

1 Introduction

This paper is concerned with a narrow question, the evaluation of counterpart funds generated by programme aid. 'Counterpart funds' are variously defined, as we shall see, but are here taken broadly to refer to local currency generated by the sale of aid commodities or foreign exchange received as aid by recipient countries. Counterpart funds have been central to the debate on programme aid at least since the Marshall Plan (Singer *et al.* 1987, Bruton and Hill 1991, Owens 1991, Maxwell (ed.) 1992), but probably for the wrong reasons: they do not represent additional resources over and above the commodities or foreign exchange provided as aid, so that exclusive concentration on counterpart funds may divert attention from the impact of real resource transfers. Counterpart funds represent, in fact, only the tail of the tiger.

The disproportionate prominence of counterpart funds is a conundrum. However, as Clay (1995: 357) suggests, it may result less from their intrinsic importance than from the opportunity to provide 'measurable performance criteria for purposes of accountability that can be monitored by public audit bodies in donor countries'. This is not an unfamiliar problem: we are too often tempted to measure what is measurable rather than what is important (Chambers 1983).

The limitations of the concept of counterpart funds have become well understood in the literature and in donor guidelines (Section 2 below). This has led donors to move away from tight earmarking to more open-ended budget support, albeit not universally or uniformly. Here, however, we are lacking an evaluation framework or a set of performance criteria. At one level, these are unnecessary: the impact of counterpart funds is largely synonymous with the impact of the programme aid which generates them. At another level, however, it is useful to ask about the efficiency with which counterpart funds are managed, including their integration into the national budget. The paper proposes performance criteria, particularly for bilateral donors engaged in a delicate quadrille around the budget with the recipient government and the Bretton Woods Institutions (Section 3). If performance criteria like these can be adopted, we will be much closer to catching the tiger.

Catch the Tiger by its Tail

Counterpart Funds in the Evaluation of Programme Aid

Simon Maxwell

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Before turning to substantive issues, we need briefly to pass by the definition of counterpart funds, and some other issues of taxonomy. A first point to make is that the term 'programme aid' covers a multitude of forms of assistance, with different legislative frameworks and different procedures. Some generate local currency and some do not. Programme aid may be provided in kind (food, fertiliser, drugs), in foreign exchange tied to the purchase of certain commodities (for example, in Sectoral Import Programmes), or in untied foreign exchange, restricted in use only by the provisions of a 'negative list' of prohibited imports (for example, in a General Import Programme). Debt relief also counts as programme aid.

The DAC defines programme aid as 'all contributions made available to a recipient country for general development purposes ... not linked to specific project activities' (OECD, quoted in Fell 1991: 54). It distinguishes between four categories of programme assistance: general programme assistance, like general budget support; sector programme assistance, directed to a particular sector; programme food aid; and debt relief. White (1996) adopts a similar definition. He distinguishes particularly between budget support, import support and debt relief.

Commodities or foreign exchange provided as programme aid are not always sold, though usually there should be a notional financial transaction. Drugs, for example, may be passed directly to hospitals, without any financial transaction being entered in the budgets of the Ministries of Finance or Health. Similarly, programme food aid is sometimes distributed directly to government mills or a public distribution system for food grains. In both these cases, there really should be an entry in the budget. On the other hand, debt relief may not generate a local counterpart fund and there need be no budget entry. Thus, programme aid generating local currency is a sub-set of all programme aid.

A further narrowing in the literature has been to say that 'counterpart funds' only exist where local currency generated from the sale of commodities or foreign exchange remains partially under the control of the donor. Bruton and Hill's (1991) standard definition, for example, is that counterpart funds are 'local currency generated by the sale of aid commodities or foreign exchange in recipient countries,

over the use of which the donor has some control' (emphasis added). Typically, counterpart funds have been allocated to a separate account in the Central Bank of the recipient country, and released only with agreement of the donor, often using the mechanism of a double-signature account. On this definition, programme aid generating counterpart funds is a sub-set of programme aid generating local currency.

In practice, it may not be helpful to apply the Bruton and Hill criterion too strictly. As we shall see below, donors have gradually moved since 1991 from highly restrictive earmarking to more open-ended budget conditionality. In these circumstances, they deliberately set out not to exercise tight control over the local currency generated by the sale of programme aid. Nevertheless, they still talk about the local currency generated by programme aid as counterpart funds. It seems sensible for the formal definition to reflect current practice.

Whichever definition is used, it would be useful to end this introduction with a statistical review of the importance of counterpart funds (on different definitions) to different kinds of programme aid and to programme aid as a whole. This is not possible with the data available. Nevertheless, some indications are possible.

First, the importance of food aid is often neglected in discussion about programme aid. In strictly quantitative terms, programme aid is said to be a growing area of assistance. Not so. If programme food aid is included, total programme aid fell from around 15 per cent of all aid in the mid-1970s, to around 12 per cent in 1991-92 (OECD 1995). It would be more correct, then, to say that **financial** programme aid is a growing area of assistance. In evaluating programme financial aid, however, there is much to be learned from earlier evaluations of programme food aid, both about macroeconomic impact and about management issues (Maxwell and Singer 1979; Clay and Singer 1985; Clay and Stokke 1991; Clay 1995; Owens 1996).

Second, the aggregate figures on programme aid conceal substantial differences between donors and recipients: in 1992, programme financial aid accounted for 10 per cent of all aid overall, but for as much as 27 per cent of Australian aid and 15 per

cent of that from the US (DAC 1995: E3-4). Similarly, the share of financial programme aid in total aid receipts in 1991 ranged from 12 per cent for least developed countries, through 23 per cent for lower middle income countries, to as much as 67 per cent for high income countries. There was wide variation between countries, even within these groups. For Pakistan and Chad, the figure was less than 5 per cent; for Uganda, Egypt and Peru, it exceeded 30 per cent (OECD 1993).

Third, similar variation is evident with regard to counterpart funds (narrowly defined). No official estimates are published on the aggregate share of programme aid that generates counterpart funds, but an estimate in 1991 was that between 3 and 12 per cent of all aid by DAC donors generated counterpart funds (CPF) (Fell 1991). For some donors and recipients, the figure is much higher: 10-15 per cent for the EU in 1991, 20 per cent in the Sahel, as high as 60 per cent in Mozambique. These are not necessarily high figures by historical standards. More than 40 per cent of Marshall Aid to Europe after World War 2 consisted of food, feed and fertiliser, most of which generated CPF (Singer *et al.* 1987, Clay 1995).

2 An International Consensus: Counterpart Fund Accounts Should Not Exist

Programme aid has complicated effects, on foreign exchange availability, resource flows, fiscal balances, monetary variables, and growth and income distribution in the real economy. In addition, programme aid is usually a vehicle for policy conditionality. All these effects take place in economies characterized by high inter-annual variability, and usually over a period of several years. Evaluation is of necessity equally complex.

There are two particular problems, both long familiar from evaluations of programme food aid. First, programme aid, like most aid, is fungible: hence, the results cannot necessarily be estimated by looking at the actual way aid is used. Secondly, a 'with and without' comparison requires an estimate of the counter-factual, since no control case is available.

In the case of counterpart funds, the issues debated have included the additionality of counterpart

funds and their appropriateness as a vehicle for policy conditionality; the impact of counterpart funds on money supply and inflation; problems caused by the overhang of unspent counterpart funds; and problems of dependency when counterpart funds amount to a sizeable proportion of the government budget (see Owens 1991, Bruton and Hill 1991, papers in Maxwell (ed.) 1992, Gazzo and Mathonnat 1993).

The basic macroeconomics of counterpart funds are well understood. In the first round, the sale of commodities or foreign exchange is deflationary, because it removes purchasing power from the economy. By contrast, the expenditure of counterpart funds increases the demand for goods and services and is inflationary. If these two effects happen simultaneously, their effects cancel out. However, if there is a lag, the expenditure of counterpart funds can be destabilizing. If a large unspent balance accumulates, it may become impossible to spend CPF without breaching monetary targets. They may then have to be written off, usually against public debt (Maxwell 1992).

Practical guidelines follow from this understanding. A workshop was held at the IDS in January 1991, at a time when many donors were reviewing their policy on counterpart funds. The meeting agreed a summary statement of principles, reproduced in Figure 1. It stresses that counterpart funds are not an additional resource, over and above the commodity or foreign exchange transferred as programme aid. The key, first step is for donors and recipients to agree on the strategic objectives of policy, and on the policies, programmes and projects required. If agreement is reached, then the statement implies that separate counterpart funds will not be needed. If they are set up, however, certain principles should be followed: they should be planned in advance, fully accounted in the national budget, and subject to the normal budget formulation, accounting, monitoring and evaluation procedures.

The extent to which these guidelines have percolated into donor policy can be assessed through the policy statements of a sample of donors. The DAC agreed guidelines on programme aid in December 1991, which incorporated similar principles. They also emphasized the 'consolidated, rational and

Figure 1 Counterpart funds: a revised statement of principles

- 1 Counterpart funds consist of local currency generated by the sale of aid communities or foreign exchange in recipient countries, over the use of which the donor has some control.
- 2 The purpose of most aid which results in counterpart funds is to assist the recipient country in meeting agreed strategic objectives, through carrying out specific policies, programmes and projects. The strategic objectives are likely to include poverty alleviation and food security, as well as stabilization and structural adjustment.
- 3 Both the provision of aid and the use, when appropriate, of counterpart funds, provide opportunities for dialogue over the size and composition of government expenditure, with due allowance for fungibility of budgets. In addition, the planning, use and monitoring of counterpart funds will require attention to policies on poverty alleviation, taxation, commodity pricing, and macroeconomic and sector policy, in order to maximize the benefit of aid and avoid the risk of dependency and disincentives. However, government policy, including policy on government expenditure, should not be developed as an adjunct to aid or counterpart funds - the reverse is the case.
- 4 The real resource transfers are represented by the commodity or financial aid inflows, not the counterpart funds. However, counterpart funds do constitute a mechanism for translating payments for imported goods and services into government revenue, for use on agreed programmes and projects. They may be especially appropriate if it is desirable to target or otherwise influence government expenditure.
- 5 The expenditure of counterpart funds will set in motion a process of expansion of demand for and production of a varied basket of commodities. For this reason, a diversified basket of aid commodities, including consumer goods, is necessary to help fill any deficit in commodity balances.
- 6 Dialogue on policy issues and budget expenditure will be especially important when the total (commodity) aid/counterpart fund package supplied by all donors makes a sizeable contribution to commodity supply or the government budget, at national or regional level. If it does not, then the operating costs of counterpart funds are likely to outweigh the benefits.
- 7 The scope for efficient policy dialogue will be weakened if counterpart funds are allowed to accumulate; or if they are eroded by inflation, implicit subsidies or over-valued exchange rates. It will be strengthened if counterpart funds are predictable, regular, sizeable and adjusted to the inter-annual fluctuations of the recipient countries
- 8 It follows that where counterpart funds are appropriate they should be:
 - (a) planned in advance, preferably in the context of a rolling, multi-year agreement, linked to other aid and with the possibility of 'substitution actions' on a year to year basis to ensure flexibility;

- (b) disbursed in the context of an agreed policy framework, subject to regular monitoring and fully accounted in the national budget of the recipient;
- (c) credited without delay to a government-controlled interest-bearing account at the full cif value, before subsidies or deductions;
- (d) disbursed quickly, following an agreed plan, to the agreed programme and project spending accounts, including subsidies and domestic debt reduction where appropriate;
- (e) subject to the normal budget formulation, accounting, monitoring and evaluation procedures on the financial and physical sides;
- (f) managed in ways minimizing the administrative load and strengthening national planning, budgeting and reporting processes, perhaps on a multi-donor basis through the creation of a common counterpart fund account.

Source: Maxwell and Owens (1991).

effective management of public expenditures' and suggested that 'counterpart funds should therefore be integrated into the national budget of the recipient government, under well-functioning budget formulation, accounting and evaluation procedures' (DAC 1992: para 287). However, the DAC recognized that some donors were legislatively bound to continue using separate counterpart fund accounting mechanisms, and recommended a 'transitional phase' during which separate accounts would be wound down (*ibid.* para 288).

The SPA donors established a working group on counterpart funds, which agreed guidelines in April 1991. These stated that 'the efficiency and equity of public expenditure ... are to be achieved by setting their level and prioritizing their composition within a coherent framework of macroeconomic and developmental objectives ... As progress is achieved along these lines, the case for earmarking CPF for specific uses decreases' (quoted in Tincani 1991: 66).

EC/EU policy on counterpart funds was historically different for food aid and financial programme aid. In the former case, a Council Regulation of 1986 provided guidance on the use of counterpart funds, tying them closely to the implementation of development projects, sectoral actions or development programmes. In the latter case, Article 226 of the Lomé IV Convention prescribed that CPF be used in a targeted way, listing various approved uses,

such as local costs of EC projects, specific budget headings and measures to alleviate the costs of structural adjustment. In May 1991, the EC Development Council approved a Resolution on CPF policy which set out a new interpretation of policy for all counterpart funds (which did not, however, supersede the Lomé Convention). The Resolution stressed that counterpart funds 'constitute resources which must be managed as part of a single and consistent budgetary policy', and referred to 'the need for the Community to strive for greater coordination of budgetary policy with the other providers of funds, in particular the World Bank and the IMF' (EC 1991). These principles were reinforced in a Resolution on structural adjustment in 1995, which called on the Commission to 'move from targeting counterpart funds towards more general allocation, as soon as progress has been made in improving the effectiveness of the monitoring instruments, programming and budget implementation, and as regards internalization of the reviews of public expenditure' (EU 1995).

The US issued a Policy Determination on local currency in July 1991. This again stated that the 'important goal (is) an overall host country budget that represents a sound development-oriented macroeconomic policy framework' (USAID 1991: 3). However, the policy also required the establishment of a special account, wherever local currencies were generated.

UK ODA policy was defined in a Technical Note in 1991. This stated that 'it is ODA's general policy not to exert any control over the use to which counterpart funds are placed ... ODA programme aid is generally provided in the context of an IMF/IBRD adjustment programme which as one of its components includes a review and agreement to a public expenditure programme ... it is unnecessary and distortionary to attach any further conditions ... (However) there may be instances where the government's budgetary allocations are considered to be sub-optimal ... In such cases (tying) should be sought' (ODA 1991: 38-9).

There are nuances between these different statements, but they share a common emphasis on the importance of the national policy making and budget processes in the recipient countries. There is a clear preference, certainly in the supra-national policy guidelines, for phasing out separate CPF accounts, and any form of earmarking. The earlier EC/EU and the US statements are less enthusiastic on this count. The approach favoured is to focus on dialogue and conditionality over the budget, at aggregate or sectoral level.

It is interesting that several of the guidelines or policy statements reviewed above could not quite bring themselves to recommend the outright abolition of CPF earmarking. This was partly because the drafters foresaw some legislative difficulty in abandoning long-standing arrangements. There were also more substantive reasons, however. Maxwell reported from the 1991 workshop at IDS that 'a surprising number ... (saw) virtue in counterpart funds, not only for donors, but also for recipients, and especially in a second-best world characterized by weak budgetary processes and, often, poor policy' (Maxwell 1991: 3). Counterpart fund accounts could provide a way of protecting social expenditures, channelling resources to the voluntary sector, or guaranteeing minimal development effectiveness in countries with poor budgetary procedures. It was also felt by some donors that earmarking was acceptable for small quantities of CPF: perhaps the guidelines did not need to apply in full until a certain threshold was reached (Maxwell with Owens 1991; Maxwell 1992).

A more general point was that it would be difficult to switch counterpart fund arrangements on and

off, according to the changing quality of public expenditure policy and management in different countries. There might then be a case for CPF earmarking, on the grounds that it would be needed in some countries in most years, and in most countries in some years, and that a universal system might be easier to impose than a piecemeal one (Maxwell with Owens 1991: 17).

Some donors continue to express a modest enthusiasm for counterpart funds. For example, a recent discussion paper by SIDA (1996) argues that counterpart funds contribute to the transparency, efficiency and long-term sustainability of aid transactions.

These qualifications notwithstanding, there has been a shift in the conventional wisdom and this has important implications for evaluation. The two alternative approaches are illustrated in two logical frameworks (Figures 2 and 3), one for the case where earmarking is favoured, the other where conditionality takes place at the levels of policy and of the budget. In the earmarking case (Figure 2), the activities undertaken are much more specific and identifiable, and donor-funded outputs can be evaluated. In the non-earmarking case (Figure 3), the focus is instead on the quality of the policy making and budget processes as a whole. As a result, the indicators of success are very different. In the earmarking case, success is measured by the roads or health centres built with counterpart funds. In the non-earmarking case, success is measured by the quality of the policy environment and the budget. The risk factors or assumptions are also different: in the first case, the risks lie in the realm of implementation delays or the external constraints to individual projects; in the second case, in problems with managing the budget.

3 Counterpart Funds and Public Expenditure: a Performance Check-List

The logical frameworks in Figures 2 and 3 provide a platform for evaluating counterpart funds. In conventional evaluation terminology, an impact evaluation would be concerned with the achievement of the overall objective and the purpose of the CPF; an efficiency evaluation with the achievement of the results or outputs; and an effectiveness evaluation with the inputs and activities (CEC 1993; Norway 1993).

Figure 2 Logical framework for a project involving earmarking of CPF and no policy dialogue

	Intervention logic	Objectively verifiable indicators	Sources of verification	Assumptions
Overall objective	Poverty reduction	Income and asset-holding of poor people	National surveys, project studies	Benefits are not captured by rich
Project purpose	Increased agricultural output and better health etc...	Crop and livestock production, employment, health status	National agricultural, nutrition, health surveys, project studies	Technologies are appropriate; pricing is suitable
Results	Completion of roads, extension centres, health posts etc...	Details of physical outputs	Project reports	No serious delays in project implementation
Activities	1. Mobilize counterpart funds from sales of foreign exchange or commodity aid 2. Undertake rural development projects	1. Details of funds credited to CPF accounts 2. Details of project activities	1. Donor and Government accounting reports 2. Project reports	Donors provide resources on time; sales procedure works smoothly

The general problems of evaluating programme aid have been discussed by White (1996), in terms which concentrate on measuring impact. It seems sensible to conduct impact evaluation for programme aid as a whole, and not to try and separate out counterpart funds. Counterpart funds are only a small part of the story and do not in themselves represent additional resource transfers. It does not make much sense to try and evaluate the impact of CPF on growth or income distribution, independently of the impact of the foreign exchange or commodities which are real resources.

What this suggests is that a more modest evaluation may be suitable, concerned more with efficiency

and effectiveness. As can be seen from Figures 2 and 3, we are likely to be interested in this case in **process indicators** rather than **outcome indicators**. There are two approaches. The first approach is to look at counterpart fund management directly, building on the guidelines in Figure 1. The second is to look at the management of the policy dialogue and public expenditure process more generally, following the 'new wave' approach to CPF.

To begin with the management of counterpart funds, an evaluation should begin by assembling descriptive information: the policy framework governing CPF, the mechanism and timeliness of CPF generation, the total value, how this compared to

Figure 3 Logical framework for a project not involving earmarking of CPF and policy dialogue

	Intervention logic	Objectively verifiable indicators	Sources of verification	Assumptions
Overall objective	Poverty reduction	Income and asset-holding of poor people	National surveys, project studies	Benefits are not captured by rich
Project purpose	Those affected by government and NGO activity benefit	Beneficiary incidence analysis of public and NGO expenditure	Special studies	Projects are successfully implemented and reach those intended
Results	<ol style="list-style-type: none"> 1. Projects and recurrent activities undertaken by government and NGOs 2. Policy environment improved 	<ol style="list-style-type: none"> 1. Annual reports of government ministries and NGOs 2. Annual reviews by Government and donors 	Review of reports by Government and donors	Budget procedures adequate and effective for disbursement of funds
Activities	<ol style="list-style-type: none"> 1. Mobilize counterpart funds from sales of foreign exchange or commodity aid 2. Agree Government capital and recurrent budgets 	<ol style="list-style-type: none"> 1. Details of funds credited to CPF accounts 2. Formal agreement on budget 3. Formal agreement on Policy Framework Paper (PFP) or similar 	<ol style="list-style-type: none"> 1. Donor and Government accounting reports 2. Reports of joint donor-government committees or evaluation missions 3. PFP 	<ol style="list-style-type: none"> Donors provide resources on time; sales procedure works smoothly Government and donors agree on spending priorities Government and donors agree on policies

total money supply and the government budget, how CPF were disbursed, and when. Beyond the purely descriptive information, Figure 1 allows a performance check-list to be applied to the management of CPF in a particular country. This is set out in Figure 4. The check-list builds on the vari-

ous guidelines to set normative standards: for example, there should be evidence of ‘an agreed policy framework’, that commodities sold were ‘valued at the full cif price’, and that they were ‘credited within three months to an agreed account’. A partial example of the application of the principle

Figure 4 The management of counterpart funds: performance indicators

1. Clear statement of budget priorities in project agreement
2. Provision for multi-year agreement
3. Explicit links to other aid
4. Possibility of 'substitution actions' where appropriate
5. Agreed policy framework
6. Regular monitoring schedule
7. Fully accounted in the national budget of the recipient
8. Collected and credited within three months to an agreed account
9. Agreed account a multi-donor account
10. Valued at full cif price
11. CPF account interest-bearing
12. Disbursed within 12 months
13. Management arrangements simple and flexible
14. Ex-post evaluation carried out

of such performance indicators to EC Counterpart Fund accounting practices in the early 1990s is in Figure 5.

A more difficult task is to define performance indicators for bilateral donor contributions to and participation in policy dialogue and Public Expenditure Reviews (PERs), either in general or at the sectoral level. There is a large literature on public expenditure and policy conditionality (Premchand 1990, Ferroni and Kanbur 1990, Mosely *et al.* 1991, IDS 1994); but, so far, rather little has been written on the experience of bilateral donors.

In the case of PERs, an obvious solution would be to identify outcome indicators, at least intermediate indicators like the share of public expenditure devoted to social sectors, and the composition of spending within those sectors (IDS 1994). Unfortunately, this is problematic, for several reasons (IDS *ibid.*, Toye and Jackson 1996): budget allocations may be a poor guide to actual expenditure; changes in taxation may mean that even budget expenditures are a poor guide to overall fiscal impact (for example, higher budget allocations may

be counter-balanced by the introduction of user charges); the share of public expenditure devoted to different sectors says little about the overall level of spending, since the share of GDP in the public sector varies markedly; and, in any case, optimal budget allocations are highly country specific. Although this is the area where most attention has been focused, I think it is a red herring for our purposes.

An alternative approach is to look more closely at the **process** of agreeing policy and public expenditure, in other words to shift down a level in the logical framework, and focus on efficiency rather than effectiveness. Recent literature does suggest that performance standards are available, though policy dialogue remains a complex game between donor and recipient (Mosley *et al.* 1991). The situation has become more complex as policy dialogue has shifted from economic policy to wider political issues (Stokke 1995).

For example, IDS (1994) recommended improvements to the preparation of PERs in relation to poverty reduction: a focus on actual expenditure, as well as *ex-ante* allocations; preparation of the PER

Figure 5 EC counterpart fund accounting practices (based on a sample of 18 countries)

		Number of countries	Per cent of countries
(a) Basic Data			
1	With Food Aid	16	89
2	With SIP/GIP	13	72
3	With SIP/GIP and Food Aid	11	61
(b) Valuation			
At World Price			
4	For Food Aid	9	56
5	For SIP/GIP	10	78
Deductions allowed			
6	For Food Aid	11	73
7	For SIP/GIP	14	33
(c) Management			
8	Multi-year agreement	3	16
9	Ex-Ante Agreement	15	83
10	Management Committee	16	89
11	Special CF Unit	5	27
12	Monitoring and Evaluation	12	67
13	Single EC Account	16	89
14	Meet Food Aid Deposit Deadline	3	19
15	Meet SIP/GIP Deposit Deadline	6	46

Source: Maxwell with Owens (1991: 9).

by recipient country governments; a process to build consensus around public expenditure decisions, perhaps by means of hearings by the legislature; and more distributional analysis of public expenditure, including from a gender perspective (see also Goetz 1995).

Along similar lines, a recent paper for the SPA identifies six criteria for successful sector investment programmes: sector-wide in scope; a coherent sector policy framework; local stakeholders in the driver's seat; all donors sign on; common implementation arrangements; and minimal long-term technical assistance (SPA 1995).

Finally, Foster (1995) has summarized the requirements for successful donor conditionality: 'conditions should be few in number, should usually focus on protecting budget shares rather than absolute spending levels, must be consistent with the budget and with any medium-term budget framework, ought to represent an agreement reached between Government and the donors, and need regular updating' (Foster 1995: 3.14).

An important issue has been about the relationship between bilateral donors and the BWI. Here, too, there are pitfalls. PERs are normally the responsibility of the World Bank, occasionally with limited

donor participation, and this usually in a technical capacity. For example, a donor may fund a member of a mission, who is a specialist in one of the sectors being considered. Foster notes that 'the donor community has generally taken the view that there can only be one adjustment programme, on which the Bank and the Fund lead, and that other donors should not impose conditions going beyond those in Bank and Fund programmes' (*ibid.* 3.15). If a donor is happy with the basic policy orientation of the Bank, there is no problem. If, on the other hand, policy differences do exist, then a donor may find itself generating CPF to support projects of which it does not approve.

The problem of donor coordination has been recognized in the literature on CPF. For example, Goreux (1990) argues that various degrees of involvement in the budget process are possible, ranging from total reliance on the World Bank/IMF, to participation in budgetary supervision, to a more equal partnership in helping to design public expenditure programmes.

This suggests that in many respects, the critical relationship is not the one between the donor and the government of the recipient country, but rather that between the bilateral donor and the Bank. The donor will need its own perspective on the size and content of the budget, and will need to decide how far to participate in a policy dialogue on the topic. This may be at the sectoral level: for example, food aid donors frequently use programme food aid as a vehicle for policy dialogue and conditionality in the cereal sector. However, decisions cannot be left to the last minute, and require continual analysis and evaluation (see also van der Windt 1995).

At the same time, the performance of the recipient Government itself is central to the public expenditure process, as the guidelines in Figure 1 emphasized. One objective for bilateral donors is to ensure that the Government is equipped to prepare PERs. This requires analytical and administrative capacity in the Treasury, not only for budget preparation, but also for *ex-post* accounting.

So, we are left with the question, what would constitute a successful donor performance with regard to the PER process? Figure 6 proposes some indicators. They include: evidence that the donor has satisfied itself that recipient budget processes are policy-related, open, accountable and efficient; procedures for reviewing the budget at general or sectoral level, preferably in conjunction with other donors; and explicit decisions about whether and in what capacity to participate in Bank-led PERs.

6 Conclusion

Unfortunately, recent programme aid evaluations appear to pay relatively little attention to evaluating the effectiveness and efficiency of counterpart funds, either in the narrow sense represented by Figure 4, or in the wider and more interesting sense represented by Figure 6. The published evaluations of programme aid, and those of country experience specifically carried out for the project of which this paper forms part (Rosero and White 1995) contain very little of the information needed to complete Figure 4, and effectively none of that required to complete Figure 6. This may partly be because the evaluation studies did not investigate the issues, but is more plausibly because the topics covered in the two Figures do not form part of the planning and implementation of programme aid.¹

The information that is available suggests that the most frequently reported performance indicator is the collection rate for counterpart funds (item 8 of Figure 4), estimated to be available in one third of evaluations. Otherwise, there is patchy discussion of valuation, accounting and internal management. In some cases, donors have simplified management (and evaluation) by introducing retroactive financing, which obviates the need for attention to collection rates or valuation. But generally, the lesson of the review of current studies is that effectiveness and efficiency evaluations have been neglected by donors. This is a task for the future.

It does seem to be a task worth carrying out, however. To paraphrase Mark Twain, rumours of the death of counterpart fund earmarking are some-

¹ I am grateful to Ricardo Rosero at ISS for carrying out the review on which this and the following paragraph are based.

what exaggerated. Nevertheless, movement is in the right direction, not just in policy statements and guidelines, but also in practice. This simplifies the evaluation process. Less attention can be paid to the nuts and bolts of generating and managing

counterpart funds, more to the larger question of policy dialogue and public expenditure management. Here, however, we have been lacking performance indicators for evaluation. Can we now agree what these should be?

Figure 6 **Participation in the PER: donor performance indicators**

1. Evidence that the donor has satisfied itself as to the adequacy of the Government budget-making and accounting capacity, including the preparation of policy statements and participation by civil society in the public expenditure process, and offered support if necessary
2. A procedure established by the donor for reviewing the size and composition of recipient government expenditure, capital and recurrent and planned and actual, at either general or sectoral level, in relation to its own objectives
3. A procedure established for feeding donor views into Government decision making
4. Evidence that donor views are being communicated to the Government and the World Bank.
5. An explicit annual decision on whether to participate in World Bank - led PER and in what capacity
6. Evidence that aid allocations reflect outcome of the PER and Government budgetary process
7. Evidence of continual updating and review
8. Evidence of donor coordination on the above

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