing beliefs or values.
6. Conditionality stands a better chance of being effective when it has been the subject of a meaningful policy dialogue between donor and recipient. The chances of success in such cases are greater at the level of projects and procedures than at the program, policy or strategic levels.
7. Conditionality in aid can only be exercised effectively in a few highly selective areas and then only if there is already some movement in the direction desired. When donors seek to intervene in a number of areas in a developing country's domestic or international policies, the potential leverage is reduced dramatically.
8. Developing countries have long memories. The attempts of donors to interfere in the affairs of another country tend to become associated with larger national issues which transcend narrow partisan politics.
9. It is frequently argued that good aid provides benefits to donor and recipients. A country

receiving aid with conditionality attached tends to see itself and to be seen by other developing countries as a victim that industrialized Western countries are attempting to force to "pay twice" for foreign assistance.

10. All too often the relative advantages and disadvantages of a particular course of action depend on "being there" and on value judgments which have deep cultural and emotional roots.
11. Fashions in conditionality change over time. Development is a long range process, short term politically expedient attempts to apply conditionality tend to be counterproductive to bilateral relationships.

The German response notes that many findings are available from evaluations of development bank programs and food security programs, yet there are none on commodity aid and debt rescheduling. Although a question might be raised on whether funding of development banks is really a form of non-project assistance, the lesson suggested is generally interesting. Namely, "more emphasis is being placed on reaching small borrowers. On food, "the evaluation of food security programs has led to an organizational change (unspecified) in the planning and implementation of such programs. Otherwise, the experiences in these sectors are for the most part identical with the general evaluation results."

German experience suggests that, "decisive mistakes in projects and programs are usually made in the planning phase. This has given rise to new considerations at the ministerial level as well as on the part of the implementing organizations. The project preparation procedure was modified after a phase of discussions and seminars in the Ministry. In (the) future it will be oriented more closely to the principles of the logical framework."

A study carried out in 1982 by the German Institute for Development Policy in Berlin reached an important conclusion on administration of development programs. It suggested that, "on the recipient side there must be a minimum of planning and implementation capacity as well as longer-term development planning. On the basis of analyses and planning documents of the recipient a permanent dialogue on development policy is conducted, on the donor side, primarily by the local mission. The latter is essential at all events since, against the

background of flexible planning, there must be decision-making powers on the spot." While recognized as still valid, the German response raises the question, "where in Africa, for example, could one say that these preconditions were met?" The implication, of course, is that they are rarely met, and that this complicates planning and administration enormously."

There is a wide agreement on the desirability of using lessons learned in the design of new projects and programs. It is a stated concern of the U.S. program. In Canada, "lessons learned are brought back into the design loop via an automated information feedback system. The identification and selection of projects (i.e. the project approval process) also emphasizes application of previous evaluation findings.

In Germany, "in 1984 a new system of monitoring the feedback of evaluation results into project work was worked out by the Federal Ministry for Economic Cooperation. The operational working units in the Ministry must report once a year on how the evaluation and inspection results of the previous year have been used in practice. The inspection unit then submits a report on the basis of these reports to the head of the Ministry."

5. Three Operational Problems

Three operational problems related to non-project assistance are addressed by the respondents.

Donor Coordination

U.K. practice is to "... coordinate its programs with other donors to the greatest extent possible." The U.K. response suggests that, donor coordination in relation to NPA is most feasible when: (i) a consultative group has existed for some time; (ii) there is general agreement on policy reforms needed; (iii) reform and aid go step by step; (iv) monitoring can be maintained over time. Coordination for specific sector goals (e.g. pricing) is also feasible provided all donors have common aims." Indeed, the U.K. suggests that, "the real scope for donor coordination in cooperating with recipients is at the sectoral level."

"The U.S. strongly supports donor coordination for the achievement of policy reforms, ... (and) has long taken the

lead in a dialogue among donor countries addressing the need for greater efforts at coordination." It has also "encouraged greater use of the existing IBRD-led consultative group process . . .," as well as in-country donor coordination groups and Roundtable discussions." The U.S. believes " . . . that the best type of donor coordination occurs through a combination of broader coordination mechanisms, such as a consultative group or Roundtable discussions and in-country donor coordination groups. This combination provides sufficient opportunity for the discussion of issues ranging from macroeconomic policy concerns to specific implementation problems."

Canada notes that "CIDA has increased the amount of consultation with other donors in regard to specific aid management procedures and has long recognized the importance of donor coordination." Actions of other donors are always considered in country reviews. Coordination is difficult, but " . . . CIDA has attempted to increase consultation with donors outside of OECD, i.e. ARAB/OPEC institutions who play significant roles in countries such as Pakistan. The Canadian response suggest that, "the most feasible and most useful forums for donor coordination other than these existing such as international institutions and the DAC itself would seem to be country or regionally focused consortiums which specifically address the development needs of certain regions/countries and possible development strategies. Involvement of the recipient is most desirable. This approach is compatible with CIDA's country-focus approach and enhances the planning capabilities of individual donors."

Regarding Swedish aid, "SIDA has always been in favor of increased donor coordination provided that such coordination include the host government as an active partner. The question of donor coordination carries a high priority. In a number of recipient countries, notably Bangladesh, several coordinating efforts have been undertaken by the so-called 'likeminded' group of donors. This group usually contains Sweden, Norway, Denmark, Holland, and Canada. In most of the cases the host country government has participated." Norway's official position is that the host government must coordinate all aid.

Germany notes that, "for some time now" it has been " . . . having discussions with the partner countries before the concept of a new project is worked out . . ." Japan notes that, "coordination with other donors take place on a case-by-case basis."

Institutional Analysis

The U.K. response puts institutional analysis in an interesting light. In their view, sector aid effectiveness can be improved (i) "by a more systematic consideration of the overall state of the relevant sector and of government policies and institutions within the sector than is often the case with more traditional project aid, (and) (ii) by combining aid inputs of various types in flexible and imaginative ways with the aim of strengthening the institutional infrastructure in a sector and influencing resource allocation priorities within it ...". Also, "the sector is ... usually the appropriate level for addressing those sensitive policy issues coming under the general heading of 'conditionality.'" Thus, the emphasis on improving management of sector institutions " ... represents a return to earlier institutional-building objectives which tended to get over shadowed by the rapid growth of capital aid flows in the 1970s." An "institutional check-list is being developed the he U.K. to help gauge institutional capacity."

The U.S. response notes that "while AID does require formal analysis of LDC institutions for all project assistance, there is no similar requirement for NPA." Nevertheless, given AID's emphasis on institutional development, AID missions do some analysis. Sweden makes some analysis, but " ... usually not in a formalized way." It is interesting to note that, "as a general rule SIDA believes that the regular institutional channels of the recipient country must be used. This rule is followed as a goal in itself--even in such cases where these channels may prove inadequate?" The Danish response notes that, "one of the most important issues looked into when preparing Danida commodity assistance is whether the recipient institution has the administrative capacity to process/distribute the commodity in question in a satisfactory manner." Norway makes a similar response, but notes that the issue is seldom systematically analyzed, and that Norway does not have a "standardized analysis to test the adequacy of host institutions."

Staffing Problems

In recognition of the fact that NPA based reforms require detailed knowledge of the borrower's economy, " ... including economic linkages within the economy and to the outside world, U.S. AID is increasing its economic staff at the country level to deal with such issues. It is also funding additional research and technical assistance." The Germans note this complexity also, and admit that "the facilities (for

constant monitoring) on the side of both the donors and the recipient are not properly developed. A monitoring system in the narrower sense of the term does not exist within German development cooperation. Program surveillance is undertaken sporadically. Nor do the developing countries have satisfactory systems or staff with the necessary qualifications. The major constraint stems from the fact that governments of developing countries are scarcely in a position to conduct a permanent dialogue with all the donors and yet they lay claim to a sort of monopoly of contracts with donors. Decentralized administrative structures and the delegation of state powers to other organizations in society would be the right direction in which to move."

The Norwegians view NPA as a convenient way of reducing aid pipelines at a time of rising aid budgets and limited administrative capacity. At the same time, the Canadian response raises a provocative question concerning the administrative costs of NPA. It notes that, "despite significant growth in the aid budget, CIDA's person-year complement has not kept pace. Traditionally NPA has been viewed as an administratively efficient manner of delivering a growing aid program. This assumption has however been challenged of late and will be tested during the Agency-wide evaluation of NPA."

APPENDIX
 RESPONSES TO THE DAC QUESTIONNAIRE
 AS OF NOVEMBER 15, 1985

	Response of Substance	Letter Only	No Response
Australia			X
Austria			X
Belgium		x ¹	
Canada	X		
CEC		x ²	
Denmark	X		
Finland			X
France		x ³	
Germany	X		
Italy		x	
Japan	X		
Netherlands			X
Norway	X		
Sweden	X		
Switzerland			X
United Kingdom	X		
United States	X		
<u>Observers</u>			
African Development Bank			X
Inter-American Development Bank		x ¹	
UNDP		x ¹	
World Bank	X		
Development Centre			n.a.

1 Do not provide NPA.

2 CEC has provided an evaluation of the Stabex program.

3 Information being developed.