

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

RESTRICTED TO PARTICIPANTS

Paris, drafted: 16th May 1986

dist: 23rd May 1986

DAC/EV(86)6

Or. Engl.

DEVELOPMENT ASSISTANCE COMMITTEE

EXPERT GROUP ON AID EVALUATION

EMERGING ISSUES IN NON-PROJECT ASSISTANCE

(Note by the Delegation of the United States)

The attached paper has been prepared by the US Agency for International Development, as background for discussion of the evaluation of non-project assistance at the meeting of the Expert Group scheduled for 12th and 13th June 1986. The Group is invited to consider in what form it would wish these issues to be presented to the DAC.

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The attached paper was prepared by the U.S. Agency for International Development (AID), Center for Development Information and Evaluation. It is being circulated for discussion at the forthcoming meeting in June 1986. These observations on emerging issues in non-project assistance (NPA) are derived from two major sources. First, we have analyzed the responses to the July 1985 questionnaire (DAC/EV(85)7) sent to DAC members and observers. Second, we have examined the results of almost twenty evaluations of such assistance carried out by the World Bank and AID. Some of the problems now being recognized in the NPA form of assistance were cited by the Expert Group on Aid Evaluation in its report on lessons of experience emerging from aid evaluation (DAC(84)11).

There is now sufficient experience with this form of assistance to indicate some of the major issues encountered in the design, implementation, impact, and evaluation of NPA, as well as its likely usefulness as an instrument to influence policy in host countries. This paper is intended to highlight such issues, not as lessons learned, but as early indications of what to watch for in the use of NPA by donor countries. While these issues are presented briefly and in schematic form, it is recognized that they are complex and sometimes subject to wide interpretation. Our format will be to present each issue in a sentence or two, and then to examine briefly some aspects of that issue.

EMERGING ISSUES IN NON-PROJECT ASSISTANCE (NPA)

Non-project assistance, also referred to as program assistance, is accomplished by the transfer of resources as foreign exchange or commodities to support economic development, often with the specific intent of providing rapidly disbursing relief for a country's budgetary or balance of payments constraints. There are as many different kinds of NPA, of course, as there are donors. Nevertheless, there is now sufficient experience with this form of assistance to permit tentative generalizations on some of the major issues to be encountered in its use and evaluation.

There is a wide variety of non-project assistance. This can be seen in the accompanying table, which was presented in the questionnaire on NPA administered in 1985. The picture presented is only one way of describing such assistance by functional and administrative categories. Refinements of this schema, and indeed substitute systems of classification, were received in the responses to the questionnaire. While the table is therefore not definitive, it is a useful reminder of the complexity of defining NPA in operationally specific terms.

The following categories will be used to examine the issues now emerging as major concerns.

1.0 Design

- 1.1 Complexity and time frame
- 1.2 Monitoring devices
- 1.3 Feedback into design loop
- 1.4 Staffing

2.0 Implementation

- 2.1 Donor coordination
- 2.2 Exchange rate considerations
- 2.3 Institutional strengthening

3.0 Policy and conditionality

- 3.1 Targeting beneficiaries vs. fast disbursement
- 3.2 Conditionality
- 3.3 Local currency programming
- 3.4 Economic impact

4.0 Evaluation

- 4.1 Surrogate measures for the economic rate of return
- 4.2 The uses of economic theory

Table 1
FUNCTIONAL AND ADMINISTRATIVE CLASSIFICATIONS
OF DEVELOPMENT ASSISTANCE

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

See notes on following page.

Notes to Table 1.

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

1.0 DESIGN

1.1 The complexity of the NPA program, both in terms of design and attached conditionality, is sometimes excessive. As a general rule, the program will have a higher probability of success as complexity is reduced.

Complex programs require long design times, and for many NPA programs this time is not available because of the urgency of the developmental problems being addressed. If a design is taken "off the shelf," the likelihood is that it will be too general to fit the specific circumstances. In the same way, complex programs grafted onto weak or inappropriate LDC institutional structures beg for failure. Finally, if too many conditions are loaded onto the program its design becomes enormously complicated and its effective execution unlikely (see section 3.2).

1.2 Evaluation remains an underdeveloped aspect of NPA. If it is to be strengthened, monitoring devices and data requirements for evaluation need to be built into the design of NPA.

Since the calculation of NPA economic rates of return is so difficult (see section 3.4), other measures of effectiveness need to be adopted. What these are, and what data requirements

they generate, need to be specified in the original design. Base line data, where applicable, need to be presented or provided for. Monitoring criteria and the time benchmarks must also be included, along with the design to establish appropriate monitoring procedures in the on-going program.

1.3 Evaluation can serve many purposes. If it is to be useful for future programming its design needs to include provision for incorporating the findings from a given evaluation into the design of subsequent NPA assistance.

As a practical matter, there is little that NPA designers can do to assure that future evaluations of a program will find their way back into the design of new programs. Clearly, donor offices with broader responsibility for the entire assistance effort need to provide the mechanism for the feedback into the "memory" of the organization, and to provide guidelines to designers to ensure that the data requirements for the feedback are common to all NPA programs. Probably, feedback can be accomplished most effectively through an automated information feedback system.

1.4 NPA often involves the entire economy, or large and strategic sectors thereof. This means that careful and sophisticated planning is required. In turn, such planning requires extensive time of a highly qualified staff.

Staffing requirements for the design and execution of NPA assistance are heavy, both in terms of the numbers of personnel involved and in terms of the high degree of professional skill required. These apparent facts raise the question of whether NPA is a "cheap" way to move large amounts of resources, as current folklore in the donor community suggests. Once one moves beyond a "simple" cash transfer, a typical NPA program involves large parts of a host country's economy, thus requiring expertise and coordination of detailed and complex relationships between sectors, host institutions, and policy makers. Moreover, an asymmetry exists between the level of personnel involved from the host government (typically very high for a program of importance) and the "lesser" individuals who are directing the donor's program. This means that those personnel who are most "scarce" in the donor's program (i.e., top officials) will have the greatest demands placed on their time.

2.0 IMPLEMENTATION

2.1 Host countries commonly complain of the variety of demands placed on them by donors in an uncoordinated way. Donor coordination is an implied requirement of all large NPA programs, and greater and explicit efforts need to be made to ensure such coordination.

While it is common for some donors to use IMF and IBRD conditionality as guidelines for their own programs, at the same time there is recognition that such conditionality may be inappropriate for an individual donor under some circumstances. Yet, in moving on their own donors frequently fail to provide alternative mechanisms for coordinating their efforts. To the extent that NPA programs will become larger in the future, then to that extent greater donor coordination needs to be provided. There is no set formula or model for such coordination today beyond the consultative group concept which, of course, is not available for many countries. Greater coordination might be attempted with donors outside the OECD. Beyond country coordination, regionally focused consortia which specifically address the development of certain regions/countries might be an appropriate mechanism. In all cases, it may be good practice to provide the host country with the software for an information system which at minimum permits tracking of foreign assistance. Such provision, in turn, might provide the basis for the host country's coordination of donor flows and requirements.

2.2 An overvalued LDC exchange rate will create resource misallocations and also will create windfall profits for traders who bring the commodity in and then sell it to end-users. The extent of overvaluation, therefore, raises issues related both to the successful transfer of resources under an NPA program as well as to conditionality.

An overvalued exchange rate in general will distort economic decisions. It may, for example, induce importation of machinery into a country in which labor supplies suggest the substitution of labor for machinery. For this reason, and the case of windfall trader profits, efforts over the long run are appropriately directed to reduce the degree of overvaluation. Simultaneously, trader access to such commodities might be limited. In the unlikely case of an undervalued exchange rate, or one so low that it does not compensate for the high import costs of donor commodities, some form of subsidy may be required to induce their importation under an NPA program.

2.3 Institutional "reform" is sometimes viewed as a panacea for developing countries' problems, yet experience suggests that in many cases it is either not possible at all, or will be accomplished in a most superficial way, one equivalent to

changing names on the doors of offices and staff. This suggests that such reform often might appropriately be confined to provision of technical assistance and training, and possibly gentle persuasion.

An institution has a structure and a momentum of its own while at the same time it carries out processes which are part of a larger institutional and cultural system. For example, while establishment of a training program for accountants might be accomplished rather simply, changing the leadership style so that serious consideration is given to the work of accountants requires a change within the institution of processes which in fact reach outside the institution. It is these culture-bound behavioral patterns which are the most difficult to touch with conditionality. Since NPA generally has a short time perspective, it may not be the best vehicle for encouraging longer-range LDC institutional reforms. It may be that sector aid is best suited to institutional conditionality since its focus is narrow, thus permitting detailed monitoring. It must be recognized, of course, that theories of institutional change are themselves controversial, thus reducing somewhat the credibility of firm institutional conditionality.

3.0 POLICY AND CONDITIONALITY

3.1 Beneficiary impact is a major concern in all aid flows. Yet, programs designed to achieve broad economic effects and to be carried out quickly cannot easily, if at all, be targeted to specific populations. When fast disbursement is the objective, less attention can be paid to targeting individual beneficiaries or sectors.

There is widespread concern that economic assistance reach the poor. Sometimes donors attempt to reach specific sectors, or to control commodities imported under an NPA program. All such arrangements work against rapid execution of the program. Since this tension is inherent in NPA assistance programs, their design needs to exhibit a clear choice, and subsequent evaluations need to be based on this choice. In part this problem might be relieved in limited cases if the commodity aid could be designed in such a way as to predetermine its users.

3.2 The typically large sizes of NPA programs invite the attempt to use such programs by donors as means to influence policy in less-developed countries. Yet, the number of conditions attached to NPA which can be effectively monitored and executed is probably rather limited because the complexity of the

interrelationships between the conditions rises exponentially with the number of conditions.

The assumption is that greater "leverage" attaches to NFA because of its size, and that therefore greater conditionality can be attached to NFA than to projectized assistance. While the leverage assumption is open to question, it is true that increasingly heavy conditionality seems to be the order of the day. Conditionality specified may range from direct reliance on IMF/IBRD stipulations down to a limited "policy dialogue." Setting aside minor discrete cases, proliferation of conditions raises problems for the designers of NFA, the host country which would meet these conditions, and evaluators of the program. The essential problem is that for one condition there is one "thing" to look for. For two conditions, however, suddenly there are four things to look for since there are four possible relationships between the two conditions. With three conditions there are nine, and so forth. Management of the NFA program, therefore, becomes both more costly and problematic, and its evaluation more dubious. Since experience with conditionality is still rather limited, and since many of the conditions attached to policy reforms are themselves subject to debate, the implication is that conditions need to be very carefully selected, and that their number needs to be kept small to reduce the risk inherent in the multiplication of the complexity attaching to the fulfillment of any single condition.

3.3 Often, resource flows to a less-developed country are matched by an equivalent sum established by the host government in local currency.

It is common practice to use local currency generated by imports under NFA for specified development purposes. While management costs of monitoring the use of such funds are not insignificant, important goals can be achieved ranging from support of general budgets or budgets of specific ministries or institutions down to support of individual projects. In part, the decision on whether to establish earmarked accounts may vary depending on judgments concerning the recipient's commitment and ability to use the funds as specified. While the fungibility of such funds must be recognized, prescribing the use of funds may have a useful institutional impact, drawing staff attention in a host ministry, for example, to beneficial management and allocative practices. Also, under some circumstances it may be appropriate to consider the host country's cash flow situation, so that local currency generated which is temporarily "surplus" is deposited in interest bearing accounts.

3.4 Since there is no way in which overall economic change can be linked statistically to NPA, alternate measures need to be sought (see section 4.1).

The common problem faced in evaluation of the economic effects of assistance in general is that of fungibility. Resources received from the outside may be designated and actually used for a specific purpose, but this signifies neither (i) that a similar amount of resources would not have been allocated to the project by the host government at any rate, nor (ii) that other resources now freed-up will not be used in projects of trivial importance. More germane to NPA, it must be recognized that while economic theory can guide the selection of particular kinds of NPA, and even suggest appropriate conditionality, all that can be adduced at the end of the assistance program is a possible relationship between the program and observed events. While the concept of economic rate of return remains appropriate for project design and evaluation, it is incalculable for NPA because there will be too many intervening variables, too many major "events" (drought, random changes in export prices, and the like), to permit a valid statistical inference that because of the NPA program X or Y happened.

4.0 EVALUATION OF NPA

4.1 The economy-wide economic impact of NPA is difficult to evaluate (see section 3.4). However, donors can examine the extent to which the actions proposed in the program for both donor and host government were carried out.

Two broad complementary approaches are possible. First, an evaluation can be designed entirely around the ex-post examination of the extent to which the requirements stipulated in the logical framework were met. At minimum these might include inputs (commitment of a credit), outputs (increase in bank reserves), purpose (substantial increase in short term credit), and goal (improved credit markets).

Another approach is to monitor the on-going execution of the NPA program by establishing what can be called performance disbursement benchmarks to accompany the tranches. Funding in this instance is divided into a series of tranches which are disbursed on the basis of satisfactory progress in implementing policy and institutional reforms. Policy and institutional changes are similarly divided into a sequence of revisions. Benchmarks are established to track progress toward achieving ultimate policy objectives. In a word, the program is evaluated throughout its life.

So-called anecdotal evidence is rarely permissible in a formal evaluation. Yet, since neither approach suggested above yields an answer to the question everybody wants to ask of an NFA program--what was the broad economic impact of the program--some reliance will continue to be placed on less formal methods of evaluation, i.e., on the experience and indeed wisdom of aid practitioners. While this can hardly form the basis of policy, it may well inform policy makers in ways not touched by more formal methods.

4.2 Economic theory, as well as its applications, are in apparent transition today. The implication is that the economic theory underlying each NFA should be explicitly stated, and that arguments over its applicability between donor and host country, or between donor and donor, most appropriately need to occur prior to initiation of the program.

Economic theory comes in waves, policy implications come in cycles, and economists travel in herds. Recognition of these three conditions suggests a modest approach to advising on this or that economic change in a host country. The larger and more complex the NFA program, the greater that caution seems appropriate. Grand designs for reform are never costless, even when they work well, so in the end, while an economic rate of return remains elusive, a general summing up of the anticipated costs and benefits of a program is nevertheless necessary at the design stage. This in turn requires weighting the different costs and benefits by their relative importance. Judgments will vary, but by forcing professional differences over economic and other theory that may be guiding the program design into the open early in the game, there is at least the possibility that costs will be minimized relative to gains.

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April 14, 1986