

## 1 Introduction

Programme aid is an important component of aid. During the years of US domination of bilateral aid, food aid, much of it programme food aid, was a central element of international assistance. As food aid has declined in importance, financial programme aid has become firmly established. In the period 1990-93, financial programme aid (including debt relief) averaged 22 per cent of DAC aid to all developing countries and 28 per cent of that to sub-Saharan Africa; (the figures for 1985-89 are 15 and 22 per cent respectively). What is the role of programme aid and what has it achieved?

A review of the available evidence reveals that the objectives of programme aid are frequently unclear, or, if stated, the mechanisms by which they are to be achieved not spelt out. This state of affairs bodes poorly for evaluation - and indeed there is no agreed framework for evaluating programme aid. The Swedish International Development Agency (SIDA)<sup>1</sup> suggested that it would be useful to review current practices in this area, as basis for future methodological development. A workshop at the Institute of Social Studies in The Hague was the result. This **Bulletin** sets out a new approach to the methodology of programme aid evaluation and the programme aid evaluations of seven donors (Denmark, European Union, Japan, the Netherlands, Norway, Sweden and the United Kingdom) are reviewed. It also considers how to evaluate the poverty impact of programme aid.

## 2 What is Programme Aid?

Different terms - programme aid, balance of payments support and import support - are often used interchangeably. Properly speaking, they are not so. As shown in Figure 1, BOP support is a sub-set of programme aid and import support a sub-set of BOP support. In addition to BOP support, programme aid also includes budget support and BOP support also includes debt relief (see discussion of debt relief in articles by White and Addison). It is also important to distinguish financial aid from food aid. Programme food aid has a long history from the Marshall Plan to the current day.<sup>2</sup> It has also

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<sup>2</sup> See the discussion in Clay (1995).

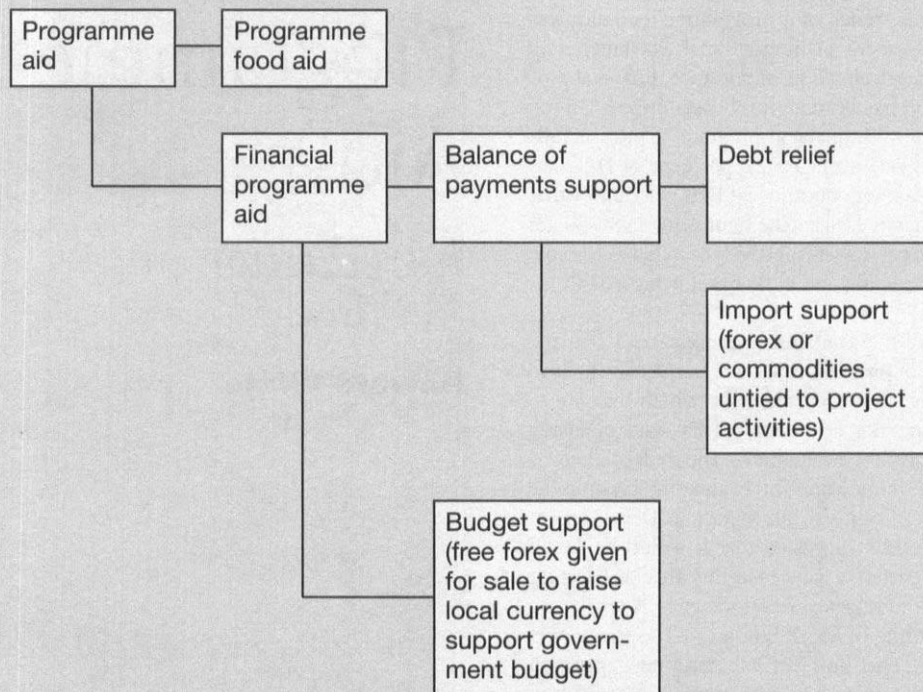
# Evaluating Programme Aid

## *Introduction and Synthesis*

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Table 1 Definition of programme aid and balance of payments support



been recognized that, despite the imposition of usual marketing requirements (UMR), food aid partially displaces commercial imports so that even non-programme food aid is in part effectively a gift of untied forex. The papers from the workshop are concerned with financial programme aid, but this paper will draw also on the experience from programme food aid.

The common feature of all these types of aid is that they are not intended to finance the activities of a specific project, this aspect being the core of the definition given by DAC's **Principles for Programme Assistance**: 'Programme assistance consists of all contributions made available to a recipient country for general development purposes i.e. balance-of-payments support, general budget support and commodity assistance, not linked to specific project activities.' (OECD 1991: 5) The DAC's classification of programme aid makes a further distinction between general programme assistance and sector programme assistance (OECD 1991: 21).

Here the main features of these different forms of programme aid are described with a short overview of their quantitative significance.

## Types of programme aid

### Budget support

Budget support is the donation of forex which is sold to raise local currency to support the government budget. The donor may specify sectors of the budget (e.g. health and education) which it would like to see supported by the aid (but not, of course, specific project activities). No limitation is placed by the donor on the use of the forex, which will be sold through the Central Bank.

### Modalities of import support

Import support may be classified into three types: (i) commodity aid (often called commodity import support, CIS), which may or may not be project specific<sup>3</sup> (see following page for footnote); (ii) Open General Licence (OGL) systems; and (iii) retroactive financing. Each of these is discussed in turn.

Commodity support provides either specified commodities or funds for the purchase of these commodities. In some cases the commodities may be destined for use in a particular project. In others, such as maize or fertilizer, they may be intended for sale through government distribution networks (or by government to the private sector for distribution). In more recent years, donors have refrained from specifying the commodities to be imported, using instead a positive list of items for which the funds may be used. Access to the foreign exchange to procure these imports has been administered by government. Such systems fitted well in allocative forex mechanisms common in much of sub-Saharan Africa prior to forex market liberalisation under adjustment.

However, allocative systems have come to be seen by most donors as open to abuse and a potentially major distortion to the market allocation of resources. As recipients have moved toward more market-based forex systems, donors have shifted toward a mechanism known as Open General Licence (OGL). OGL systems in general operated with negative lists - schedules of goods which may not be imported with the funds - rather than the more restrictive positive lists used with CIS. Experience in implementing these schemes has made them more liberal over time, including the use of retroactive allocation of funds to imports which have already taken place. Import support may also be retroactive financing of imports already made outside of the OGL system - being accounted against items such as oil and maize.

### Debt relief

There are two relevant issues that an evaluation of aid for debt relief should cover. First, the receipt of debt relief is usually conditional upon adoption of a reform programme - so that an evaluation of BOP support should look at the implementation of that programme and its effects. Second, the macroeconomic impact of the debt relief should be considered. These issues are pursued later in this paper.

### A word on counterpart funds

Counterpart funds are the funds raised by the sale of the forex or commodities.<sup>4</sup> In the case of budget support, the donor is interested in the use of the local currency and not the forex. In the case of BOP support the donor's concern is the balance of payments, and also to worry about the use of the local currency is dubbed double tying. Nonetheless, evidence that aid-financed commodities were used to subsidize ailing parastatals, or even for political patronage, drew donor attention to the collection of countervalue at a market rate. Some donors go further to specify the use of these funds once collected. Thus, despite DAC guidelines to the contrary, Maxwell concludes that 'rumours of the death of counterpart fund earmarking are somewhat exaggerated'.

Hence counterpart funds raise for the evaluator similar issues to budget aid. First, were the mechanisms by which the foreign exchange was converted to local currency transparent and free from undesirable distortions? Second, what has been the impact of the local funds on the level and composition of government expenditure? Third, what has been the incidence of these changes on government expenditure (who has benefited?) and with what impact on macroeconomic performance and welfare?

### Does the type of programme aid matter?

A recent ODA document argues that 'the macroeconomic impact of providing balance of payments support is identical to that of providing budgetary support' (ODA 1995: para. 2.4). Is this so? From the donor's point of view the label attached to the aid does matter as it directs their attention to a particular sphere - toward the foreign exchange sphere for balance of payments support and to fiscal behaviour and budgetary mechanisms for budget aid. The design of agreements and the content of evaluation reports will vary according to what the aid is called. But does the impact of the aid vary according to its name? It **will** do so **provided** donor efforts to promote reform reap any reward.

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<sup>3</sup> Some import support may therefore not really be programme aid, as it violates the condition of not being targeted at a particular project.

<sup>4</sup> A stricter definition of counterpart funds adds the condition that they should be local monies over which the donor retains some control. However, at least in name - if not in practice - many donors refrain from tying these funds - hence they would not qualify as counterpart funds by this definition, even though the donor may be legitimately concerned with their effects.

## The importance of programme aid

The DAC figures show a trailing off of programme aid in the 1990s (Table 2). But these figures exclude debt relief, which has risen from around 2 per cent to over 10 per cent of total aid between the mid 1980s and the early 1990s. In the case of sub-Saharan Africa the share of debt relief in total DAC aid reached 17 per cent in 1994, so that programme aid inclusive of debt relief was one third of all aid to the continent in that year.

The share of programme aid in the aid budget varies not only by recipient but also by donor. Around one quarter of Sweden's aid to its programme countries has routinely been programme aid, whereas such flows have only once exceeded ten per cent of Danish aid. And whilst programme aid has maintained its share of the Swedish aid budget, it has fallen in recent years for other donors (Denmark, Norway and the UK), but risen quite sharply for Japan. The composition of programme aid has also changed. One development already noted is the growth of debt relief, which has been very marked in the Japanese case. The shift away from commodity import support to more liberal mechanisms for import support are also evident in the data for Denmark and Japan (the only two cases for which the data allow such a breakdown).

## 3 Evaluating Programme Aid: Concepts and Issues

The distinction between monitoring and evaluation can refer either to the stage or the depth of the analysis, or both. In the former case, monitoring is a regular process throughout the life of the project,<sup>5</sup> whereas evaluation is carried out on completion of the project (or even three to five years later). This distinction may be related to the second possible difference, which concerns the depth of analysis, as monitoring is more concerned with efficiency and effectiveness, and evaluation with impact. It is to these concepts that I now turn.

<sup>5</sup> The term project is used here, even though the evaluation of programme aid is the subject of discussion. These techniques have, as a rule, not been applied to programme aid, and the difficulties of so doing are discussed below.

## The Logical Framework

Many donors use the logical framework (often called the log frame) as a tool in project planning and design. The log frame is intended to ensure that project design is internally consistent - that is, that the project activities are in tune with the stated objectives. The framework consists of four stages: (i) inputs; (ii) activities; (iii) outputs; and (iv) objectives. Objectives consistent with recipient and donor priorities should first be set (e.g. higher economic growth, increase maize yields, and raise incomes of rural landless), and then outputs identified which will help realise these objectives (e.g. increased investment, increased use of high yielding varieties, and creation of short-term, low value credit facilities).<sup>6</sup> Next the activities needed to generate these outputs can be planned (financial market liberalization, expanded coverage of extension services, and promotion of rural-based financial institutions), and the required inputs listed (revised legal framework, provision of training and vehicles, and capital for fund to underwrite risk).

The advantage of the log frame is that it encourages clear identification of objectives, and that project activities are related to these objectives. As discussed below, this is a focus that many donors would have done well to apply to programme aid. However, with one exception, donors have not used the logical framework for programme aid. The exception is the European Union, which, as described by Caputo (1996) has tried to apply the log frame in the evaluation of their balance of payments support - the following discussion draws on this experience. Caputo also points to the disadvantage that the log frame can have in imposing an over-rigid framework for analysis: 'some of the evaluation teams found that a pressure in this sense had been very energy consuming and detrimental for evaluation results'.

The terms efficiency, effectiveness and impact refer to processes linking the stages of the log frame. Hence, efficiency refers to how well inputs are used in carrying out activities and effectiveness to the extent which these activities produce the desired outputs.

<sup>6</sup> The distinction between outputs and objectives may not be so hard-and-fast as suggested in this discussion. Addison (1996) distinguishes between immediate objectives and long-term objectives; these two concepts may often correspond to outputs and objectives respectively - but again there is a grey area.

Table 2 Share of financial programme aid in bilateral aid for selected donors (per cent)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
<b>Denmark</b>										
Total	-	-	-	9.0	10.0	8.0	12.0	9.0	6.0	5.0
o/w CIS	-	-	-	8.5	9.1	7.6	7.8	6.0	2.3	1.9
OGL and credit lines	-	-	-	0.5	0.9	0.4	0.7	1.4	1.7	2.3
Debt relief	-	-	-	0.0	0.0	0.0	3.5	0.5	1.1	0.5
Co-financing SAPs	-	-	-	0.0	0.0	0.0	0.0	1.0	0.9	0.4
<b>Japan</b>										
Total	-	-	-	8.3	21	23.1	22.5	17.6	20.6	-
o/w Commodity loans	-	-	-	5.3	10.2	15.6	10.4	3.1	0.2	-
Structural adjustment	-	-	-	0.3	7.2	3.2	9.4	7.7	3.5	-
Debt relief	-	-	-	2.7	3.6	4.3	2.7	6.8	16.9	-
<b>Norway</b>										
Total	24.9	23.4	17.3	18.2	9.4	16.7	12.0	8.0	5.6	8.2
<b>Sweden</b>										
Total <sup>1,2</sup>	23.0	29.0	25.0	25.0	22.0	26.0	25.0	25.0	21.0	-
<b>UK</b>										
Total <sup>1,3</sup>	-	-	-	16.0	18.0	15.0	12.0	13.0	11.0	-
<b>DAC: All Developing Countries</b>										
Total	13.0	15.0	16.0	17.0	21.0	26.0	25.0	16.0	22.0	-
o/w Programme aid	11.0	13.0	13.0	13.0	17.0	21.0	15.0	8.0	9.0	-
Debt reorganization	2.0	2.0	3.0	4.0	4.0	5.0	10.0	8.0	13.0	-
<b>DAC: Sub-Saharan Africa</b>										
Total	11.0	18.0	18.0	26.0	25.0	31.0	24.0	24.0	33.0	-
o/w Programme aid	8.0	15.0	14.0	16.0	15.0	14.0	13.0	16.0	16.0	-
Debt reorganization	3.0	3.0	4.0	10.0	10.0	17.0	11.0	8.0	17.0	-

Notes: <sup>1</sup>Financial years (1985 is FY 85/85 etc.); <sup>2</sup>aid to programme countries only; <sup>3</sup>excludes debt relief which was just under one per cent in most years.

Sources: Tarp and Kragh (1996), Sakamoto (1996), Norbye (1996), de Vylder (1996), Healey (1996) and DAC Geographical Distribution of Financial Flows to Developing Countries (various).

The achievement of objectives is the subject of impact analysis. A fourth area, relevance, pertains to how meaningful are the objectives in a country's current circumstances (e.g. what does the objective 'relieving the foreign exchange constraint' mean in a country with a flexible exchange rate regime?). For each of these four areas indicators can be developed to assist the donor in monitoring and evaluation.

### Putting Programme Aid in the Log Frame

How can these concepts be applied to programme aid? The first important decision is whether to evaluate the impact of the reform programme supported by the programme aid, the programme aid funds themselves or both. The practice of some donors (e.g. Japan, the United States and the World Bank) has been just to evaluate the reform programme. Some participants of the workshop defended this view, arguing that policy change is the main channel for the beneficial effects of this type of aid. But some countries have received very substantial volumes of programme aid. These funds could have been put to other uses (e.g. primary education) or given to other countries. We should want to know what effects this money is having. Conceivably, the reform programme can be supported by donors by attaching conditionality to other flows. Or we can ask why donors should anyway pay a country to implement a programme that is supposed to be (i) owned by that country; and (ii) for that country's benefit. If the answer is that the adjustment process requires financing we are brought back to the fact that we should therefore evaluate how well it has done so.

A second argument is that we should not evaluate impact, as such an activity requires modelling of a complexity beyond the scope of a simple evaluation. Rather, evaluation studies of programme aid should focus on collecting indicators of efficiency and effectiveness. However, the modelling effort required for evaluating programme aid is no greater than that for a proper social cost-benefit analysis.<sup>7</sup> If donors are to evaluate programme aid as a coordinated effort - one area of agreement in the workshop discussions - then impact evaluation should not be beyond them.

Section 4 discusses the details of the evaluation of programme aid at all levels of the log frame, dealing in turn with the effects of policies and funds. Table 3 provides a summary overview.

## 4 Issues in the Evaluation of Programme Aid

### Defining the Objectives of Programme Aid

The first lesson from the country case studies is that donors have not been clear on the objectives of this aid - certainly with respect to the purpose of the funds and often equally to the reform programme - with adverse consequences for evaluation. For example: 'before discussing any evaluation methodology there must be clarity on what to evaluate' (Eeckhout *et al.* 1996: 11); 'the programme's aim should be clearly identified' (Sakamoto 1996: 65); and 'the first task in evaluating either programme or project aid is to identify the channels through which it affects poor people' (Addison 1996: 80).

The paper by Eeckhout *et al.* on Dutch aid devotes considerable attention to the disjuncture between the objectives of programme aid and the focus of evaluations. First, they argue that the objectives of programme aid have changed between the pre-adjustment period and the adjustment period. In the earlier period the objective was the micro/meso one of supporting sectors suffering from a forex constraint, but since the adoption of adjustment programmes the objective has been support for reform. However, according to Eeckhout *et al.* evaluation methodology has not changed accordingly. More specifically, the authors identify three objectives against which programme aid should be evaluated: (i) achievement of stabilization and growth; (ii) progress in policy reform; and (iii) creation and sustainability of new market institutions. The last of these has been dealt with through the Joint Evaluation Missions (JEMs) - but by coincidence rather than design. The JEMs have been concerned with efficiency and effectiveness: as programme aid has become more market-based, then analysis of these issues has meant an analysis

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<sup>7</sup> Of course, most donors do not practice proper cost-benefit analysis. For a rather sad assessment of the state affairs at the World Bank - which is probably better than most other donors in this regard - see Little and Mirrlees (1991).

**Table 3 Log frame evaluation stages of programme aid**

	<b>Reform programme</b>	<b>Programme aid funds</b>
<b>Relevance</b>	Government commitment to reform process	Binding recurrent constraint (forex or fiscal)
<b>Impact</b>	Policy-induced change in macroeconomic performance and welfare	Change in level and composition of imports and government spending, and consequent effects for macroeconomic performance and welfare
<b>Effectiveness</b>	Market structure	Market structure and auditing procedures
<b>Efficiency</b>	Speed and openness of reform process	Donor procedures

*Note:* Table constructed in relation to growth objective only.

of forex (and, to a lesser extent, credit) market institutions. However, the JEMs **cannot** be said to have fulfilled a monitoring function as of the seven countries which have received JEMs only three have had more than one such mission.

In addition to these questions, Dutch evaluations have assessed programme aid against the major policy objectives for Dutch aid: combating poverty, enhancing women's emancipation, and protecting the environment. This focus contrasts with the Swedish experience: de Vylder notes that the terms of reference for evaluations have increasingly focused on macroeconomic issues, and no evaluation has addressed gender issues. Which is the right approach? I would argue that the objectives of programme aid - and thereby also the reform programme - should be defined so as to embrace the aid's social effects.<sup>8</sup>

The use of the log frame allows for identification of both objectives and outputs, which permits specification of indicators by which performance can be measured. In the case of adjustment programmes de Vylder argues that the expected macroeconomic outcomes provided in the Policy Framework Paper (PFP) should be seen as target performance levels

and treated as such but they are not (1996). As de Vylder says, no comparison of these predictions is made against outturns in any systematic way.

The paper in this volume by Maxwell (1996) provides a list of performance indicators for monitoring the management of counterpart funds, and a further list for donor participation in public expenditure reviews. From the experiences reported in the workshops, it is clear that most donors are not even monitoring these efficiency and effectiveness indicators on a routine basis - let alone any indicators related to impact. Sakamoto's paper (1996) appeals for a clear listing of impact indicators related to the programme's expected effects; whilst Sakamoto lists possible macroeconomic indicators (such as export growth and inflation) it is clear that social indicators (such as infant mortality or child and infant anthropometric measures) should be added to the list.

In response to the suggestion that monitoring should cover social aspects it often responded that 'the data are not available'. But the collection of such data is no less conceptually or practically difficult than the macroeconomic aggregates to which considerable resources are devoted. Moreover, existing

<sup>8</sup> It is important, however, to bear in mind the warning that Clay gives with regard to programme food aid of attempting 'to load a complex mix of conditions on a single instrument'

(1995: 357). Nonetheless, donors **do** believe programme aid will affect all these things, so that the channels should be made explicit.

preventive health schemes and early warning systems for food security can provide the data for monitoring of welfare indicators. Addison's paper provides a full discussion of the relevant variables and how they may best be monitored.

### Evaluating the Reform Programme

The reform effort is monitored directly by the World Bank, as the release of successive tranches is conditional upon fulfilling the policy conditions attached to the credit. Other donors take their lead from the Bank, although most retain the option for an independent assessment of the situation.<sup>9</sup> In practice the option for independent action on an economic policy basis is not exercised (see, for example, Tarp and Kragh 1996 on Denmark and Renard and Reyntjens 1995 on Belgium) - indeed, an individual bilateral donor's influence on macro policy is determined by their relationship with the IFIs rather than with the recipient. To the extent that existing evaluations discuss the effect of programme aid through the reform programme they mostly just list the policy changes which have been implemented. But from an analytical point of view the programme aid cannot be said to have **caused** these changes.

Discussion of the analysis of adjustment policies has identified three methodological approaches: (i) before versus after; (ii) control group approach; and (iii) modelling (see, for example, Mosley *et al.* 1991, and White 1994: Ch. 2). What we are interested in is: what would policies be now if the support had not been received, but all other factors had remained constant? i.e. the counterfactual, or, as economists say, with versus without. The construction of the counterfactual is no easy matter, and depends upon a combination of political and economic analysis: if donors want to evaluate the policy impact of programme aid the evaluation team should include political scientists as well as economists. Economics is important since the macro position of the economy would be different in the absence of the support and policy would have to adapt to those different conditions.<sup>10</sup> But clearly

an analysis of the politics of the situation is also required. A major objective of evaluation is to provide lessons for future support. But this is particularly problematic. Even if we conclude that the programme would not have been implemented without the support is this an all or nothing statement; or could, say, only half as much have been given and the reform programme still been sustained? These are difficult questions to answer, but the answers are crucial for those allocating aid to different uses.

There is literature and experience that may be drawn upon to make such an analysis. First, there is the experience of programme food aid (see Clay 1995, for a discussion of food aid and conditionality). The second area that can be drawn upon in evaluating aid's effect on the reform process is the political economy of economic reform (see, for example, the papers in Widner 1994a).<sup>11</sup> The evaluation teams for programme aid have to date entirely been composed of economists and accountants - a fact decried in de Vylder's paper. In the same paper de Vylder also comments that, 'it is, in my view, to be regretted, that the TOR for the evaluations in no single case asked for at least a tentative analysis of the "political economy of economic reform"; after all, structural adjustment is about politics.'

So, although the evaluations of many donors focus solely on the reform programme, they in fact stop short of analysing the extent to which that programme has depended upon programme aid. Rather they analyse the effects of those policies on the economy. Here we are on much more well worn ground - there is a growing literature on the impact of adjustment policies, both in general and at country case studies. In conducting the analysis the importance of achieving a with versus without analysis should be borne in mind. Many studies in the academic literature do **not** adopt such an approach (see the review in White 1996) and much of the evaluation literature follows the same route - indeed two of the papers from the workshop

<sup>9</sup> So far as I am aware, only the UK disburses automatically once the Bank has done so.

<sup>10</sup> This fact is embodied in the policy reaction function of the modified control group approach. However, application of the approach to a single country would almost certainly be invalid.

<sup>11</sup> See also the papers in Stokke (1995) for a discussion of political conditionality, although some authors also deal with the effectiveness of economic conditionality.



(those by Caputo and Sakamoto) advocate the before versus after methodology that is to be found in most evaluations.

### **Coordinated evaluation efforts**

A final point is, who should do the evaluation? It is readily apparent that it makes no sense to evaluate the programme aid of a single donor. As programme aid must be evaluated as a whole, it makes sense that the evaluation itself should be a collective exercise - the joint evaluation missions are a recognition of this fact. Most donors have put their faith in the World Bank to evaluate the reform programme, and the DAC Principles for Programme Assistance state that evaluations should include the Bank. However, a review of available studies suggests that the Bank has failed to address the question of the link between aid and reform and, in its country studies, presents often weak analysis of the subsequent link from reform to results. Finally, the Bank's evaluations pay no attention to the macroeconomic impact of the programme funds. Donors would thus do well to take responsibility for evaluating their own programme aid.

At the ISS workshop some participants were sceptical of the possibility of coordinated evaluations. However, there is a spectrum of coordination, along which the following activities were identified: (i) sharing the timetable of planned evaluations; (ii) distributing TORs for forthcoming evaluations for information and/or feedback; (iii) agreeing a common TOR for evaluations; (iv) sharing information used in evaluations; (v) discussing evaluation results with other donors; (vi) joint evaluations. The framework for these joint activities exists through the SPA.

### **Evaluating the Impact of Programme Aid Funds**

The bulk of the analysis of aid effectiveness is conducted at the microeconomic level through the use of cost benefit analysis. There is also a literature analysing aid's macroeconomic impact, particularly the link between aid, growth and domestic savings and, more recently, fiscal behaviour and the real exchange rate. But much of the latter literature is flawed (White 1992a and 1992b) and, anyhow, conducted at too aggregate a level to assist us in the macroeconomic analysis of programme aid. That is, most models treat aid as an aggregate with no

allowance for differential macroeconomic impact from different types of aid (there are a few exceptions e.g. Doriye and Wuyts 1992; and White 1994: Ch. 4). There is also a tradition of modelling the impact of food aid, using techniques up to and including CGEs (e.g. Roth and Abbot 1990; and Hoffman *et al.* 1994) which may offer insights for the evaluator in search of experience and methodology.

Despite these caveats, programme aid thus rests uneasily between the established areas of analysis. Its main rationale is macroeconomic, but little has been done to develop appropriate tools for the analysis. To the extent that existing evaluations have looked at macroeconomic impact (e.g. those by Doriye *et al.* 1993; and Bhaduri *et al.* 1993, both on Tanzania) they have been concerned with all aid, rather than balance of payments support *per se*. What passes for macroeconomic analysis in other studies is merely descriptive (e.g. ratio of import support to total imports).

Many evaluations have restricted their focus to the microeconomic level - analyzing the commodities imported with the import support and the effect on capacity utilization in beneficiary firms (e.g. Skarstein *et al.* 1988). Microeconomic analysis of import support is, however, of dubious validity because of the problem of fungibility. However, there are three reasons for conducting micro level analysis. First, the aid may not be fully fungible - though whether it is or not is a macro issue. Second, as argued by Cassen (1986), donor involvement in the activity may change the nature (hopefully improve the quality of) that activity. Finally, and more practically, donors must be able to pin their funds to some goods or activity.

The rationale for programme aid is macroeconomic and the ultimate evaluation of its effectiveness must be made at the macroeconomic level. The most appropriate methodology would be macroeconomic modelling - as Carlsson *et al.* say 'single-country simulation models probably offer the best technique for isolating the impact of aid flows' (1994: 107; see also White 1992a: 227-228). However, we are confronted with limited data in an often unstable economic environment, so that estimation of parameter values becomes an impossible

task.<sup>12</sup> In the absence of an agreed methodology, the evaluator must resort to a series of *ad hoc* procedures. One of the few studies to tackle these issues is that of Mwanawina and White (1995) on Zambia, in which the analysis of the relationship between balance of payments support and the level of imports is carried out with a decomposition of the accounting framework for the sources and uses of forex. This framework also provides the basis for the construction of model of fungibility for a counterfactual analysis of both the level and composition of imports. These techniques are discussed in the paper on macroeconomic analysis in this volume.

It is only by capturing the effect of, say, BOP support on the availability of forex, and the use made of that increased availability that we can move to a discussion of wider macro effects (on investment, growth etc.). Even if we manage to establish the link from aid to certain groups of imports (capital, intermediate and consumer), the link from each of these to growth must also be established. For example, in some circumstances capital imports may even be detrimental to further growth, whereas, on account of incentive goods effects, consumer imports can be beneficial.

One issue of macroeconomic concern that is frequently discussed in evaluations is that of the possible inflationary impact of counterpart funds. For this aspect of the impact of BOP support the methodological issues have been clearly laid out by Bruton and Hill (1991), though the appropriate use of counterpart funds remains a topic of debate.

### **The macroeconomics of debt relief**

There are two important issues in discussing the macroeconomic effects of debt relief: (i) whether the debt would have been paid in the absence of the debt relief and (ii) if there is a debt overhang. These two aspects are shown together in Table 4.

If the recipient would not have paid the debt in the absence of the relief, then the relief does not directly

contribute any new resources. If properly accounted, the debt relief flows in on capital account (if a loan) or current account (if a grant) and the inflow is immediately offset by an equivalent outflow on either or both capital account (for relief on principal payments or capitalized interest arrears) and current account (for relief on interest payments). On the other hand, to the extent that the recipient would have paid the debt, then the relief is equivalent to free forex (since the money that would have been used in payment is now available for alternative uses).<sup>13,14</sup>

Debt overhang is the notion that investment is constrained by high levels of debt, a mechanism which can operate through several channels (see Borensztein 1990; and Serven and Solimano 1992: 107). Hence, reducing the debt burden may stimulate both foreign and domestic investment in the recipient country, even if the debt relief itself directly provides no additional funds. Aid will **not** alleviate debt overhang either if there is no problem of overhang in the first place, or if there is a problem but the relief is insufficient to eliminate it.

The impact of debt relief may also vary according to the modalities of the relief, in particular depending on whether there is a local currency payment to be made, the rate used to value that payment and the conditions attached to its use (including NGO-financed debt for nature or debt for development 'swaps'). Different forms of debt relief are discussed in Faber (1992) and van Kersten (1994).

### **Budget support, counterpart funds and fiscal behaviour**

Although budget support and counterpart funds are differentiated by the donor's focus on local currency and forex respectively, the analytical issues they raise for the evaluator are identical. Most of the discussion has focused on the potential inflationary impact of spending local currency raised by the sale of forex donated by donors. The issues involved here are summarized in Bruton and Hill (1991) (see also the paper by Maxwell in this volume).

<sup>12</sup> White and Edstrand (1994) report the difficulty of finding non-spurious macroeconomic relationships in the case of Zambia, which is ascribed to the frequent changes in policy regime.

<sup>13</sup> This argument is, of course, just a statement of fungibility.

<sup>14</sup> Construction of a counterfactual balance of payments, as discussed in the next paper, requires projections of debt payments. Such projections can be made with the debt management software now available in many countries - but the expertise requires another addition to the evaluation team or, better still, a link with the appropriate office in the recipient Ministry of Finance.

**Table 4 The macroeconomic effects of debt relief**

		Would recipient pay debt in absence of debt relief?	
		No	Yes
Does the relief alleviate debt overhang?	No	No effect	
	Yes	Stimulate investment	Increase in free forex and stimulate investment

There has been far less attention paid to the impact of the local currency receipts on recipient fiscal behaviour.<sup>15</sup> A partial exception has been the EU, which has 'soft tied' countervalue to budget lines in the social sectors - a policy that Caputo says has been of 'doubtful effectiveness'. But existing evaluations do not explore the impact of the programme aid on revenue, borrowing and overall government spending or consider the composition of expenditure. There is an established academic literature in this area (a recent review being in White and Luttik 1994).

## 5 Conclusions: Where to Go from Here?

The papers presented here demonstrate a need to further develop our understanding of how to evaluate programme aid. But what exactly to evaluate or how to go about it? All are agreed on the need for evaluating the reform programme. Most donor agency officials agree that this task cannot be left to the IFIs. Most accept that the impact of the reforms must be examined using a with versus without methodology, which precludes the use of before versus after. However, it is not commonly

understood that the same analytical precision needs be applied to implementation of the reform programme itself, not only its effects.

There is mileage to be had - for both the quality of programme aid and evaluations of that aid - from a more systematic examination of the rationale and objectives for programme aid, and the channels through which these objectives are to be achieved. The log frame is likely to prove a useful tool in this regard, as it will be in the development and agreement of indicators for the monitoring and evaluation of programme aid.

Over the next year more donors are going to be using budget support as their preferred form of programme aid. Such a move fits better with donors' concern for the poor, and makes it easier to hold the recipient government accountable than does the import support destined for the private sector. But donors need better studies on incidence (Healey 1996) and an understanding of how public expenditure can benefit the poor (Addison 1996). Public expenditure reviews (PERs) have a vital role to play here, though the responsibility for effective public expenditure must ultimately lie with the recipient.

<sup>15</sup> Questions of fiscal impact must be resolved to determine any potential inflationary impact. But evaluations have failed to implement the 'Bruton-Hill' framework and so not had to confront the issue.

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