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**Dates:** 5/12/1993 – 12/16/1994

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**Fonds:** Records of the Office of the Chief Economist

**ISAD Reference Code:** WB IBRD/IDA DEC-03-06

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Washington, D.C.

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Agency for International Development (AID) - Effectiveness

AID

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: December 16, 1994 08:38am

TO: Michael Bruno

( MICHAEL BRUNO )

FROM: Mark Baird, DECVP

( MARK BAIRD )

EXT.: 31666

SUBJECT: Development Effectiveness

See attached for information.

CC: Paulo Vieira Da Cunha

( PAULO VIEIRA DA CUNHA

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: December 16, 1994 08:36am EDT

TO: CONSTANCE HOPE ( CONSTANCE HOPE @A1@ED

FROM: Mark Baird, DECVP ( MARK BAIRD )

EXT.: 31666

SUBJECT: Development Effectiveness

Constance:

We would be happy to provide a briefing on development effectiveness, as requested by Ms. Jacoby, to the Board Committee on Operations Evaluation and Development Effectiveness (COEDE). The briefing could cover the following four topics:

- the concept(s) of development (or aid) effectiveness and related issues from the Development Committee paper (myself or Debbie Wetzel);
- PRD's proposed research program on selected issues of aid effectiveness (Lyn Squire or someone from PRD);
- the Bank's approach to development effectiveness: follow-up to the Wapenhans Report (Jan Wijnand or someone from OPR); and
- OED's approach to evaluating the development effectiveness of Bank projects (someone from OED).

We would welcome an opportunity to discuss with Ms. Jacoby how she would like to package the briefing to best meet her needs. Some of these components may have already been covered (eg in OED's recent Board presentation), while there may be other topics of more relevance to COEDE's agenda.

Please let us know when this will be scheduled. We will need some lead time to prepare. I presume that a formal request will eventually come through the MDs.

Mark

CC: Lyn Squire ( LYN SQUIRE )  
CC: James W. Adams ( JAMES W. ADAMS )  
CC: Jan Wijnand ( JAN WIJNAND )  
CC: Deborah Wetzel ( DEBORAH WETZEL )  
CC: HANS-EBERHARD KOPP ( HANS-EBERHARD KOPP @A

P/s. Forward to. m. Bawed  
D. Wetzel  
p.v.c.

2 return

A L L - I N - 1 N O T E

DATE: 08-Dec-1994 11:00am

TO: See Distribution Below

FROM: Geoffrey Lamb, EXTLD

( GEOFFREY B. LAMB@A1@WBWASH )

EXT.: 32936

SUBJECT: Heads-up: The Economist and "does aid work?"

Just to let you know that there's likely to be an Economics Focus in The Economist tomorrow drawing on a recent LSE paper (which I haven't yet seen), which applies some econometric tests to whether aid has raised the aggregate level of investment, or directed more resources to the poor, and generally concludes that it hasn't. Interestingly, the paper apparently concludes on a "good governance" type note, i.e. that it's best to give aid to buttress good governments, because aid won't make much difference if governments are bad/incompetent.

Zanny Minton Beddoes, who's doing the piece, called me on my way to the airport yesterday for "intellectual input" (sic). I did my best, not having seen the paper but intuitively agreeing with some of its findings, to (a) nuance the argument, which sounded a bit simplistic, and (b) differentiate the role of the Bank from the generality of aid. Let's see with what success.

There should also be a separate, favorable piece about the Bank in the same issue, incidentally.

DISTRIBUTION:

TO: Mark Malloch Brown  
TO: Paula Donovan  
TO: Timothy Cullen  
TO: MICHAEL BRUNO  
CC: ELISA LEUNG

( MARK MALLOCH BROWN@A1@WBWASH )  
( PAULA DONOVAN@A1@WBWASH )  
( TIMOTHY CULLEN@A1@WBWASH )  
( MICHAEL BRUNO @A1@WBHQB )  
( ELISA LEUNG @A1@PARIS )

2  
Baird  
L. H. C.  
P. C.

A L L - I N - 1 N O T E

DATE: 08-Dec-1994 10:22am

TO: MICHAEL BRUNO

( MICHAEL BRUNO @A1@WBHQB )

FROM: Guy P. Pfeffermann, CEIED

( GUY P. PFEFFERMANN@A1@WBWASH )

EXT.: 30786

SUBJECT: For information

In case you might need background on aid effectiveness for the next WDR. Best regards, Guy.

A L L - I N - 1 N O T E

DATE: 08-Dec-1994 00:00am EDT

TO: gpfeffermann

( gpfeffermann@worldbank.org@INTE

FROM: Robert Cassen,

( cassen@vax.ox.ac.uk@INTERNET )

EXT.:

SUBJECT: Re: Your EM

Thanks - it's good to know what you're up to! Try to contact us in September; though I'm sure we'll - or at least I will - be in Washington before that.

Can I ask you something? I have been toying (actually more than toying, discussing with various people) with the idea of getting a study together on the lines of my (best-selling!) Does Aid Work?, only about the FSU and maybe one or two E.European countries. Would anyone be interested in such a study, to the point of putting up some money for it?

When we did D.A.W.?, the donors were really troubled about aid effectiveness, and willing to fund our work. I have a suspicion that while there is a lot of concern about FSU countries today, there is also a lot of defensiveness, and it might not be so easy to do. Anyway, I would really welcome your thoughts, and also any ideas about who else to talk to about it.

If the study were to be done, there'd be a lot of work on privatization and I'd have to pick your brains. Maybe we could cooperate on it!

All the best

Robert

Robert Cassen

Fax 44-865-273607



RFC-822-headers:

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id <01HKCXPOBR7K9FOBXE@worldbank.org>; Wed, 07 Dec 1994 10:37:17 -0500 (EST)  
Received: from pc18.qeh.ox.ac.uk by oxmail.ox.a.uk with SMTP (PP)  
id <25817-0@oxmail.ox.ac.uk>; Wed, 7 Dec 1994 15:34:37 +0000  
Date: Wed, 07 Dec 1994 15:36:36 +0500  
From: Robert Cassen <cassen@vax.ox.ac.uk>  
Subject: Re: Your EM  
To: gpfeffermann <gpfeffermann@worldbank.org>  
Message-id: <01HKCXPPY5TU9FOBXE@worldbank.org>  
X-Envelope-to: "GUY P. PFEFFERMANN"@a1.worldbank.org  
X-Mailer: Pegasus Mail/Windows (v1.11a)  
Priority: normal

October 7th, 1994

To: Michael Bruno

Re: Meeting on Aid Effectiveness Paper

Michael,

The objective of this meeting with the DEC directors on the aid effectiveness paper prepared for the Development Committee (attached) is twofold: first, to receive feedback on the paper; second, to discuss and reach consensus on further dissemination.

The response to the paper has so far been positive. I haven't had any comments from the directors directly, but Mark may have received comments from them on an informal basis. You may wish to start the meeting by asking the directors for their views on the paper. Mark will also be able to brief us on the discussion of the paper at the Development Committee Meeting.

Regarding dissemination, we feel that given the importance of the topic, it would be useful to get the main points of the paper out to a broader audience. We have been considering two alternatives, which are not mutually exclusive. The first, is to revise the paper as necessary and submit it to the World Bank Discussion Paper series. The second is to prepare an article for Finance & Development. This would have to be much shorter, punchier and more journalistic. I have spoken with one of the Editor's and am working on a draft. It would be useful to have agreement among the Directors that submitting the paper to the Discussion Paper series is appropriate and that is worthwhile submitting an article on the subject to Finance & Development. We may also wish to ask for any ideas that they may have on other alternatives for dissemination.

Please let me know if you need any further information.

Debbie

Attachments

cc: w/o attachments: Baird, Vieira da Cunha

10/11 Tues. 4:15:59021

Aid Effectiveness  
✓

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: September 21, 1994 04:40pm

TO: See Distribution Below

FROM: Michael Bruno, DECVF ( MICHAEL BRUNO )

EXT.: 33774

SUBJECT: Aid Effectiveness

I would like to meet on Tuesday, October 11 at 4:15pm in S9-021 to discuss the final version of the aid effectiveness paper for the Development Committee, with a view to giving it wider dissemination. Mark Baird will shortly be sending the paper to you . Please confirm that you are free to participate in this meeting. (Lyn, I realise you will be away on 10/11, but perhaps you could give Mark your written comments before you leave?)  
Thanks.

Michael

DISTRIBUTION:

TO: Masood Ahmed	( MASOOD AHMED )
TO: Mark Baird	( MARK BAIRD )
TO: Gregory Ingram	( GREGORY INGRAM )
TO: Lyn Squire	( LYN SQUIRE )
TO: Vinod Thomas	( VINOD THOMAS )
TO: Paulo Vieira Da Cunha	( PAULO VIEIRA DA CUNHA )
TO: Deborah Wetzel	( DEBORAH WETZEL )

TO: *Mike Walton*  
*(faxed 10/6/94)*

*MARK BAIRD*

September 21, 1994

To: Michael Bruno

Aid Effectiveness

Michael:

Attached is the final version of the aid effectiveness paper for the Development Committee. Given the operational relevance of this paper, I propose that we give it wider distribution among Bank staff, possibly in the Discussion Paper Series. However, before doing so, I would like to get comments -- both on the paper itself and the proposal to distribute it -- from other DEC Senior Managers. Perhaps we could review the paper after the next DECSM meeting. In the meantime, any written comments would be welcome.



Mark

Attachment

cc: Messrs. Bruno, Ahmed, Squire, Thomas, Ingram, Walton, Vieira Da Cunha; Ms. Wetzel.

1 Hr

1729

**MARK BAIRD**

September 21, 1994

To: Michael Bruno

Aid Effectiveness

94 SEP 21 PM 1:10  
RECEIVED  
DEVELOPMENT ECONOMICS  
DEPARTMENT

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Mark

Attachment

cc: Messrs. Bruno, Ahmed, Squire, Thomas, Ingram, Walton, Vieira Da Cunha; Ms. Wetzel.

10/11 at 4.15

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: September 21, 1994 04:40pm

TO: See Distribution Below

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EXT.: 33774

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Thanks.

Michael

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TO: Mark Baird ✓	( MARK BAIRD )
TO: Gregory Ingram	( GREGORY INGRAM )
TO: Lyn Squire	( LYN SQUIRE )
TO: Vinod Thomas	( VINOD THOMAS )
TO: Paulo Vieira Da Cunha	( PAULO VIEIRA DA CUNHA )
TO: Deborah Wetzel ✓	( DEBORAH WETZEL )



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<b>File Title</b> Agency for International Development (AID) - Effectiveness		<b>Barcode No.</b>  1459988		
<b>Document Date</b> September 6, 1994	<b>Document Type</b> Paper			
<b>Correspondents / Participants</b> Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries)				
<b>Subject / Title</b> Aid Effectiveness				
<b>Exception(s)</b> Information Provided by Member Countries or Third Parties in Confidence				
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> May 24, 2017</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 24, 2017
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 24, 2017			

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: October 20, 1994 05:35pm

TO: Ronald Johannes ( RONALD JOHANNES )  
TO: Saori Katada ( SAORI KATADA )

FROM: Masood Ahmed, IECDR ( MASOOD AHMED )

EXT.: 33800

SUBJECT: Re: Aid Effectiveness Research

Michal Bruno met with DEC directors today to review the status of the research work on aid effectiveness and the plans for its implementation.

There was general consensus that the research proposal outline focusing on aid and institutions which you had prepared was a key issue for the Bank and need to be pursued through the coming 18 months or so. However, we also agreed that the close link between this work and the study of public sector expenditure and budget management in developing countries, could be best exploited if this work were now carried out by the PRD staff working on these issues.

I want to thank you both for bringing this important issue along to the point where we can happily hand it over to our PRD colleagues for the next phase.

We will, of course, continue to be interested in the results of this phase and I am sure that the PRD staff who will now work on this could call you from time to time for your views and advice.

Once again, thanks for a job well done.

CC: Michael Bruno ( MICHAEL BRUNO )  
CC: Lyn Squire ( LYN SQUIRE )  
CC: Mark Baird ( MARK BAIRD )  
CC: Nawal Kamel ( NAWAL KAMEL )  
CC: Mike Stevens ( MIKE STEVENS )



## OFFICE MEMORANDUM

DATE: August 8, 1994

TO: Mr. Attila Karaosmanoglu

THROUGH: Amnon Golan, Acting Vice President, DEC *AS*

FROM: Mark Baird, Director of Development Policy, DECVP *[Signature]*

EXTENSION: 31666

SUBJECT: Development Committee Paper on Aid Effectiveness

1563  
94 AUG -9 AM 11:50  
RECEIVED  
DEVELOPMENT ECONOMICS  
VP & CHIEF ECONOMIST

1. Attached for your clearance is the Development Committee paper on Aid Effectiveness. This is scheduled for discussion at the Committee of the Whole on August 30. It incorporates comments on an earlier draft from OPR, DEC and IMF staff, and Peter Mountfield. They generally liked the substance of the paper, but were concerned about its length (31 pages) for Development Committee purposes. In response, we have agreed to put much of the analysis from Sections II and III in two annexes, and reduced the main text to 8 pages. While it is not usual to include annexes in a Development Committee paper, all commentators agreed in this case that they provide valuable background material for Ministerial aides and advisors.

2. The paper follows the outline distributed on June 29 (SecM94-666) and discussed at the Committee of the Whole on July 12. Following are the major points raised by Board members and reflected in the paper:

- The title of the paper, as agreed in the April Communique, should be "Aid Effectiveness" (not "Development Effectiveness" as used in the outline). The paper should not dwell on broader issues of development strategy and economic policy. In particular, the section on regional experience should be dropped.
- The focus should be on what the donors (not the recipients) can do to improve aid effectiveness. Some EDs wanted a particular focus on the World Bank. This is reflected to some extent in the discussion of the Next Steps program (although probably not enough to satisfy all EDs).
- The paper should give more prominence to the participation of beneficiaries, as well as ownership and governance issues. This has been done, using the findings from the report of the Learning Group on Participatory Development.
- The paper should include an introductory table on official capital flows, showing their importance in terms of recipient country GDP and total external resources. This provides context. However, the basic focus of the paper is still on the quality, not the quantity, of aid.

3. Please contact Mark Baird (ext. 31666) if you have any comments or questions.

Attachment

cc: Messrs./Ms. Bruno (o/r), Choksi, Linn, Picciotto, Rischard, Serageldin, Shihata, Burki, Jaycox, Kaji, Koch-Weser, Thalwitz, Wood; Baird, Wetzel (DECVP), Adams, Schneider (OPR), Mountfield (DCS).



# Record Removal Notice



<b>File Title</b> Agency for International Development (AID) - Effectiveness		<b>Barcode No.</b>  1459988	
<b>Document Date</b> September 6, 1994	<b>Document Type</b> Paper (draft)		
<b>Correspondents / Participants</b> Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries)			
<b>Subject / Title</b> Aid Effectiveness			
<b>Exception(s)</b> Information Provided by Member Countries or Third Parties in Confidence			
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.	
		<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 24, 2017

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: August 8, 1994 09:21am

TO: MICHAEL BRUNO ( MICHAEL BRUNO@A1@WBHQB )

FROM: Johannes Linn, FPRVP ( JOHANNES LINN@A1@WBWASH )

EXT.: 80602

SUBJECT: Aid Effectiveness Research Proposals

Michael,

Thanks for sending us the research proposals. I am very happy to see that this is moving ahead.

We have looked at the proposals and have a few comments. I am looking forward to the discussion in September. Not surprisingly, the perspective which we had in looking at the proposals is principally that of resource mobilization and how they relate to IDA donor concerns.

1. A general comment is that the proposals seem to address principally the question of how aid affects the effectiveness of resource use, i.e., growth--relatively little is said about the broader developmental goals that aid donors (and perhaps recipients) profess to be interested in--poverty reduction and environmental sustainability. For each of the proposals it would be worth taking another hard look to see whether these broader goals can be reflected in the design of the work.

2. The proposal on aid, saving, investment and public expenditure from our perspective seems perhaps most removed from the reality of aid donors' concerns. While the issue of fungibility can be important the proposed research design seems to neglect the positive and negative impact which aid can (and may be designed to) have on policies and institutions. This is particularly true if it is combined, as it frequently is, with non-financial services (TA, policy advice and conditionality, etc.). Moreover, the financial instrumentalities through which aid is provided may well matter (quick disbursing BOP assistance v. financial intermediary lending v. traditional project aid v. food aid, to mention just a few). I understand that from a research perspective this is perhaps the most attractive proposal, since it has the best defined hypotheses lending themselves to quantitative testing in a fairly well established analytical framework. However, from an "operational" perspective of the aid donor, this research may add relatively few new insights.

3. The proposal on Bank project effectiveness and country policies is a useful continuation and broadening of work which

has proven operationally relevant. From our perspective it would be useful also to explore whether there are certain projects (e.g., poverty targeted interventions) which are worth pursuing even under unsound policy frameworks.

4. We particularly like the proposal on the impact of aid on institutions. While this is the least "researchable" topic in the sense of lending itself to quantification and testing of well specified models, we think it asks important and well-specified questions that are central to our work. If anything, we would recommend the proposal could be made more economical and produce earlier results if it were to focus on offering practical guidance on how to move from the current to an improved situation. To the extent that hypotheses are validated, could the study offer guidance on how aid might be reformulated to reduce high costs on senior government officials' time, alleviate strains on the overall management capacity of the recipient government, reduce fragmentation of government budgets, etc.? I also wonder whether there are any "good" stories to tell and any lessons from success--the current design seems to presume that aid, almost by definition, leads to dependency, destroys incentives and weakens institutions. Can anything be learned from the theory and practice of intergovernmental fiscal relations? Incidentally, I was struck by the fact that IEC was to take the lead on this proposal--does IEC have any obvious capacity in this area? I would have thought this is an area in which PRD would take the lead.

In conclusion, our preference ranking is the inverse of the order in which the projects are listed above. Among other things this is related to our desire to get some early results in time for the IDA 11 negotiations (i.e., no later than mid-summer 1995. This may be pie in the sky given how much time has elapsed since we started this process. Nonetheless, we'd like to appeal to you and your colleagues to see what can be done.

As far as collaboration with other aid agencies is concerned, I would have thought that ODI and ODC are the obvious candidates for collaboration; DAC will also be very interested. I think it would also be useful to brief GTZ, SIDA, OECF and the Caisse at suitable opportunities.

I don't think we need to pursue the "critics" issue further. On the other hand, it would be useful to explicitly link any new research on participation to the work above, since I presume this will explore how increased and enhanced participation can improve the effectiveness of aid!

Best regards,

Johannes

CC: Penny Chokechaitanasin  
CC: Enrique Rueda-Sabater

( PENNY CHOKECHAITANASIN@A1@WBWAS  
( ENRIQUE RUEDA-SABATER@A1@WBWASH

CC: Paula Donovan  
CC: DEBORAH WETZEL  
CC: MARK BAIRD

( PAULA DONOVAN@A1@WBWASH )  
( DEBORAH WETZEL @A1@WBHQB )  
( MARK BAIRD@A1@WBHQB )

*Copied to Mark  
Eunice*

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: July 22, 1994 06:58pm

TO: MICHAEL BRUNO

( MICHAEL BRUNO@A1@WBHQB )

FROM: Robert Picciotto, DGO

( ROBERT PICCIOTTO@A1@WBWASH )

EXT.: 84569

SUBJECT: Aid Effectiveness

I appreciate your sharing the three research proposals with the steering committee -- even in their current rough shape. This will help focus the attention of the steering committee on the priority issues in development assistance effectiveness research.

First, let me stress that I consider this general area to be a sorely neglected segment of the Bank's research agenda. It is paradoxical that the Bank has not yet seen fit to invest significant intellectual resources in an area of considerable interest to its shareholders -- and of central relevance to its day to day business.

One reason for this neglect is undoubtedly the sheer conceptual complexity of the topic. But this alone does not explain the paucity of resources deployed until recently. There is, in fact, a deeply felt ambivalence among staff to engage in research work, the results of which may be viewed as self-serving, risky or embarrassing vis a vis our major development partners.

Strong leadership from the Chief Economist -- and the unambiguous support of the entire senior management team -- is needed to help overcome this ambivalence : as the premier development agency, we should not shirk from researching the fundamentals of our business.

In light of this, given the significant resources already allocated to a literature survey -- and notwithstanding the complexities alluded to above -- it is paradoxical that we do not yet have in hand a compelling statement of research strategy regarding development assistance effectiveness.

Such a strategy should lay out what we would like to know and make a distinction between what we might be able to find out within reasonable resource constraints -- from what we cannot due to "state of the art", data or other constraints.

I am refraining from using the term "aid" because it does not cover loans or policy advice and I presume that we wish to assess not only the impact of highly concessional resource transfers to developing countries but also the contribution of advisory services and implementation support provided to developing

file for steering  
Committee meeting in September  
(trying to be set by Mack/Paulo)

H27

AB



countries either on a free standing basis -- or in connection with development loans and grants. To assess the quantity of development assistance without considering its quality (the approach used by most studies on this subject) would be equivalent to being in a hole and go on digging.

There is no escape from distinguishing aid interventions which "work" from aid interventions which do not. The first research proposal attempts to evade the issue of whether aid is effective (the "whether" question) by focussing on the prerequisites of effective development assistance (the "when" or "how"). Yet, to deal with the latter question implies some sort of answer to the first.

Thus, it would seem important to begin with a definition of development assistance effectiveness -- followed by a typology of the possible factors which may influence outcomes. Thus, if development is defined as sustainable and equitable growth, the effectiveness of development assistance may be defined as the degree to which it helps to generate growth, equity and/or sustainability.

A focus on growth would imply examining in turn : (i) the contribution of individual development assistance operations to growth -- i.e. an examination of the cost-benefit evidence; (ii) the sensitivity of cost benefit outcomes to macro variables -- i.e. an examination of the diverse economic management circumstances under which projects succeed or fail; and (iii) the issues associated with fungibility (i.e. the circumstances relating to development assistance instruments and domestic resource allocation processes which may shield the overall economy from the positive or negative development impact of an individual development operation.

Equally, a focus on equity would mean examining micro, macro and process factors and their interplay. Here, the limits of "targetting" development assistance interventions in a variety of social frameworks would come center stage.

Similarly, a focus on sustainability would weigh the implications of risk, uncertainty and environmental externalities (finite natural resources, etc.) as well as the circumstances in which deliberate restrictions on fungibility may help in piloting reforms.

Thus, a mix of micro and macro evidence is needed in all three cases as we need to assess the interface between policy and operations -- the Bank's comparative advantage.

The first research proposal ploughs a field which has already been cultivated again and again with a meager yield. To be sure, the proposal attempts to remedy some of the more obvious weaknesses of this traditional approach but ultimately sticks to a development model according to which investment is the major

source of growth, thus neglecting other economic management fundamentals.

Similarly, on the equity front, it concentrates on the issue of public expenditure allocation across sectors (expenditure switching) without assessing efficiency of resource use within sectors. It would be far better to select one or two sectors and a sample of countries so as to delve into micro-macro linkages of development assistance impact.

The second research proposal involves modest resource requirements but it too relies excessively on cross-sectional analyses and on such imperfect proxies of project success as timely, "within cost" implementation, i.e. it lacks grounding in cost-benefit analysis, sector performance indicators and explicit linkages with macro policy variables. The link with the Israel/Benathan study is far from clear.

The third research proposal adopts a pure domestic "transaction cost" approach reminiscent of primitive budget analysis, i.e. it does not acknowledge any benefit from advisory activities or aid coordination services. It is the most populist and disappointing of all three proposals.

Specifically, the research proposal fails to incorporate basic institutional economics concepts; it makes no provision for the assessment of benefits arising out of the aid transactions it is costing; it assumes that the time of civil servants always has a high opportunity cost and implies that budget allocations driven by internal considerations would invariably be superior to those which result from interaction with donors, i.e. makes a virtue out of fungibility in all circumstances.

Rather than being seriously considered as a research proposal, the paper should be used as a checklist for country assistance evaluations and aid coordination surveys. And we should try a different tack in dealing with the issue of institutional development and aid effectiveness by involving a "new institutionalist" with a track record in this kind of research (de Janvry ?).

\*

\*

\*

In light of the above, my reaction to the three questions you have raised in paragraph 5 of your memorandum follows :

\* phasing : a research agenda paper for development effectiveness research should be produced and the first two proposals should be reworked to fit with the priority of this agenda while a brand new "institutional economics" based approach should be adopted in reworking the third proposal.

\* other development agencies : a workshop might be organized based on the agenda paper and involving a mix of donors

and recipients, i.e. we should open up a participatory dialogue at an early stage instead of "going it alone". This could be done jointly with the DAC.

\* aid critics : the valuable list of issues attached to your memorandum should be taken into account when framing the research agenda paper. However, it is not up to the steering committee to lay out an external affairs strategy.

CC: Carl Jayarajah	( CARL JAYARAJAH@A1@WBWASH )
CC: Pablo Guerrero	( PABLO GUERRERO@A1@WBWASH )
CC: Hans-Eberhard Kopp	( HANS-EBERHARD KOPP@A1@WBWASH )
CC: Ibrahim Shihata	( IBRAHIM SHIHATA@A1@WBWASH )
CC: Ismail Serageldin	( ISMAIL SERAGELDIN@A1@WBWASH )
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CC: ARMEANE CHOKSI	( ARMEANE CHOKSI@A1@WBHQB )

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M



DATE: July 26, 1994 03:23pm

TO: Michael Bruno

( MICHAEL BRUNO )

FROM: Mark Baird, DECVP

( MARK BAIRD )

EXT.: 31666

SUBJECT: Development Committee Paper on Aid Effectiveness

We are planning to send you a draft of this paper by cob on Monday, August 1. We would like meet with you to get your comments before you leave. The final version of the paper is scheduled for discussion at the Board on August 30.

CC: James W. Adams

( JAMES W. ADAMS )

CC: Deborah Wetzel

( DEBORAH WETZEL )

CC: Paulo Vieira Da Cunha

( PAULO VIEIRA DA CUNHA )

Wed. 8/3 at 2:15

File

AID

## Programme aid beyond structural adjustment

Stephen Denning

Director

Southern Africa Department  
World Bank

ALS  
10/5/94

The paper discusses an approach to sector investment assistance, that is sector-wide in scope, is prepared by local stakeholders, comprises all donors active in the sector, involves common implementation arrangements and minimal resort to long-term foreign technical assistance. Preconditions for success are identified, as well as keys to sustainability. The paper also surveys enhanced approaches to adjustment assistance and regional integration.

Workshop on New Forms of Programme Aid

Harare, Zimbabwe

# Programme aid beyond structural adjustment

Stephen Denning  
Director, Southern Africa Department  
World Bank

*Ne me dites pas que ce problème est difficile; s'il n'était pas difficile, ce ne serait pas un problème.*

*Ferdinand Foch.*

*What is criminal is, not to fail, but to aim too low.*

*James Russell Lowell*

1. "Programme aid" is a slippery term. The type of programme aid that I mainly talk about in this paper is what is called "new-model sector lending" in Elliot Berg's paper for the conference entitled "How can aid programmes be made more effective?" dated January 18, 1994. I take this new-model sector lending to be the same thing - under a different label - as the integrated sector investment approach that was endorsed by the Special Program of Assistance (SPA) meeting in October 1993. This new-model sectoral lending was also discussed in the DAC meeting on aid in Southern Africa in early December and in the four Consultative Groups that took place in December on Mozambique, Malawi, Zambia and Zimbabwe.

2. In this paper, I will:

- first, restate the reasons for the new-model sector lending and then try to define more precisely what is meant;
- second, spell out some preconditions for the approach to be launched, and some key elements of its sustainability;
- third, add a few footnotes on country-wide programming;
- fourth, discuss the challenges for improving structural adjustment; and
- fifth, comment on the regional dimension of improving assistance.

### Reasons for the integrated sector investment approach

3. Elliot Berg's paper notes a number of flaws in current project assistance: its piecemeal nature, the slow pace of disbursements, the recipient countries' limited absorptive capacity, the donor-driven nature of such assistance, and the resultant distortion of national priorities.

Donor investment assistance by way of project lending is large scale. In the four adjusting countries of Southern Africa, project lending (including technical assistance lending) is around US\$1.4 billion per year, and somewhat larger than balance of payments assistance.

Table 1  
Adjusting countries in Southern Africa  
Aid pledged at CGs in December 1993

	US\$ millions				
	Mozambique	Zambia	Zimbabwe	Malawi	Total
Project aid	462	348	478	120	1,408
BOP support	300	464	311	185	1,260
Total	762	812	789	305	2,968
Required	745	908	782	300	3,035
Gap	0	96	0	0	96
Emergency	281	0	0	0	281
Debt relief	400	275	0	0	675
Total aid	1,443	1,087	789	305	3,924
Required	1,481	1,183	782	300	3,746
Total gap	38	96	0	0	134

However the continuance of such flows is by no means assured. The difficult economic situation in many donor countries and public frustrations with the aid process have created the risk both of an erosion of political support for aid to Africa and of a decline in financial assistance. In such an environment, recipient countries will need to ensure that their development programs are worthy of donor support. For donors, there is a need to ensure that the aid that is delivered is as effective as it could be.

The most obvious dimension where existing investment assistance is not as effective as it could be, lies in the fragmented or piecemeal nature of the assistance: the multiplicity of donors, the multiplicity of objectives, the multiplicity of management systems, the multiplicity of procurement, disbursement, accounting and auditing procedures. In such a context, even if each individual piece of project assistance was well designed, it is difficult to see how any government, whatever its so-called absorptive capacity, could effectively manage such a mosaic of aid.

the fundamental objective of the new-model sector lending – the integrated sector approach – is to make project assistance more coherent, more intelligible, and ultimately more manageable.

4. What is involved? Elliot Berg's paper describes it as follows:

Government draws up a sectoral investment program within which donors can fund financeable segments. Donors are supposed to play a low-key, unintrusive role. No conditionality is involved. Examples that are cited are a program for strengthening macroeconomic management in The Gambia and an agricultural sector investment program in Zambia.

While such a description successfully conveys the general gist of what is being attempted, it also emphasizes some elements which are not essential, and omits some elements which are central.

### Defining the new approach

5. To be more precise, I would propose **five defining characteristics** of the new model sector lending or integrated sectoral approach:

a. First, the policies and programs should be sector-wide in scope. Within the chosen sector, whether it be agriculture, or roads, or health, the approach should comprise the whole array of activities, programs, and policies in the sector. The sector approach is thus antithetical to a geographically-segmented approach, in which one donor or set of donors support one a set of policies and practices in one part of the country, while other donors or sets of donors support explicitly different policies and practices in other parts of the country with identical circumstances. The aim is to support national policies, national programs and



national practices. This is not to say that the exploration of alternative or pilot or innovative approaches and activities cannot be envisaged within an overall national policy framework. One would expect however that pilot or alternative approaches would be tried out for a defined time period, and then either adopted universally or discontinued. One would not expect to see situations in which alternative policies and practices are pursued in different parts of the country for very long periods, even decades, not because of different circumstances in the country, but rather because different donors support different sectoral philosophies or procedures. One is aiming a coherent sector-wide approaches.

b. Secondly, sectoral policies and programs should be prepared by local stakeholders. A significant proportion of existing investment assistance is for operations that have been largely prepared by foreign consultants with varying degrees of endorsement from recipient governments. The reason for this heavy external involvement lies in the limited human and financial resources of recipient countries to prepare operations that meet the criteria of the donor agencies within the time frame required by the donor agencies. However the result of the heavy external involvement is that donor-funded programs often enjoy limited local ownership, and local stakeholders often seem less concerned about project success or failure than their foreign sponsors. The donors' hope that local ownership would grow over time as project implementation proceeds is sometimes realized, though just as frequently is disappointed, leading to further injections of foreign technical assistance to strengthen implementation, which again risks undermining any sense of local ownership. To break the vicious circle, local ownership must be built in from the beginning, through active participation of local stakeholders in project preparation.

c. Thirdly, the approach should comprise all donors active in the sector. In one SADC country, a productive sector is characterized by a group of donors supporting one set of institutional arrangements and extension practices in most of the country, while in another part of the country, a single donor is supporting a quite different set of institutional arrangements and extension practices. This situation reflects the fact that donors themselves have been unable to reach agreement as to what policies and practices to support, and the recipient country has decided to support both sets of policies and practices, rather than run the risk of losing substantial amounts of grant assistance. In another SADC country, a

collaborative approach to institutional and policy reform in an infrastructure sector has broken down, as individual bilateral and multilateral donors have gone ahead with fragmented investment assistance partly at the prodding of commercial suppliers in their respective countries. While one can understand how these situations have arisen, it is difficult to see how the effectiveness of investment assistance can be enhanced unless all donors – and recipient governments – buy into a more coordinated approach.

d. Fourthly, the approach should involve common implementation arrangements. Within the current framework of project assistance, sectoral ministries are now struggling to find their way through a labyrinth of different implementation arrangements, different management reporting systems, different procurement procedures, and different accounting and auditing systems. While each individual donor's requirements might make sense from its point of view, the collectivity of requirements doesn't make sense from the recipient country's point of view. Complying with such multiple requirements would stretch the capacities of even the most evolved institution, and some simplification is essential if the recipient country is to have any chance of effective implementation of investment programs. The sectoral approach therefore aspires to reach agreement on common implementation arrangements satisfactory to all financing agencies.

e. Finally, the operation should involve minimal resort to long-term foreign technical assistance. While the situation varies from country to country and sector to sector, the presence of large-scale long-term foreign technical assistance not only tends to stifle the development of local implementation capacity, but also actively undermines existing institutional capacity by creating de facto parallel reporting arrangements to donor capitals, and generating self-perpetuating skills gaps. These problems have in part flowed from the practice of designing investment assistance to resolve a technical problem (constructing roads, building schools) and then funding whatever foreign technical assistance is needed to help implement the resulting program. To create more sustainable development, the design of investment needs to begin from an assessment of existing institutional capacity, and donors must be willing to accept smaller programs and lower rates of funding commitments in order to achieve eventually larger and faster sustainable development impacts.

### Preconditions for implementing the integrated sector approach

6. The new-model sector approach has been under implementation for several years in the ~~Tanzania Integrated Roads Program~~, and good progress is being made towards launching it in the Mozambique Roads Program and the Zambia Agriculture Sector Investment Program (ASIP). How replicable is the approach going to be? Will the approach be adopted sporadically in a few exceptional countries or sectors, while the bulk of investment assistance will remain in its traditional mode? Or is it potentially an approach that is applicable across the board in all countries and sectors? In the World Bank, we tend towards the latter viewpoint, though only if certain preconditions are met.

✓ **Sharper focus on the purpose of aid:** To say that aid should be aimed at getting results in the field and sustainable development may seem so obvious that it doesn't even need to be re-stated. However the fact that ~~fragmented assistance~~ has grown to such an extent despite its evident less-than-optimal effectiveness, is a symptom of the need to restate the purpose of aid. For the World Bank, this means implementing the recommendations of the Wapenhans Report, by ensuring that a concern for successful implementation of the existing portfolio takes precedence over generating new lending commitments. For bilateral donors, it may mean ensuring that getting results in the field has a higher priority than other objectives not central to development, such as providing business for national firms, pursuing political objectives, or arranging employment for nationals. For all donors, it means that getting results in the field should have priority over funding better projects than other donors, or meeting internal assistance targets. Unless donors are focused on the fundamental purpose of aid, and adjust their programs to reflect that focus, the integrated sector approach is unlikely to be widely adopted.

• **Putting the government back in driver's seat:** Anecdotal evidence suggests that officials in recipient countries do not always feel that they are fully in control of donor assisted programs in their ministries owing to the fragmented nature of the assistance, and the major role that donors and donor-funded consultants play in designing, preparing, and implementing such assistance. The role that donors play may well be motivated by good intentions to compensate for lack of local capacity, but the resulting pattern of assistance may be preventing nationals from playing as full a role as they ought, or from developing such capacity in the future.

Thus, in many cases, ministers are pulled in different directions by the separate requirements and strategy of different donors, in some cases up to a dozen or more in a ministry. Since a key element in the success of development assistance is local ownership, the sectoral investment approach requires that the Government be put back in the driver's seat. Is it feasible? Can apparently moribund skills-short ministries assume a leadership role? Within the context of the current donor-driven approach to investment assistance, probably not. However, the new-model sector lending approach is about a different mode of operation, involving the empowerment of institutions and nationals whose capacities are currently suppressed and stifled. If this process of genuine empowerment can be set in motion, then latent talents and capacities can be unleashed as demonstrated in the Tanzania Integrated Roads Project.

**Creating a space where Government can think** In an environment where donors may be perceived as pressing their own development policies and the services of their own experts on Government, some respite may well be needed for the Government develop its own sectoral policies and priorities. This will mean self-restraint on the part of donors, with donors standing back, only providing resources if necessary, in such a way that Government is able to think through its priorities and policies for development. The UNDP-Bank support to the Zambia ASIP is an example of such an approach.

#### **Key elements for assuring sustainability**

7. What is needed for the new-model sector lending approach to succeed? Three elements might be mentioned:

**Elements of success and conditionality.** Elliot Berg's paper states bluntly that no conditionality is involved. I would agree that the explicit imposition of conditionality is not the driving force, or a defining element of the integrated sectoral approach. At the same time, it would be unrealistic to think that broad donor support for a government's sector investment program could be generated, unless the elements for potential success are present, that is to say, that there is in place a generally sound macro-economic framework, and that the content of the sector investment program is broadly sound in conception and has good prospects of success. Is this introducing new conditionality by the back door? I don't believe

so. All SADC countries, except Angola, now have a generally sound macro-economic framework, and there would be no need for sectoral investment programs to introduce any new macro-economic conditionality. As to ensuring that appropriate sectoral policy is in place, it seems likely that a single set of country-devised policies and practices will usually be less onerous than attempting to implement multiple and sometimes conflicting policies and practices being pursued by multiple donors in individual investment projects. Nevertheless the risk of recipient government and donors being unable to reach agreement on appropriate sectoral policy is present.

**Nurturing the process and lead donors:** In developing appropriate sector policy, it is not imperative that there be an explicit "lead donor" who would speak for the donors and "negotiate" the program with the recipient country. What is essential is that the government be in the driver's seat, and that local stakeholders prepare the sector program for investment. How donors interact with this country-led work is being worked out on a pragmatic basis. In the ongoing examples in Mozambique, Tanzania and Zambia, the World Bank and UNDP are tending to play important catalytic roles, in nurturing the preparatory process while leaving the country in charge. In other cases, one can envisage the possibility that one or more bilateral donors, based on experience and staff capacity, would naturally play such a catalytic role. There is a hint of skepticism in Elliot Berg's paper as to whether donors will be able or willing to play a "low key unintrusive role" envisaged in the new-model sector approach. Time will tell whether this skepticism is warranted, but clearly a good deal of diplomacy and tact will need to be exercised by donors for the process to succeed.

**Closing the loop with systematic client consultation.** If the process of effecting these changes in the delivery of aid is to be effective and sustained, there will need to be ways of verifying and monitoring the progress being made by international assistance towards shifting into the different mode. For this purpose, benchmarks to assess progress could be useful. In addition, more systematic listening to government and the intended beneficiaries could also assist, to see whether they feel ownership of programs, whether we're getting results on the ground and whether things are changing for the better.

8.

The shift from fragmented project assistance towards the integrated sector

investment approach implies a transformation of the way aid is delivered in Southern Africa. Such a basic change in the delivery of aid will not be easy and it will not happen overnight. It is however important that we begin. For its part, the World Bank has made a beginning. The Wapenhans Report implies a new and sharper focus on getting results in the field in precedence to other objectives, and to changing its operating policies and practices to achieve this. However, the World Bank alone cannot change the whole aid process, any more than any single bilateral donor can. What is needed is the agreement and active support of all donors, as well as the recipient governments, to get into a more productive mode of collaboration.

9. At the same time, we must be realistic. We should be careful not to over-reach our capabilities or to raise unrealistic expectations. Changing deeply ingrained habits and attitudes will take time. Some recipient countries, like **Zambia**, are already showing the way in implementing the approach. In some countries, such as **Mozambique**, a phased plan of implementation was adopted at the Consultative Group meeting, with a start being made in the agriculture, roads and balance-of-payments support. In other recipient countries, the specifics of implementation have still to be sorted out. On an Africa-wide basis, SPA will provide a forum for donors to discuss experience and monitor progress towards implementation.

#### Country-wide programming of aid

10. Elliot Berg's paper also refers to the programme approach - an approach that is economy-wide in scope. He notes further:

This kind of program aid is a type of aid management more than a type of aid as normally understood. Country programs are to be defined and managed by local officials, who would in the process define needs for external assistance. Economy-wide in concept, the concept is frequently discussed in a sectoral context.... Many UNDP missions are experimenting with the more comprehensive approach, but it is so new that no fully developed examples exist.

11. The obvious appeal of a country-wide approach to aid programming in terms of greater rationality of resource utilization is paralleled by increased donor interest in having comprehensive public expenditure reviews conducted, particularly in adjusting countries. The actual experience with public expenditure reviews in SPA countries however indicates considerable difficulty in using such a country-wide tool to resolve

sector-specific issues. In a country-wide context, it is difficult to muster adequate sectoral expertise and knowledge to settle a difficult sector-specific issue, on either the donor or the recipient government side. As a result, while the public expenditure review provides a good vehicle for flagging and sometimes resolving cross-cutting inter-sectoral issues, it is less well suited to getting resolution of substantive intra-sectoral issues.

12. The experience with public expenditure reviews may have implications for country programming. Thus the full potential effectiveness of country-wide aid programming approach, while desirable in principle, may be realized only when further progress has been made rationalizing sectoral investment.

### Improving effectiveness of adjustment

13. The results of the CG meetings as shown in Table 1 above confirm the positive donor support for the structural adjustment process in Southern Africa. The four adjusting countries in Southern Africa have adhered to adjustment programs in adverse circumstances including deteriorating terms of trade, a world economic recession, a catastrophic drought, and in Mozambique, civil war. In the last year, agricultural production has rebounded, inflation is on the decline, and in Zimbabwe, industrial recovery appears to be under way.

14. There is however still considerable room for improvement in structural adjustment programs. The recent World Bank study on Adjustment in Africa provides an evaluation of the adjustment experience in Africa, and I will not attempt to summarize that paper here, though a couple of points are worth noting:

- more effective implementation: as elsewhere in Africa, some aspects of structural programs have worked reasonably well (monetary, trade, price liberalization) while other aspects have been disappointing (public enterprise reform).
- aspiring higher: while adjustment programs in Africa currently aim at achieving on average a growth rate of around 4% per annum in real terms, this translates into per capita income growth of only 1% per year, implying some 70 years before per capita incomes would double from their generally current low level. For adjustment programs to enjoy continuing political support from the people and external support from donors, faster real economic growth rates may be needed.

This implication is particularly important for Southern Africa, where adjustment programs have passed the "launch" phase and should be entering a phase where the fruits of the adjustment efforts – the gain from the pain – start to become visible. Consideration will need to be given as to whether ways can be found of achieving higher real growth rates of 6-8% per annum.

a stronger supply response: faster growth will have to come from the private sector, and this is where efforts to assure faster economic growth will need to focus, and in particular, the promotion of exports. Despite the substantial progress made by Southern African countries in liberalizing their economies, the private sector – both domestic and international – still often hesitates to risk investing resources in new undertakings. The reasons for this vary. It is partly the normal lag, from the time new policies are introduced, to the time that the private sector is convinced that the new policies are here to stay. It is also a matter of making the business climate more conducive to encouraging investment, by accelerating deregulation and privatization programs. It is also a matter of ensuring that marketing and technical assistance is available to entrepreneurs who need it. However a more explicit focus on such issues needs to be built into adjustment programs in order to get a stronger supply response and faster growth rates.

the minorities issue: One of the implicit issues underlying the slow pace of implementation of some policy areas (e.g. privatization of parastatals) is that in each adjusting country there is a relatively wealthy minority that risks making great gains from the liberalization of the economy, while the less-wealthy majority of the population is perceived as unlikely to benefit. The composition of the minority differs from country to country, but the structure of the issue is the same: in each case, the concern for a win-lose situation in which the wealthy minority may profit while the majority will not, is leading to a lose-lose situation where neither minority nor majority is benefiting. A more explicit approach to the issue of who benefits could lead to the identification of techniques that could lead to a win-win situation for majority and minority. In Zambia, the use of a trust fund to hold shares in parastatals being privatized on behalf of future local shareholders is an example of one such technique. In Zimbabwe, the need for more explicit attention to the requirements of indigenous entrepreneurs was agreed at the recent CG meeting.





The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: July 1, 1994 06:22pm

TO: Michael Bruno  
TO: Deborah Wetzel

( MICHAEL BRUNO )  
( DEBORAH WETZEL )

FROM: Mark Baird, DECVP

( MARK BAIRD )

EXT.: 31666

SUBJECT: Development/Aid Effectiveness

See attached for information.

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: July 1, 1994 06:21pm EST

TO: Sven Sandstrom ( SVEN SANDSTROM )

FROM: Mark Baird, DECVP ( MARK BAIRD )

EXT.: 31666

SUBJECT: Tidewater

Sven:

Johannes mentioned that it would be useful to brief you on our development effectiveness work, as it may come up in discussion with Mr. Michel (DAC) at Tidewater.

First, the outline for the Development Committee paper on development effectiveness has just been distributed to EDs. It will be discussed by the Committee of the Whole on July 12. I am sending a copy directly to Mr. Michel. He had earlier seen the draft outline discussed by the Development Committee in April.

Second, we are continuing to work on defining a possible research program on aspects of aid effectiveness. The focus will be on how to make aid more effective (rather than: does aid work?). This is likely to cover three sets of issues:

- Aid fungibility. When does aid lead to an increase in investment and public expenditure, and how does it affect the allocation of public expenditure?
- Project effectiveness and country policies. Do better policies lead to better project outcomes? This work will be done jointly with OED, drawing on the evaluation results for Bank projects.
- Aid and institutions. How does aid affect the public management capability of recipient countries? What mechanisms -- for aid coordination and absorption -- have improved the effectiveness of aid?

We are now finalizing these proposals in DEC and plan to distribute them to the Bank-wide Steering Committee by mid-July.

Mark

CC: Johannes Linn

( JOHANNES LINN )

International Bank for Reconstruction and Development  
International Development Association  
International Finance Corporation

FOR OFFICIAL USE ONLY

EDS94-252  
July 8, 1994

Committee of the Whole Meeting - July 12, 1994  
Development Committee Meeting - October 3, 1994

Statement by Mr. Faisal Al-Khaled

**DECLASSIFIED**

Outline for Development Effectiveness Paper

**MAY 24 2017**

**WBG ARCHIVES**

1. The Title of the Paper

The outline includes topics relevant to issues related to the effectiveness of Development Assistance. Therefore, it is better if the title is changed accordingly.

2. Quality and Volume of Aid.

Very often questions are raised about the quality of aid in terms of the conditions attached by donors to granting development loans and technical assistance, especially regarding the procurement of goods and services and the extent of tying procurement to donors' sources.

Another issue is the volume of aid. Has aid been provided in sufficient volumes to meet the needs of recipient-countries and their development priorities.

Such questions need to be addressed because we believe that they have a bearing on the effectiveness of development assistance.

3. Debt-overhang

We believe the paper should consider the impact of debt burdens on development operations, and the extent to which progress in liberalization and economic reform in severely-indebted countries, especially low-income countries, is being hampered by debt problems.

4. External Environment

Sound domestic policies are important for the effectiveness of aid, and for achieving economic growth and development. This is recognized in Part II(B) of the outline. We believe this section should also highlight the importance of the industrial countries' policies and their impact on development efforts, including the impact of terms of trade.

## OFFICE MEMORANDUM

DATE: July 13, 1994

TO: Distribution

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: Aid Effectiveness Proposals

1. In its last meeting, the Steering Group met to discuss Phase II of the aid effectiveness work. At that time DEC was requested to develop the research program in greater detail. Attached you will find three detailed proposals for your consideration. IEC was also requested to pull together information on the common critiques of aid. Such a list has been compiled and is also attached. Unfortunately, it will not be possible to get together before the vacation season. However, I would welcome any comments in writing, if possible by July 22. I propose to call a meeting of the Steering Committee in September, when we can discuss any outstanding issues.

2. As agreed, the proposed research will focus on the conditions under which aid is effective rather than whether aid is effective or not. Framing the research in this way provides a stronger basis for drawing policy conclusions and lessons for improving the effectiveness of aid in the future. The first component addresses one of the central questions not answered by previous research: is aid fungible or not? Here the focus is on aid's role as a monetary transfer. If aid financing is not fungible, then aid effectiveness will be influenced by those factors that affect the particular uses or sectors that aid targets. To the extent that aid financing is fungible, then it will have an impact, but the same impact as the expansion of resources from any other source. This implies that the effective use of aid will be influenced by those factors that contribute to the effective use of all resources. The second component of work, to be carried out in a joint effort by OED and PRD, examines the country policy factors that contribute to project effectiveness. Here the notion of aid may be interpreted more broadly to include not only money, but the whole aid package (including staff advice and policy guidance as proxied by staff inputs). Previous work in this area has found that the level of distortion of domestic policies has an impact on project effectiveness.<sup>1/</sup> Finally, the last component of the proposed work includes research on the effect of aid on institutions in aid-dependent countries. Synopses of the components follow:

- **The Impact of Aid on Saving, Investment and Public Expenditure.** (PRD) This component of the research addresses the fungibility issue and will be carried out in two parts: Foreign Aid, Domestic Saving and Investment; and Foreign Aid and Public Spending. The first part will focus on identifying the factors that determine the impact

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<sup>1/</sup> PRD is therefore considering undertaking further research on the impact of aid broadly defined on policies. However, a proposal for this work is not yet ready. Also note that the proposed research does not address the efficiency and effectiveness of donor agencies (along the lines of the Wapenhans agenda for the World Bank). However, complementary research proposed by OED will look at the contribution of Bank processes to project outcomes. Some related issues of aid coordination are also addressed in the third component on aid and institutions.

of aid money on domestic saving and the circumstances under which aid increases private investment. The research will control for other factors that may influence aid's impact on savings and investment, for the selectivity bias that arises since aid flows are not independent of countries' savings and investment performance, and for country conditions (including macroeconomic, policy distortions, institutional characteristics, political stability and access to external financing). It will also consider the impact of different kinds of assistance on savings and investment. This part of the research should tell us the circumstances under which aid affects savings and investment and whether it leads to increased saving and investment or not.

The second part of this work moves from the macroeconomic level to the level of public expenditures. It concentrates on the relationship between aid money and the inter-sectoral composition of expenditures, the intra-sectoral composition of expenditures, and the composition (or magnitude) of public investment. A number of questions will be addressed including the following: When does aid -- including different types of aid -- alter the composition of public spending among health, education, physical infrastructure and military expenditure? Has sectoral project aid been more effective than non-project aid in changing sectoral expenditure (e.g. are project aid resources less fungible)? What has been the impact of foreign aid on outcomes such as infant mortality rates and primary and secondary enrolment ratio? Have countries that have received more aid (or aid of specific types) devoted more resources to expenditure in primary social services? Does aid translate systematically into improved intra-sectoral composition?

- **Bank Project Effectiveness and Country Policy Environment.** (OED/PRD) This component, which is currently under review by OED management, represents work being undertaken under the aegis of OED, but through a coordinated effort with PRD. This work will consider the impact of the policy environment on Bank project effectiveness by building on previous work in three ways. First, using data on project costs and implementation characteristics, the research will examine some of the mechanisms through which poor policies lead to poor project outcomes. Using data available for a recent cohort of projects, the research will examine the link between weakened fiscal conditions, counterpart funding difficulties and project implementation. Second, two sources of time series data on projects will be used to examine the relationship between changes in project success and changes in the policy environment. Of particular interest are the relationships between changes in policies, changes in project rates of return and changes in project implementation. Finally, the research will draw on the recent empirical literature on policy conditions for growth and will consider the implications of these conditions for the rate of return on projects.
- **The Impact of Aid on Recipient Institutions.** (IEC/OPR) This component will be carried out by IEC in collaboration with OPR and will focus on the effects of aid on public sector institution building in countries that are "aid-dependent". The questions to be addressed are: How does a high aid flow affect the capacity of recipients to make and implement the budget? What is the impact of substantial aid flows on the development priorities and the accountability of the recipient government? And what implications do different mechanisms of aid coordination have on the public management capability of recipient governments. Because of the specific nature of public institutions in each country, the research will be based on country case studies. Ideally, in each country, periods in which the country was not highly aid-dependent will be compared with periods in which aid dependency was high, controlling for other factors that may influence public

institutions. Insights into how substantial aid affects recipient institutions will provide information on how assistance can be better tailored to meet the needs of the countries and to promote the development of an efficient public sector.

3. The work between different departments and divisions will be coordinated. PRD will draw on IEC data on flows of aid and external conditions. The different divisions of PRD will coordinate on three dimensions of empirical implementation. First, they will use common measures of the variables included as determinants. Second, to the extent that countries are divided into groups for analysis of the differing impact of aid, these groups will be coordinated across studies. Third, since in many cases aid must be treated as an endogenous variable, an examination of the determinants of the supply of aid will be necessary in order to identify the impact of aid and the studies will coordinate on the determinants of aid. Once approved, the research work program will be carried out just as any other research is carried out. The results would be made available through blue cover reports and articles. Any decision to organize a conference or to publish a volume will depend on the overall outcome of the research program, which is expected to take 18-24 months to complete.

4. Funding for staff salaries will be committed in PRD, OED, IEC and OPR. The proposals will seek money from the Research Committee for non-staff expenditures. Staff costs for the PRD, OED/PRD and IEC/OPR components are estimated at \$154,000, \$22,000 and \$100,000, respectively. Non-staff costs are estimated at \$254,000, \$35,000, and \$215,000, respectively. Should the proposals not be accepted by the Research Committee, we will return to the Steering Committee to consider other options. Consideration also needs to be given to the time and funding required by IEC of any additional work that must be done on preparation of the data on aid.

5. In addition, we seek the Steering Committee's guidance on the following issues:

- Phasing of the work. Should all components be undertaken at the same time, or would it be useful to carry out the first two components and then use the case studies to address questions that arise from cross-country analysis?
- Other development agencies have expressed great interest in this work and have suggested developing interactions between the donors on this issue. At the same time, it is important that expectations are not raised about what the research will find. What is the best way to proceed with respect to other donors interested in this work?
- How should work on critiques of aid proceed?

#### Attachments

Distribution: Messrs. Choksi, Linn, Picciotto, Rigo, Serageldin, Shihata.

cc: Messrs./Mss. Baird, Vieira da Cunha, Wetzel (DECVP); Ahmed, Johannes (IEC); Squire, Pritchett (PRD); Ayres, Stevens (HRO); Donovan, Yap, Elliot, Ohashi (FRM).

Bank Project Effectiveness and Country Policy Environment:

A Research Proposal

July 8, 1994



## I. Introduction

The impact of aid resource flows on living standards and poverty obviously depends critically on how effectively those resources are used. In order to assess the impact of its projects the Bank continuously monitors the performance of its lending and maintains loan by loan information both on whether a project was satisfactory and (where applicable) the project rate of return. The implications of this loan information for gauging the impact of flows of financial resources from aid depend critically on whether those financial resources are fungible in practice or not. If aid resources are fungible then nothing about the impact of aid financing on the economy can be inferred from the impact on the economy of the aid financed project. That is, when aid financing is effectively fungible then the real impact of the aid resources on the economy is the marginal "project" undertaken due to the expansion in the budget. This "project" is unlikely to be the project to which the financing and loan disbursements are administratively tied (in fact, the "project" may not even be an investment project it may be an expansion of consumption). If, on the other hand, aid resources are not fungible across projects then the impact of aid financing is the impact of the project financed. In the first case the project performance information the Bank collects reveals more about the rates of return to investment in the economy generally than about the differential return to aid financed investments, while in the second (non-fungible) case the returns are about those projects which are aid financed only.

In either case the impact of aid resources depends on the return to investment and

therefore the determinants of project success are critical to understanding the effectiveness of aid resources. Recent research (Kaufman, 1991, Kaufman 1991, Kaufman and Wang 1992, and Isham and Kaufman 1993, World Bank 1993) has shown that the performance of Bank projects (measured either by ex-post economic rate of return or a simple satisfactory/unsatisfactory rating) in a given country is strongly determined by the country's policy environment. Using projects from 1973-1990 Kaufman found that a shift from restrictive to unrestrictive trade regime or a shift from a large to small fiscal deficit increased the rate of return to Bank projects by 5-10 points. Kaufman and Wang found that social sector projects are 2-3 times more likely to fail when major policy distortions (e.g., overvaluation, fiscal deficits) are present. Isham and Kaufman found lower project performance in less open political environments. These results have been widely publicized and figured prominently in the 1991 World Development Report.

However, many issues concerning the relationship between policies and projects remain unresolved, especially the understanding of the causal mechanisms that link project performance to macroeconomic distortions. This research will advance the previous research in three ways.

First, using data on project cost and implementation characteristics we will examine the causal path whereby poor policies cause poorer projects. Also, using data available for a recent cohort of projects we will examine the link between weakened fiscal conditions, counterpart funding difficulties and project implementation.

Second, we will use two sources of time series data on projects to examine the relationship between changes in policies and deterioration in project performance. The Bank's database on project implementation rankings (ARPP) allows the tracing of the timing of project problems in implementation. Also the availability of rates of return

estimated at both appraisal and project completion will allow the examination of whether policies in the intervening period affect project's rate of return.

Third, we plan to link the empirical literature on economic growth which examines the policy conditions for growth with this examination of the determinants of the rate of return to Bank financed investments.

This research is integral to understanding the conditions for aid effectiveness in two ways. When aid is fully fungible the incremental impact of financial aid resources has the same impact on increasing output as an increment to resources from any source. Hence, in those country conditions in which aid is fully fungible the policies that raise or lower the efficiency of general resource use will also raise or lower the efficiency of aid resources.

## II. Research Design

This research combines three basic sources of data to undertake econometric work. The information on World Bank loans/credits in the Operations Evaluation Department Annual Review Database, the data on project ratings (ARPP), and the information on country specific policies, drawn from standard Bank supported data and a database recently compiled by William Easterly of PRDMG as part of his RPO on long-term economic growth. These sources will feed into the three avenues of attack.

### A. Disentangling the chain of causation from policy to project performance

One important unresolved issue from the Kaufman type results (regressing an indicator of project success on country level variables) is the chain of causation from distortion to low

project success. In the (deceptively) simple notation for cost benefit analysis projects should be accepted if:

$$p \cdot q > 0 ,$$

where  $q$  is the vector of all project net outputs (over time, including investment) and  $p$  is the vector of prices of all those inputs and outputs (which incorporates discounting). The economic decision values  $q$  at economic prices, while the financial rate of return values the netput vector  $q$  at financial prices. If project's rates of return fall due to distortions it is either because the  $p$  vector is less favorable or the  $q$  vector is less favorable. Put another way, the question is whether distortions are associated with lower rate of return activities because of a move along an efficient production frontier but to a socially inefficient point or whether distortions actually push projects inside the frontier by lowering productivity (by raising inputs or lowering outputs).

The association between project and performance and rates of return or project performance is a reduced form and does not reveal the reasons for the impact. One natural extension of the research is to be more explicit about the mechanisms whereby distortions cause lower rates of return by identifying the direct (or proximate) causes of poor performance and the underlying determinants of those direct determinants. For example, higher than expected project costs should lower the rate of return, higher project costs in turn be due to distortions (perhaps through raising input costs). This would suggest estimating the model with data on projects:

$$\begin{aligned} ERR_i &= \beta * Unexpected\ Costs_i + \delta_x * X_i + \epsilon_i \\ Unexpected\ Costs_i &= \alpha * Policy\ distortions_i + \eta_i \end{aligned}$$

If one could estimate this model then one could identify that distortions lowered project returns because distortions raised costs (  $\alpha > 0$  ) and higher costs lowered returns (  $\beta < 0$  ). A concern with the chain of causation suggests the use of new left hand side variables and the use of perhaps a new data set with time series data. In the full sample OED database there are two variables for which it would be interesting to examine the impact of distortions. The database records the estimated and actual project costs and the estimated and actual date of physical completion. It would be very interesting to see to what extent distortions lowered rates of return via the mechanisms of delaying completion and raising costs<sup>1</sup>. This tracing in causal path is important because it indicates an effect of policy distortions through production changes, rather than through prices and distortions.

In the database for the '91-92 cohort of evaluated projects, there is an additional piece of information about problems with counterpart funding. Again, it would be interesting to examine the relationship between counterpart funding problems to outcomes (either, satisfactory, ERR, completion delay or project costs) and whether distortions are associated with counterpart funding difficulties.

In this section we could use as a dependent variable to measure project success the classification of projects as satisfactory/unsatisfactory in addition to the rate of return data. This inclusion brings a major benefit and two problems -- one serious. The benefit is that a large fraction of all project lending does not receive a rate of return. Only 50 percent of the projects

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<sup>1</sup> Pohl and Mihaljek, 1992, examine the effect of these variables on project performance and find surprisingly little impact of delays or cost overruns on either project returns, a result this project will explore.

have both an estimated and re-estimated rate of return. The inclusion of sat/unsat ratings brings us both a greater number of observations and allows comparisons across sectors. The minor problem with the use of the sat/unsat distinction is that the variable is discrete and hence calls for some econometrics more complicated than OLS. The sat/unsat distinction is meant to be coded on an absolute standard of project success, however there is an issue of whether in practice the application provides a consistent measure of development impact. Whether this creates econometrically insurmountable problems remains to be seen.

The more precise identification of the link between policies and project performance can serve three useful purposes. First, this allows a clearer distinction between the "distortion" costs of distortion and the "production" costs of distortion. The latter are not only welfare losses from inefficient production but first order losses from reduced productive efficiency. Second, disentangling the causal chain should allow the identification of remedial action to protect projects from the incipient effects (e.g., lack of counterpart funding) of policy deterioration. Third, an investigation will potentially allow a differentiation of the impact of policies by project characteristic (e.g. by sector, traded vs. non-traded) so as to guide project selection in distorted conditions.

#### B. Expanding the explanatory variables

A second area of improvement in the research on the policy determinants of project success is a selective expansion, but also a refinement, of the set of relevant policy variables. An indiscriminate expansion of the set of policy indicators is unlikely to do much to elucidate the paths of influence of policies on projects and ad hoc regressions will produce a large multi-

collinear, difficult to interpret mess. We propose a Chinese menu approach (one from each distortion group) to the inclusion of variables. In this we will draw on the work of William Easterly which has already, in connection with his work on economic growth, assembled a large set of policy indicators (fiscal, monetary, etc.). Also IEC has been constructing estimates of the magnitude of external shocks.

One area for inclusion of a new set of variables in the policy determinants of project success are the political and institutional. The current growth literature has examined the relationship between economic growth and political instability (Alesina and Perotti, 1994) and drawing on that work may prove a promising avenue, especially given the close relationship between Bank and government projects. A second strand of the recent empirical growth literature is focused on the institutional dimensions of growth performance using data on the effectiveness of governments (Knack and Keefer, 1993). The Center for Institutional Reform and the Informal Sector (IRIS) has been updating indicators on political variables (updating the earlier work of Taylor and Jodice) as well as institutional performance.

### C. Using time series for causation

A third component of the research is to go beyond the cross sectional results and examine the relationship between changes in project success and changes in the policy environment. In particular there are two questions of interest; changes in rates of return and changes in project implementation.

There is a large documented difference between project rates of return estimated at appraisal and the rates of return re-estimated at project completion (Pohl and Mihaljek, 1992).

For establishing whether the policies actually cause poor project performance or are merely associated this type of time series variation is crucial. This will require estimating an equation:

$$ERR_{t+k}^{ij} - ERR_t^{ij} = F(P_{t,t+k}^i, X_{t,t+k}^{i(j)})$$

where the rate of return on the jth project in the ith country estimated at time t+k is different from that at time t due to exogenous factors in country i (some perhaps related to project j) and the policy environment in country i during the period<sup>2</sup>. Integrating the timing of the projects and the timing of the policy changes<sup>3</sup> and separating out the exogenous reasons for the ERR, RERR distinction<sup>4</sup> will perhaps be difficult, but appears doable.

The implications for project portfolio selection will be examined. Since most project decisions are made on a ERR cut-off basis the effect on the portfolio of eliminating those whose RERR falls below that point. Policy conditions might allow the prediction of those projects which, although acceptable according to ERR are predicted to have ex post unacceptable returns. This analysis will require a different econometric specification which allows for non-linearities around the cut-off point.

The second method for examining the chain of causation may be to use the time series

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<sup>2</sup> Kaufman reports in the World Development Report, 1991 a two way comparison of this type (using project returns which depend on the change in policy) for the black market premium.

<sup>3</sup> Since policies may change over time for reasons exogenous to countries some normalization for the "typical" policy in a country in the period t,t+k may be required (as is done in episodic analysis).

<sup>4</sup> Pohl and Mihajek, 1992, do examine the project policy determinants of this difference using indicators of the level of policy, not of policy changes.



information on the evolution of project performance from the ARPP ratings<sup>5</sup> together with the time series information on distortions. The database on ARPP ratings of a thousand or so projects exists over time should allow comparisons. An equation relating project rating of the jth project in the ith country to policies in the ith country and other factors<sup>6</sup> could be estimated:

$$\text{Project Rating}_{i,j}^{i,j} = f ( P_t^i, X_t^{i,(j)}, k )$$

If this could be used to show that changes in distortions (or exogenous changes such as external shocks) cause changes in project ratings this would be convincing evidence of a causal mechanism running from policies to projects.

The establishment of a link between portfolio performance ratings and policy conditions can serve several useful purposes. The link with policies, particularly in a time series, may allow the early identification of emerging country policies that will be expected to affect portfolio performance. An empirical connection with policies can also serve as a guide to the expected performance of projects, if policies fail to improve. Finally, since in many cases the portfolio is a given when policy difficulties emerge, the connection between portfolio problems and the mechanisms identified above will hopefully isolate remedial actions to limit the negative

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<sup>5</sup> There has been some previous work done to examine the relationship between the project ratings by the Operations staff during implementation and the ratings of project effectiveness at project completion (as judged by the PCR or PAR). Although there is some connection, it is not completely tight as for instance only roughly 40 percent of projects rated as unsatisfactory at the PCR/PAR stage were ever rated as problems.

<sup>6</sup> There are two types of factors. The first is that the fraction of "problem" projects increases with time since project beginning (hence the "k" in the regression). In particular there are large increases in fraction of projects with problems in the third and fourth years. The other project related factors will depend on the project characteristics (e.g. sector) available from the ARPP set.

impact.

#### IV. Personnel, budget and coordination

There will be four people involved in the project, reflecting the coordination across vice presidencies of the research. John Johnson, OED, will supervise the RPO and bring OED perspective to the analysis. Lant Pritchett, PRDPH, will contribute to the research on econometric issues and the relation of the output and implications to ongoing research in PRD on the effectiveness of aid. Deborah Wetzel will contribute from DECVP. The total Bank contributions will be about eight staff weeks, for (approximately) US\$22,000.

As an outside consultant we plan to use IRIS, an independent research foundation at University of Maryland. At IRIS Jonathan Isham will be the principal researcher. Mr. Isham (CV attached) has worked extensively with the Bank. He did the empirical work for the original for the 1991 World Development Report. Mr. Isham and has subsequently worked in operations and with the operations advisor in Africa. He is now a Ph.D. candidate at University of Maryland. By bringing IRIS we benefit from their research experience in development, especially in the field of institutions and institutional development and from their ongoing research on the measurement of political and institutional conditions. Christopher Clague would supervise the research at IRIS. The total budget would be for the project would be of which \$57,000 of which \$35,000 would come from RSB support.

This project is related to, and will be coordinated with, various work at the Bank. This is an integral part of DEC and PRD's research effort into aid effectiveness undertaken under with the Aid Effectiveness Steering Group (with which Lant Pritchett and Deborah Wetzel are

both involved) and the results of this research will feed directly into that project.

This research is also related to ongoing efforts at OED to examine empirically the factors determining the success of Bank projects. John Johnson (OEDD2) is leading this effort. OED plans to expand the use of the OED database to examine the implications of the quality of Bank inputs (e.g., identification, appraisal, supervision) on the success of projects.

Recently, Arturo Israel (in connection with Ezra Bennathan) has proposed to do research on the statistical properties of the rate of return data, with a specific emphasis on whether this rate of return data can be taken to be representative to the rate of return to investment generally. As this will be an important interpretational question this research will draw on their findings.

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# PROPOSED RESEARCH PROJECT

## IMPACT OF AID ON RECIPIENT INSTITUTIONS

### 1. Objective of this Study

For more than a decade public sector capacity has been eroding in many of the poorer countries. This has happened despite large aid inflows, much of which has been directed towards making the public sector work better. Efficient and responsive public sector institutions are increasingly seen as essential complements to private sector development. The proposed research aims to explore the factors that influence the way in which aid affects public sector institution building, by focusing on high aid recipient countries in which aid inflow comprises roughly 10 percent of its GDP or more in the 1990s. Some additional countries, where aid has been less dominant and which have succeeded in fostering coping mechanisms to integrate aid inflows effectively within the public resource allocation, will be examined for comparison. The objective is to understand better the complex relationship between aid and public sector institution building, and to gain insights into how aid can be made more effective.

Three specific questions to be explored are: (i) How does a high aid flow affect the capacity of recipients to make and implement the public budget? (ii) What is its impact on the development priorities and the accountability of the recipient government? (iii) What implications do different mechanisms of aid coordination have on the public management capability of the recipient government? The study will examine both factors of high aid flow and the government management mechanisms that have exaggerated and that have minimized distortion in the recipient public sector, with a view to identifying ways to enhance the effective use of aid.

This study is timely for two reasons: first, because reorienting governments and making them more effective has been identified as one of major challenges facing the Bank in the years ahead; second, because the perception of aid propping up poorly functioning recipient governments is a major factor in the erosion of public support for aid in the donor countries.

### 2. Background

Relatively few studies have previously been conducted on the impact of aid on recipient institutions. Most of these studies focused on the impact of Technical Cooperation (TC) and institution-building projects in the public sector (Adamolekun, 1991, Berg, 1993, and Buyck, 1989). While available evidence generally confirms that the recipient governments and their civil service sectors are the key to improving the effectiveness of aid (Wade, 1993), there has been very little research about the effect of other aid in general on recipient institutions. The proposed study attempts, first of all, to fill this gap in the existing literature on aid and institutions.

The argument surrounding the impact of aid on the microeconomic incentive structure of recipient countries is a relevant starting point (Krueger, Michalopoulos and Ruttan, 1989). Krueger et al argue that the overall effectiveness of a given aid inflow is highest when accompanied by a neutral set of incentives that do not distort resource allocation. Empirical studies reported various types of distortions created by aid: in the recipient government development policy (Meyer, 1992), its tax revenue and its investment (Gang and Khan, 1991, Pillai, 1982). However, the impact of aid within the public sector has rarely been analyzed. The proposed study will examine the impact on the incentive structure created in the civil service sector due to high aid inflows. The mechanisms by which aid impacts the public sector are somewhat different from the microeconomic discussion, as indicated below.

To elucidate these mechanisms, recipient country public institutions need in depth examination. Despite the fact that some institutional factors, including administrative shortcomings have been discussed (Cassen et al, 1986), and acknowledged to be important (Cohen, Grindle, and Walter, 1985), concrete ways to measure their functioning in relation to aid have not been developed. The concept of sustainability -- in the sense of the continued operation and maintenance of new assets and services established by donors after their withdrawal -- has been noted as a test to judge the success of institution building (USAID, UK, ODA various reports). The proposed study, however, seeks to reverse the conventional analytical approach. Its purpose is to examine not institutional constraints which inhibit good aid projects, but how the process of aid itself influences public management.

Aid coordination has been more of a concern for practitioners of aid, and very few research studies have been conducted in this area. Although there are well documented failures of aid coordination (Cliff, 1988, Whittington and Calhoun, 1988), effective coordination may overcome the management difficulty of recipient governments created by high aid (Barry, 1988, Cassen et al., 1986, Krueger et. al., 1989). A part of this study will be to investigate to what extent the recommendations of these existing studies have been implemented, and to identify the factors that limit implementation in respect of recipient central government policies and budget.

### 3. **Scope of Proposed Research**

From a public administration perspective, the study focuses on two major aspects of the impact of aid and aid coordination on the central government: its resource allocation through budgeting, and its administration and management capabilities. For the former, the allocation of government resources in various fields (inter-ministerial, sectoral, capital investment and recurrent budget) are examined. For the latter, the impact of aid on technical skill allocation and administrative capacity in managing projects are the major focus.

#### 4. Testable Hypotheses

The major hypothesis that the study will seek to test is that the degree of distortion in public sector institution building by the inflow of aid is a function of various factors -- the degree of aid dependency; the capacity to implement domestic priorities; the extent of dialogue and aid coordination -- described further in the paragraphs below. By "distortion" is meant departure from the following norms of institutions, for example: (i) Recipient government has an effective ministerial unit dealing with a coordinated set of donor requirements; (ii) Equal treatment of foreign-originated and domestic-originated projects, especially in respect of budget process and staffing; and (iii) Overall public investment program and sectoral budget allocation solely determined by domestic developmental requirements. More specifically, departures from the norms are manifested by, for example:

- (i) The high costs in senior level government officials' time in dealing with aid missions, which distract from their capacities to implement programs and manage their departments, and in complying with different project preparation, negotiation, disbursement, procurement, accounting and evaluation requirements of multiple donors.  
Measurement: Time of senior officials spent with aid donors; number of different donor procedures required for aid projects.
- (ii) The strain placed on the overall management capacity of the recipient government by the need to manage aid, e.g., capacity to record aid flows correctly, or respond efficiently to the donors' requests.  
Measurement: Differences in aid flows recorded by recipient compared to those of DAC; and frequency of aid coordination meetings.
- (iii) The fragmentation of the government budget caused by the non-fungibility of most donors' aid, the "soft budget" effect arising from the uncertainty of future aid commitments allied with the weak aid management capacity of most recipient governments. By fostering a "needs" rather than an "availabilities" psychology in recipient governments, aid donors may have undermined the basic discipline of budgets.  
Measurement: Number of donor funded projects in development budget; and number of governmental departments that identify and negotiate feasible aid projects with donors.
- (iv) Inability to transform aid flows into fungible budget resources, because of limited domestic revenues.  
Measurement: Ratio of aid inflow to total government revenue.
- (v) The shifting of public sector accountability from domestic taxpayers, service beneficiaries, and elected officials to external donors, as aid becomes the dominant source of budgetary funding.

Measurement: Amount of government senior officials time spent with local government and domestic field trips; ratio of local government officials' time spent in the central government institutions to their time spent in their own state (province, prefecture).

- (vi) The supplanting of civil service incentive structures by substitute donor derived structures. As domestic budgets weaken and real pay declines, donors introduce compensatory mechanisms such as special rents and considerations in order to make the projects they finance work.

Measurement: Ratio of aid project staff pay to comparable civil servants pay taking account of associated benefits such as supplemental allowances, travel and training.

- (vii) Donor preferences on projects and sectors, which may be different to domestic priorities.

Measurement: e.g. Aggregated size and number of agricultural sector aid projects.

- (viii) The desire of many donors to finance discrete investment projects rather than provide program support may inadvertently create over-expanded government.

Measurement: Ratio of recurrent costs to investment in developmental budget.

The hypothesized determining factors are the following: (i) the degree of aid dependency of the recipient government for its revenues (positively), (ii) the capacity of the recipient governments fairly to implement domestic development priorities (negatively), and (iii) the extent of dialogue and aid coordination (both negatively and positively). More specifically:

- The degree of aid dependency of the recipient government for the financing of its projects. The more dependent a recipient country is on aid for financial resources, the more likely it is for its public administration to be distracted by aid inflows.  
Measurement: Ratio of domestic revenue to aid financing in the developmental budget; ratio of aid flows to the recipient country's GDP.
- The capacity of the recipient governments fairly to implement domestic development priorities. Indicators of management capabilities are: (i) a well established mechanism to ensure government accountability to its tax payers; (ii) decentralized but coherent administrative structure; (iii) government coordination capability in defining development priorities, both in terms of local development needs and resource allocation; (iv) strong control and management by the government of its budget allocation and taxing capability; and (v) its supervising capability to counter corruption, which is critical in securing the accountability of the public administration.
- The extent of dialogue and aid coordination. The mechanisms of policy dialogue and donor coordination can affect the degree of influence on the recipient government's decision making in both adverse and favorable ways. These mechanisms tend to



alleviate the problem of absorptive capacity in recipient countries, to curtail the high bidding for skilled personnel which biases the incentives for administrative and technical personnel, and to minimize distortion of inter-ministerial resource allocation. However, some policy dialogue mechanisms monopolize the time and energy of high level officials. The overall impact can be measured by the way the national development strategy is developed, and how government and donor consultative mechanisms function.

Measurement: Frequency of consultative groups, local donor coordination meetings, with or without government participation; existence of Bank adjustment program or Fund arrangements.

Even though the objectives of individual projects may be praiseworthy, and even though many projects include institution building components, the unintended consequences of aid may act to undermine the contribution external aid makes to sustainable development. These mechanisms are elaborated upon in the Attachment 1 "How Aid May Undermine Public Sector Management and Institution Building". Issues related to aid coordination are elaborated in Attachment 2 "Aid Coordination - A Research Agenda".

## 5. Data and Methodology

The study will proceed by examining a set of currently high aid countries, in comparison with both (a) the same countries in the 1970s when, for most countries, the ratio of aid to their GDP was significantly lower; and (b) a set of relatively low aid countries. Given the complex nature of government institutions, their budgeting process and decision-making mechanisms, and the specificity of each country, as well as the variety of aid coordination mechanisms, we will pursue this research through a comparative case study method. This study will take five countries which meet the following four criteria: (i) highly aid dependent, (ii) from various regions, (iii) Public Expenditure Reviews (PER) have been undertaken, and (iv) some type of study on aid coordination has previously been conducted. The proposed countries are: Bangladesh, Bolivia, Kenya, Malawi, and Senegal. Two additional countries, which have evolved sophisticated "coping" mechanisms will be analyzed as a reference base: Botswana when the aid influx was effectively managed, and Pakistan, where aid has been a relatively small factor in domestic investment.

Starting from a country's PER and current budget, the study will investigate first, how and what types of adjustment and distortions the high aid flows have induced in domestic resource allocations, and development priorities. Second, observing the degree and different types of distortions created by aid, the research will go on to analyze the way in which public administrations in some high aid countries have coped or failed to cope with the negative impact on its institutions. Lastly, the impact of different mechanisms of aid coordination and policy dialogue in each country will be examined to provide evidence for the effects of these coordination efforts on the recipient government's management capability.

In addition to PERs, data that shed light on the symptoms of aid's impact on public sector management, as mentioned in the preceding section, will be gathered through field research in the form of interviews of selected government staff on the basis of a questionnaire (preliminary example in Attachment 3), government budget and other available material from the governments. Moreover, staff and consultants in the field will attempt to reach informed appraisals of the factors behind expenditure and related decisions. For the aid coordination component, preparatory research on existing studies will be conducted in order to identify the recommendations that have been made to improve the performance and result of aid coordination. We plan to hire local consultants to conduct the data compiling activities with close coordination by the participating units of the study (IEC and OPR).

## 6. Expected Outcome

The purpose of the research is to explore, by country case studies, the hypothesis that many of the characteristics of aid, as presently practiced, may influence the existing function of public management capacity and to document the extent to which unintended negative consequences are at work. These negative consequences are symptoms of the government not being able to cope with the inflow of aid. Some success cases are also examined to identify factors within the public sector which have enabled these coping mechanisms to arise and become effective within the government.

The impact of aid on the recipient public administration has not been considered as a central research question, and the issue has been treated, if at all, as one of the side-effects of aid. However, a key factor in aid implementation and sustainability of development is often the public sector in the recipient countries. Hence, the findings of this research should be useful for the broader study of aid effectiveness and also for aid project design and implementation.

## 7. Project Design and Budget

The project could start soon after approval of the research proposal. Two local consultants per case country would be identified and a meeting to coordinate a coherent approach in data gathering and appraisal would be held about 1 month later.

The external cost of the project will amount to about \$[215,000], and will consist of consultant fees and travel. IECIF (Saori Katada, under the direction of Ronald Johannes) will coordinate this work and contribute [14] staff weeks, in collaboration with OPR (Mike Stevens), contributing about [6] staff weeks.

Attachments (3).

MStevens/RCassen/SKatada/KJun/RJohannes

OPR/IEC/July 8, 1994.

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## How Aid May Undermine Public Sector Management and Institution Building

The main text has outlined several ways in which aid inflows influence public sector management capacity. Experience points to a number of symptoms of aid's negative influence, which are elaborated upon below.

1. The High Administrative Cost of Aid. Most high aid inflow countries have been unable to institutionalize aid management by setting up a strong aid coordination department to deal with donors. Even where such departments exist, they are frequently dismissed by aid donors as irrelevant. Thus donors seek meetings with senior officials, diverting them from their proper business of determining government policy and managing their departments. A vicious cycle develops. When aid flows become the dominant source of government funding, policymakers have no alternative but to assign high priority to aid mission requirements. As a result, the time available to manage their departments diminishes, and the quality of administration deteriorates. Much needed reforms, which aid donors have agreed to support, are not implemented. And because donor missions insist on meeting with senior officials, middle ranking officials are often out of the loop; and the lack of administrative capacity in depth becomes self-reinforcing. A similar effect maybe observed during project preparation. Because projects must meet metropolitan aid agency standards, more time is spent preparing projects than would be the case if the project were domestically funded.<sup>1</sup> Although aid agencies often provide consultants or make available their own staff to prepare projects, a great deal of departmental staff time is absorbed providing information to project missions.

Perversely, the insistence by donors in recent years on a policy dialogue increases the demands made on policymakers' time. The quality of policies may improve, but the capacity to implement them is paradoxically diminished. The same risks attend more participatory approaches to project design now being promoted in the pursuit of greater recipient ownership.<sup>2</sup> When a donor agency undergoes rapid staff turnover, the problem is compounded.

A second category of administrative cost is the burden placed on governments by aid donors insisting on their own processes for project disbursements, procurement, accounting, reporting, auditing and evaluation. Partly, this is due to mistrust of the recipient's own procedures (which may originally have been justified but becomes self-perpetuating), partly it is due to the policy adopted by virtually all donors that the

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<sup>1</sup>More time in preparation does not necessarily mean a better project. It can be argued that donor participation in the project preparation process, while it may increase technical rigour, it can, at the same time, result in greater complexity. The incentive for donor agency staff is to prepare a project that meets agency rather than government requirements. Contained within the project must be actions which address agency concerns, which may be broader than those of the government.

<sup>2</sup>A recent Bank study of the cost of participation, though it focused only on the staff costs to the Bank, acknowledged that a significant part of the burden of participation fell on the government (Jesko Hentschel, *Does Participation Cost More? The Emerging Evidence*, HRO Working Paper no. 31.

procedures used to spend and account for aid moneys should conform globally to the aid provider's standards rather than the government's standards. Operationally, this means that government staff must become familiar with as much as 30 different sets of project disbursement procedures.<sup>3</sup> Thus donors insist on special accounts, special procurement rules, special contract forms, special auditing arrangements, etc. rather than supporting the government's own systems (improving them where necessary).

2. Budget Fragmentation. A fundamental principle of public budgeting is unity -- the idea of a single budget that brings together expected tax and other revenues, and all proposals for the use of resources, so that the government may make strategic decisions on taxing and spending for parliamentary approval and for the control of expenditures. The budget should be the central instrument of government financial management, the means by which spending plans are made consistent with expected resources, trade-offs are faced and priorities are established.

Aid can undermine the effectiveness of the budget in several ways. First, because donor aid is typically project tied, the capital, or "development" budget, is fragmented typically into several hundred or more "mini budgets" imposing a rigidity on the budget that makes trade-offs between different uses impossible.

Second, the traditional desire of donors to finance new development schemes has, over the years, imparted an expansionary dynamic to government budgets. Though this is now changing the reluctance of donor agencies to finance recurrent costs has, in some respects, contributed to the present crisis of O&M funding in most aid dependent countries.<sup>4</sup> A further source of budgetary pressure has been persistent failure of donors (World Bank not excepted)<sup>5</sup> to properly cost the incremental recurrent costs of the projects they prepare and finance.

Third, donors (as the World Bank has been doing in the roads sector in SSA) may encourage the earmarking of revenues and the creation of special funds to solve the O&M problems of one sector, at the cost of greater budget uncertainty in other sectors.

Fourth, the budget as an instrument of fiscal discipline can be undermined if donors, instead of dealing with a central aid department when new projects are sought, go

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<sup>3</sup>In a typical high aid inflow country, the Development Budget may be in receipt of funding from 20-40 different external sources.

<sup>4</sup>This, in fact, is a more complicated issue than can be presented here. In the old days, when donors financed only the foreign exchange costs of development projects, and projects typically comprised new roads, new schools, irrigation schemes, etc., there was a discipline inherent in the aid model. Recipient governments had the responsibility of generating sufficient recurrent budget funds in future years to meet a project's running costs. Once donors began financing recurrent costs within projects, and once projects became programs of recurrent activities rather than the provision of new public assets, the situation became more complicated. Aid became more flexible, but the discipline of having to meet the recurrent costs weakened. This is one of the ways aid has "softened" the budget constraint.

<sup>5</sup>By using national accounts rather than a budgetary classification of what is current and what is capital, the Bank systematically underestimates the budgetary costs of sustaining project activities once the externally financed phase is completed.

directly to line ministries. If this happens, the discipline of the budget will be further eroded. In circumstances where domestic budgets are insufficient to meet ongoing departmental requirements, senior managers will look to aid donors to make good the deficiency. In this way, aid will be sought not for project outputs and outcomes but for the vehicles, equipment, transport and travel money, training opportunities, etc., that may flow from its approval. There is thus no incentive for departments to prioritize their projects. Rather, the incentive is to put as many projects as possible in the "shop-window" in the hope of attracting a wealthy buyer into the store. This helps to foster a "needs" mentality on the part of line departments.

The fifth way in which present aid practices may undermine budgets is the distortion of domestic budget priorities by donors' perception of the types of project they wish to see their funds finance. In many countries, this has led to an excess of projects in the agriculture sector,<sup>6</sup> far beyond the capacity of government to implement them and sustain them on completion, and in excess of what would be allocated to the sector by either economic or public management criteria alone.

3. Accountability Shifts. In many now industrialized countries, the emergence of accountable government has been closely linked with the struggle, stretching over centuries, between ruler and parliament over the power to raise taxes. Demonstrating good stewardship of taxpayers' money has always been an implicit condition of granting taxing powers. In this way, taxes have been a mechanism of accountability. Indeed, it could be said that in modern industrialized countries, governments would be unable to raise such a sizable fraction of GDP in taxes (much of which depends on self assessment) unless there was a broad acceptance of value-for-money from government. In heavily aided developing countries, this accountability nexus has had little opportunity to develop. The conditioning of aid on macro-economic performance, and the centralizing tendency of the Consultative Group process, have transferred accountability to external monitors.

In short, when aid flows become the dominant source of budget financing (and thus vital to a government's continued capacity to retain power), accountability shifts from domestic institutions to the donor community and to the Bretton Woods institutions in particular. The link between governments and citizens (never strong in many less developed states) is thus broken.<sup>7</sup>

4. Civil Service Incentives. In countries where civil services are inadequately paid, professional, technical and managerial and capacity is eroded, a process that can happen rapidly if the economy is liberalized, and local labor markets for professional and technical skills start reflecting international levels. Some practices of donors serve only to exacerbate the problem. Ring fencing project implementation units (PIUs) and

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<sup>6</sup>The Bank's Agricultural Sector Investment Program for Zambia (scheduled for FY95 Board presentation), is attempting to consolidate an agricultural sector program of no less than 180 separate projects.

<sup>7</sup>Here, the growing emphasis by donors on the participation of beneficiaries in project design and implementation has the potential to reconnect public sector accountability to its domestic constituencies, though only if governments, rather than donors, drive the participation process.

supplementing project staff pay with special allowances or other benefits not enjoyed by the rest of the civil service, is one example of how the core capacity of governments can be eroded. The practice sends a signal to the rest of the civil service that conditions are much better working on a donor financed project, rather than staying in the domestically financed part of the government trying to make the accounting system (for example) work.

Through special travel allowances, per diems to attend donor sponsored workshops, etc.<sup>8</sup> the credibility of the domestic civil service is further undermined. In one sense, the public sector has privatized itself. Through salary supplements, per diems and other inducements, donors "purchase" the civil service resources they need to run a successful project. Likewise, firms may "purchase" the excesses they need to trade, to clear goods, through customs, or resolve tax disputes. Individuals may pay "user charges" directly to hospital staff to obtain treatment. Once such a system of special inducements has been established, it is very difficult to abandon. It hardly needs saying this is antithetical to building a civil service ethos.

5. Donor Priorities and Project Bias. It is well known that the views of donors of how they want their aid to contribute to the development process have varied greatly over time. Regional projects, the industrial sector, basic education and health needs, integrated moral development project, physical infrastructure, social infrastructure, agriculture and the environment have all been donor priorities at one point during the past 30 years. In heavily aided countries where domestic resources are insufficient to offset donor bias,<sup>9</sup> the latter's project preferences have almost certainly strongly influenced, if not distorted, government priorities (or, in an extreme case, ensured that the latter never emerged).

A further source of bias is the donors' preference for "projects." Although these in recent years have increasingly become "programs" -- packages of inputs to support both recurrent and capital activities -- the project format has not only imparted an expansionary bias to government expenditures, as noted above, it has also reversed the normal sequence of recurrent and capital programming choices. In industrialized countries, the emphasis is on programs, activities normally with an indefinite time horizon, of essentially a recurrent nature. The capital component of the budget is simply the capital consequences of already decided recurrent spending programs. Program choices are typically made in the context of a department's strategic view of its role and objectives. The aid process reverses this sequence by deciding projects first, leaving the question whether the recurrent budget can accommodate the incremental running costs as something to be tackled later.<sup>10</sup>

<sup>8</sup>In Malawi recently, staff of another donor's resident mission told me they had recently organized a workshop to discuss the agency's aid program at which no less than 30 permanent secretaries attended. Were per diems paid? "Naturally" came the answer. In this way, donors "purchase" the time of government officials.

<sup>9</sup>The capacity of domestic revenues to finance a significant portion of the development budget is critical to whether donor or government priorities prevail. If there is adequate local resources, the government can compensate for donor bias, by shifting its measures to the projects donors do not want to finance, in that way maintaining, in the government's eyes, the right overall balance.

<sup>10</sup>The integrated sector approach to aid coordination, as developed by AF6, has the potential to correct this reversal.

Mike Stevens/OPRPG  
June 1, 1994



Attachment 2**AID COORDINATION - A RESEARCH AGENDA****1. Introduction**

Aid Coordination has not often been the subject of research, though it has been much written about in official documents of the Development Assistance Committee of the OECD (DAC) and aid agencies. Ideally a research agenda should start from the existing state of knowledge and significant identified gaps within it. Unfortunately knowledge resides, apart from a modest number of studies,<sup>1</sup> mainly in the minds of practitioners on the various sides of the aid relationship.

An alternative starting point is to list the perceived results of failures of coordination, and determine what additional knowledge would assist in overcoming them. Since this is a policy subject whose main interest lies in the improvement of aid effectiveness, that is the approach adopted here.

**2. Areas for Research**

There are two broad areas to consider: donor coordination at the policy and information level, and coordination in the field. For short, these will be called "headquarters coordination" and "field coordination."

**(i) Headquarters Coordination**

The principal areas for coordination at headquarters level are:

- Assistance policies and instruments
- Sharing of information and experience

Most of these are the province of the DAC (though not the DAC alone). Under the heading of *assistance policies* the DAC has made a great deal of headway on such matters as definitions, terms and conditions of assistance, aid tying and procurement - though on the latter two the agenda is still uncompleted. The DAC has also looked at one or two sectors of aid, such as Technical Cooperation and program assistance (a major new effort is in train on the former); and some developmental sectors, such as women in development. On all these it has produced "Guidelines" or "Principles" which have been agreed among members. In every case, stress is laid on the importance of coordination. In one or two areas there is still a need for improvement: recipient reporting requirements

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<sup>1</sup>See A.J. Barry, Aid Coordination and Aid Effectiveness: A Review of Country and Regional Experience, OECD, Paris, 1988; R. Cassen and Associates, Does Aid Work? Oxford University Press, Oxford, (Second ed.) 1994; B. Claus et al, Coordination of the Development Cooperation Policies of Major Donor Countries, German Development Institute, Berlin, 1989; OECD, Development Cooperation - Annual Review, OECD/DAC, Paris, various years, esp. 1989. The DAC released its "Guiding Principles for the Coordination of Aid" in 1986; they are reproduced in OECD, DAC Principles for Effective Aid, Paris, 1992.

on aid activities impose substantial administrative burdens on recipients, which can only be relieved by donors' adoption of more uniform procedures.

On the matter of *instrumentalities* of aid, it has made less progress: indeed it has not attempted this to any great extent. This is perhaps the first main point to be made about failures of coordination. DAC "Guidelines" and "Principles" are at a high level of generality. They indicate where donors have been able to agree. Problems arise however when the time comes to translate broad policies into action. Here donor differences become relevant.

A case in point is the field of population. Although the donors agree broadly both on objectives and on the desirability and extent of what has to be done, they have in the past been quite far from agreeing on methods of achieving their goals. They have disagreed on the extent to which family planning should be concentrated on by itself, or pursued only in the context of broader social and economic programs; on the extent to which family planning should be offered within the health-services framework or outside it; on the relative extent of reliance on government, NGOs and the private sector; and on the desirability of specific techniques of contraception, as well as abortion. The strength of such disagreements should not be exaggerated; they are perhaps somewhat diminished today. But they are significant. They have prevented donors from agreeing on policies, at the level of international coordination discussions or on the agendas for individual multilateral agencies; and they have prevented or at least hindered satisfactory cooperation in the field.

Another broad area is that of policy advice. This applies in particular to structural adjustment and sectoral policies. In recent years the bilateral donors have more and more tended to line up behind the World Bank, which has usually taken the lead in this type of policy dialogue. There have however been differences between donors, even on occasion between the Bank and the IMF. There are two unfortunate results: the recipient may receive contradictory advice; and conditionality can be undermined. (Alternatively, there may be long delays in concluding agreements). Sometimes bilateral commercial interests can have similar effects at the project level: a large construction project, for example, which the World Bank has advised against on technical or even macroeconomic/fiscal grounds can be picked up by a bilateral donor interested in commercial aspects of the project - though the opposite has also been known, where Bank advice has overcome bilateral (and recipient) commercial interests.

The *sharing of information* is another area where there is scope for improvement. Over the years donors have gradually improved their evaluation and feedback methods, to the point where there is less tendency today for an individual agency to repeat failures of projects it has carried out itself in the past.<sup>2</sup> There is still something to be desired in *inter-agency* feedback: the sharing among agencies of both positive and negative aid

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<sup>2</sup>Such repetition of error was found to be frequent in R. Cassen and Associates, *Does Aid Work?* Oxford University Press, Oxford (First ed.), 1986.

experiences is sporadic and unsystematic. The result is that agencies continue to try assistance methods which others have already found wanting, or are unaware of positive experiences which could help to improve procedure. The World Bank, for example, has found it difficult in the past to find satisfactory methods of lending to small- and medium-size enterprises, while some bilateral donors have had successful experiences. To the present author's knowledge, there has been little effort to collate and learn from this history.

There are a number of regional aid coordinating groups, such as the CILSS/Club du Sahel, and Africa-wide bodies that have grown up under the Special Program for Africa. The Caribbean Group for Cooperation in Economic Development, chaired by the World Bank, has for some years been a forum for consultations on aid and other matters in the Caribbean region. And so forth. These organizations have complemented the role of the DAC. But they have been closer to recipients than the DAC, and *inter alia* have played a part in helping to organize field coordination.

(ii) Field Coordination

The main coordination problems are undoubtedly at the field level. Several results of poor coordination have been identified: contradictory advice, already noted; proliferation of aid projects and programs, i.e. excessive numbers of different activities with the same objectives; poor coherence of the set of aid activities in a country and a lack of congruence between aid activities and national development objectives; burdens on recipient administrations, already partially noted; difficulties in satisfying recipient budgetary, foreign exchange and manpower requirements in relation to aid activities.

Field coordination is a matter for both donors and recipients. Donors and recipients meet in aid Consortia and Consultative Groups chaired by the World Bank; or in Roundtables under the aegis of the UNDP. These however play only a limited role in field coordination, being used more for review and country programming of aid. Local coordination takes place to a greater extent through meetings of donor representatives in country, often called by the World Bank resident mission or by a lead donor - USAID has been particularly active in this respect.<sup>3</sup> These meetings can and do take place on any topic from macro policy to sectoral or detailed project or aid-management issues. In countries prone to repeated natural disasters, there are sometimes local arrangements for coordinating relief aid; these include organizations to coordinate NGO activity, which is becoming ever more prominent in aid as a whole.

A major role is, or should be, played by the recipient. Commonly, the worst failures of coordination are found in countries (principally in Africa) where aid is not negotiated or monitored by, or reported to, a single central government body. Instead, donors negotiate piecemeal with a variety of government ministries; the central government often has no unit which knows about or keeps information on the entire range

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<sup>3</sup>German Development Institute, Development Assistance of the United States, GDI, Berlin, 1987.

of aid activities. Perhaps the worst served is technical cooperation, for which even in countries where aid is otherwise handled with tolerable effectiveness, sometimes no data are kept, and there is little government oversight. Absence of a strong recipient role in aid coordination is sometimes due to a generally weak administrative capacity, but sometimes to local politics, under which no government agency has overriding power, but individual ministries are effectively fiefdoms of powerful local forces.

### 3. Research Design and Research Questions

What additional knowledge would help to improve aid coordination? There appears to be little role for desk research, except possibly for a literature survey which could fill out the detail of the subject covered in the present note. It is difficult to think of any quantitative research that might be helpful, other than perhaps to examine whether aid in countries with various coordination arrangements has fared better than elsewhere; but even this is unpromising, as there is likely to be a major simultaneity problem: the reasons why coordination arrangements exist would also enter into an explanation of the relative success of aid (quite apart, of course, from problems of establishing whether aid has been more effective in one context than another).

It might be said that there is no need for research, and that what mainly needs doing is to implement the conclusions and recommendations that have been reached by past agency and other studies. There is certainly some truth in that view. But it does raise a question which could be studied: what hinders improved coordination, and which avenues for improving it are likely to yield the best results? This could be looked at in a number of ways: by taking a number of recommendations for improving coordination which have surfaced in recent years, and examining which have been pursued and with what result, and which have not been followed up, and why. It should be possible to identify where progress can be made. On issues where despite repeated attempts there has been relatively little progress, a study could establish whether the limits of improvement have been reached, or further measures could be helpful. Such a study would require examination of a number of countries, and interviews with those who participate both in coordination discussions and in coordination itself.

In addition, a new area for study would be NGO coordination. NGO roles in *relief* assistance have been the object of study; but given the growing volume of relief assistance and concerns about the relations of such assistance with long-term development, it could well be further examined. And the coordination of NGO *development* assistance has been relatively little studied, although NGOs now channel a considerable and growing proportion of official aid.

Perhaps a prior question is, what is the state of our knowledge regarding coordination? Has it been improving in recent years? Again, this could be studied by examining a number of countries, particularly those where coordination has already been the object of study in the past. (There are quite a number of such studies, mainly from the

1980s or earlier<sup>4</sup> ). It is only by looking at individual countries that the systemic effects of aid, i.e. the collective results of the aid activities of a number of donors, can be assessed.

#### 4. Research Method and Resources

When aid coordination is to be studied at any level beyond headquarters coordination, then it requires mounting a number of country studies. These should have the same terms of reference; they should be carried out by people familiar with the countries concerned; they should in the main be in countries where the state of coordination has already been the object of study; they should include interviews with recipient governments; and with major donor agencies both in country and at headquarters - including NGOs as well as public agencies. It would be desirable to concentrate in particular on *recipient* roles in coordination, which have rarely been the object of direct study. Such studies could be carried out by two people per country, with a minimum of six to eight weeks in the field, and a total of six to nine months to carry out necessary other travel, interviews and writing up. A further exercise would be needed to write an overview based on the country studies. It is possible that country studies are being, or will be, contemplated within the overall scope of the work on aid effectiveness already being considered in the Bank's current exercise. In that case, there would be obvious economies in combining the study of coordination with that of other topics of interest.

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June 6, 1994

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<sup>4</sup>For example, Barry (1987), *op.cit.*, covers Bangladesh, Senegal, Somalia, and Togo; the background studies for Cassen et al. (1986), *op.cit.*, examined Bangladesh, Colombia, Kenya, Malawi, Mali, and South Korea; the World Bank has examined the history of its own relationship with a number of countries - e.g. World Bank, The World Bank in Pakistan: Review of a Relationship, Washington, D.C. 1986 - and these studies have covered coordination matters. (There has been a follow-up study of Pakistan: R. Cassen et al. The Effectiveness of Aid to Pakistan, Government of Pakistan/UNDP, Islamabad, 1990). There have been a considerable number of studies by independent scholars or by, or commissioned by, individual donors, of aid relations with particular recipients, which also frequently examine the state of coordination, e.g. studies of Canadian and Norwegian aid to various countries conducted by the North-South Institute (Ottawa) and the Christian Michelsen Institute.

**Examples of Information  
that would be sought by Staff and Consultants in the Field**

- Administrative and management burden created by high aid inflow.
  1. Time of senior officials spent with aid donors.
    - (a) Absolute level of time.
    - (b) Relative to middle ranking officials' time spent with donors.
  2. Number of different donor procedures required for disbursements; procurement; accounting; reporting; auditing; and evaluation.
  3. Ratio of aid flows as recorded by recipient to DAC recorded flows (adjusted for donor 'overheads').
  4. Frequency of (i) consultative groups (aid consortia or Roundtable meetings), (ii) local donor coordination meetings (World Bank, UNDP resident missions, or USAID), with or without government participation.
- Fragmentation of budget and distortion of human resource allocation.
  1. Numbers of donor funded projects in development budget.
  2. Number of governmental departments that identify any feasible aid projects with donors.
  3. Ratio of aid projects staff pay to comparable civil servants pay, taking account of associated benefits (e.g., for aid projects, supplemental allowances, travel, and training).
- Dominance of aid and donor priorities over domestic financing and priorities.
  1. Aggregate size and number of agricultural sector aid projects.
  2. Ratio of aid inflow to total government revenues.
  3. Ratio of domestic revenue to aid financing in developmental budgets.
  4. Ratio of recurrent costs to investment in developmental budget.
  5. Amount of government senior officials time spent with local government and domestic field trips.
  6. Ratio of local government officials' time spent in the central government institutions to their time spent in their own state (province, prefecture).

## Aid<sup>1</sup> Critiques

### List of Aid Critiques commonly heard and possible responses

#### 1. Allocation criteria of Aid

- Criticisms of international aid allocation, or aid allocation criteria of the donors.

Criticisms of the way aid is allocated internationally come from the fact that a high percentage of ODA goes to upper middle and upper income developing countries, and for reasons other than poverty alleviation or economic development. Examples of criticisms are:

- Aid does not get to the poorest of the countries (Critics: NGOs, European left).*
- Too much aid is given for military purposes and the arms trade (Critics: NGOs, left, and some international organizations like UNDP Human Development Report).*
- Aid is provided for the self-interest of donors, and is not aimed at improving economic and social conditions of the poor (Critics: NGOs, left, and some international organizations).*

Since these are related to donor aid policies, the response to these would be that the international community (including international organizations, OECD and some Nordic donor countries) has stressed the importance of reallocation of aid, and some agreements are made to enhance development effectiveness (e.g., "DAC principals for effective aid").

- Criticisms over domestic allocation of aid in the recipient countries.

After aid is allocated to a recipient country, its use and sector allocation is also the target of criticism. Poverty reduction and improvement of socio-economic conditions of the poor in the developing countries still leave a lot to be desired. Examples of criticisms are:

- Aid does not reach to the poor in the aid recipient countries (Critics: NGOs, some donors, left and recipient local community).*
- More aid is provided for big physical infrastructure purposes than for social infrastructure like education and health (Critics: NGOs, some donors, left, social sector specialists and some sectors of the recipient countries)*

There are two aspects of aid one can examine to respond to these criticisms. One is donor aid policy, both in terms of its allocation and implementation, and the other is the recipient

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<sup>1</sup> In this text, aid is defined broadly in terms of capital flows from public sector for development purposes, which does not have to be over 25 % of grant element criteria set by OECD. (i.e. Development loans provided by the World Bank, bilateral donors and other multilateral are also included).

governments' level of decentralization and sectoral development focus. Increased participation of NGOs in development projects may shift this allocation bias to more favorable conditions to the poor, and many donors are looking at NGOs as on-going or potential participants in aid project implementation.

- Criticisms of aid on other allocation grounds.

There are some criticisms related to other allocation issues:

*--Aid puts financial stress on the donor countries' already tight budgets (Critics: Budget realist of donor countries, some tax payers and special interest groups).*  
*--Though aid and its financial burden has to be shared by all the OECD and other advanced developing countries, many rich countries are free-riding on the United States and a few other large aid providers (Critics: The United States government and taxpayers from some donor countries, and "burden-sharing" advocates).*

Response to these varies depending on the nature of the question.

## 2. Distorting effect of Aid

- Distortion in the international economy

The rationale itself and motives of aid are in question. Isn't aid promoting inefficiency and dependence in the "South"? Why do we (donor countries) have to provide resources to the developing countries to create more competitors in international market? Criticisms are, for example:

*--Aid exports jobs from donor countries by making developing countries more competitive in international markets (Critics: Labor in the donor countries, donor countries' domestic special interest groups).*  
*--Aid promotes mercantilist behavior of the donors, and political manipulation distorts the economic growth of developing countries (Critics: Dependency theorists prominent during 1970s particularly in Latin America, G-77, other left).*  
*--Aid creates a moral hazard problem by encouraging inefficiency and failure of development projects so that the funds will continue to flow in (Critics: Donor countries' right and conservatives).*

The rationale to counter these claims is to emphasize the interdependent nature of the contemporary world economy. Without aid, the self-interest of either donors or recipients will lead to zero-sum behavior and less of potential gain, whereas aid transfers capital and skill, and consequent economic development of low income countries will lead to positive sum world where the total gain is much larger than the total cost, and both providers and recipients of aid will benefit.



- Distortion in the recipient country economy

Aid-funded projects, which bring in external inputs (ideas, personnel, technical and capital) into recipient countries, tend to have distorting effects in their economies (though usually unintended).

*--Development models of western industrial countries do not apply to the reality of developing country economies. (Critics: Some Japanese economists and policy makers, some G-77 policy makers, and structural economists)*

*--Aid creates Dutch disease, and make low income developing countries aid dependent (Critics: Dependency theorists, G-77, and some developing countries' governments).*

*--Aid encourages capital intensive technology in developing countries where capital is scarce and labor is abundant (Critics: Some economists, development planners in recipient countries).*

*--Aid overemphasizes cash crop production and neglects staple food production, thus creating hunger (Critics: NGOs, left and some local population).*

*--Aid distorts economic growth by discouraging domestic saving, crowding-out market incentives, and curtailing grass-roots initiative (Critics: Some economists, policy makers in donor and recipient countries).*

Further empirical research is needed in order to establish causal link between aid and these distortions. The simple arguments of aid causing economic distortion must confront the fact that some former low income countries that have graduated through efficient and effective use of aid for their economic development (e.g., Korea).

- Distortion in the recipient country society

The externality brought in with aid creates distortion in the recipient institutions and society, and undermine what was good about them, such as:

*--Aid creates moral hazard problem by encouraging inefficiency and failure (Critics: Donor countries' right and conservatives).*

*--Aid and its external influence destroys the endogenous culture and social network that used to provide welfare of the people (Critics: NGOs and left).*

*--Aid distorts income distributions in developing countries (Critics: Left).*

*--Aid induces institutional distortions and corruption (Critics: Some donor countries).*

There needs to be more research that focuses on this issue of aid and indigenous society and aid and recipient institutions. If there are unintended detrimental effects of aid in the recipients societies, the modality and implementation of aid projects have to take these factors into consideration.

### 3. Effectiveness and management of Aid

- Inefficient management of aid by the donors and multilateral aid organizations

Criteria in design, implementation and evaluation of aid projects are not so well-established, and poor management of aid both on donor and recipient side creates waste of scarce resources. Criticisms include the following:

*--There is no clear measurement of the effectiveness and impact of aid, thus making the evaluation of aid arbitrary (Critics: NGOs, some academic researchers, some donors).*

*--No clear development criteria are set for aid operation (Critics: Taxpayers in donor countries).*

*--Inefficiency created from lack of coordination and communication among donors and recipients (Critics: Some donors, international development organizations).*

*--Aid agencies are inefficiently run and ineffectively organized bureaucracies (Critics: "Aid realists").*

Any response needs to acknowledge that aid is still an inconclusive research area, and there must be further research effort to provide effective criteria of aid. Moreover, though there are criticisms of the efficiency of aid bureaucracies, they often relate to the bureaucratic rather than aid aspect. And efforts are being made by many international development organizations as well as bilateral aid organizations to make aid more effective (by cutting administrative costs, and reorganizing the offices etc.)

- Some modalities of aid have a detrimental effect on the recipient countries.

Specific modalities or focus of aid have been criticized to have negative effect on the recipient countries development. Examples are:

*--SAL has overall detrimental effect on developing countries' economic growth (Critics: People and some governments of heavily indebted countries, NGOs, left).*

*--Tied aid puts pressures on recipient economies by increasing procurement costs (Critics: International organizations, OECD, recipient governments and some economists).*

*--Aid is significantly ineffective in Sub-Saharan Africa many poor live (Critics: NGOs and left).*

*--New transnational issues such as refugees, environment and Women in Development have not been seriously considered in aid project implementation (Critics: NGOs, left and some international organizations and Nordic donor countries).*

Each criticism has to be countered by evaluative results, or some concrete counter examples.

- Welfare/sustainability impact of aid in the recipient countries

Long-term and welfare impact of aid is not considered as a major issue by the donors and recipient governments, therefore aid has become one time give-away, and does not establish the ground for sustainable development. Examples of criticisms are:

- Social welfare impact is not considered in aid allocation (Critics: NGOs and left).*
- Absorptive capacity of recipient countries is ignored (Critics: Academics and some international organizations).*
- Environmental effects are ignored and aid never achieves sustainable development (Critics: Ecologists and NGOs).*
- Aid is merely give-away, or does not have long-term developmental impact on the recipient (Critics: Political realists, right and some fiscal realists in donor countries).*
- Recipient countries' institutional settings are ignored in aid implementation, and this creates public sector inefficiency (Critics: Social scientists such as political scientists, sociologists and anthropologists, and some recipient governments).*

Further studies have to be done on the long-term effect of aid projects in order to incorporate these findings into the design, implementation and evaluation of aid projects.

- Donor self-interest prevails in aid policy

Donors have different motives for providing aid other than economic development. And these motives create political problems internationally and for the recipient governments.

- Coercive diplomacy through aid is rampant (Critics: Recipient governments and people).*
- Aid is provided for the self-interest of donors, and is not aimed at improving economic and social conditions of the poor (Critics: NGOs, political left and some recipient governments and people).*

Efforts are made at OECD/DAC level to focus more on economic development. Peer pressure of the donor community will serve as one motivation for depoliticizing aid. International aid community centering around UN and World Bank/IMF need to stress more on the importance of this issue.

SKatada/RJohannes  
IEC/June 14, 1994

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**RESEARCH PROPOSAL ON AID EFFECTIVENESS  
THE IMPACT OF AID ON SAVING, INVESTMENT AND PUBLIC EXPENDITURE**

**Policy Research Department**

**July 13, 1994**

## Summary

As requested by the Aid Effectiveness Steering Group, PRD has prepared a program of research on aid effectiveness. This note discusses the contribution of PRD and the coordination of PRD's efforts with IEC and OED.

### Motivation

The PRD research is aimed at investigating the conditions under which aid is effective. Past research on the effectiveness of foreign aid has generally come to inconclusive (or unconvincing) results because it was focused on the question of *whether* foreign aid was effective. Posed in this way research is bound to be futile, because while it is unlikely that foreign aid is *always ineffective*, it is equally unlikely foreign aid is *always effective*. Rather than searching for an unconditional yes or no answer, this research will explore the question of *when*, not *whether*, aid is effective. The study will address hypotheses about the macroeconomic, institutional, fiscal, and political conditions under which aid is likely to be effective. Of course, the PRD contribution will aim at making progress on just one part of this overall question.

### Organization

The key factor underlying the organization of the research is the observation that aid is often fungible and that the degree of fungibility may differ from country to country. If aid is fully fungible then there is no **special** question of aid effectiveness--although aid is a real transfer of resources, the effectiveness of aid resources is the same as all other resources in the economy. Therefore the question of the conditions for some *differential* effectiveness of aid must combine the questions "when is aid fungible?" and "when is fungibility a good thing?" The proposed research program mainly addresses the first question empirically while addressing the second in drawing out the policy implications.

The broad question of the conditions for aid fungibility, particularly of aid provided to governments to finance a specific investment project, can be divided into four parts--one about the macroeconomic allocation (between investment and consumption) and three about the fiscal allocation:

- When does the expansion of aid to finance investments actually raise investment and when is aid offset by a reduction in domestic savings leaving investment unchanged?
- When does the expansion of aid to the government raise the resources spent by the government and when does the government offset the increase with a decrease in taxes (or lower borrowing) leaving total expenditures unchanged?
- When does aid that is administratively tied to a particular sector expand expenditures in that sector and when does the government offset the aid by reallocating its own resources elsewhere?
- When does aid tied to specific projects stay with those projects within sectors and when is the composition of projects unaffected by aid financing of particular projects?

In keeping with the focus on *when* (rather than *whether*) aid is effective, the research objective is to identify those conditions under which aid is fungible along any of these four dimensions and secondarily the conditions under which aid fungibility reduces aid effectiveness. PRD will address these questions with two efforts, one on the macroeconomic effects of aid and one on the public expenditure effects.

Impact on domestic savings and investment. The Macroeconomics and Growth Division will address the questions related to the impact of aid on domestic savings and investment (see Section I). This will empirically examine the macroeconomic, institutional and political, and external conditions under which aid is likely to expand total and private investment.

Impact on public expenditure. A separate effort will examine the impact of aid on the magnitudes and shares of government expenditures in three ways (see Section II). First, the Public Economics Division will examine the impact of aid on the sectoral composition of public expenditures. Using data on three broad areas: education and health, military, and infrastructure, the research will investigate the conditions under which the magnitude (or composition by type) of foreign aid affects the composition of government expenditures. The conditions for impact of aid on educational and health outcomes will also be examined. Second, the Poverty and Human Resources Division will examine the impact of aid on the composition of expenditures within sectors. This component will investigate the conditions in which the presence of aid alters the within-sectoral composition of expenditures towards more poverty reducing or more effective expenditures, using data on the within-educational-sector expenditures across countries. Third, the Macroeconomics and Growth Division will examine the conditional impact of aid not on the composition of public expenditure, but on the magnitude of public investment in infrastructure.

### **Implications**

Although the conditions in which aid is fungible is the primary object of empirical research and understanding these conditions is important for determining aid effectiveness, there is no simple relationship between fungibility and aid effectiveness. The implications of fungibility, for investment, for public expenditure, or for aid allocations and the design of aid instruments depend on the expected overall efficiency of resource use.

If aid is fungible between consumption and investment then an expansion in aid will have an impact, but the same impact as the expansion of resources available to the economy from any other source--whether the aid itself was tied to investment (e.g., project aid) or consumption (e.g., food aid). This implies that aid will be used most effectively in those countries in which

resources overall are being used most effectively. Of course, the flow of aid itself, even fully fungible aid, may facilitate policy changes that raise the overall effectiveness of resource use--including aid resources. If aid **is not** macroeconomically fungible, then aid for investment will be most effective when flowing to those countries in which increasing investment is the most important. Increasing investment through aid will in turn be important in those countries where investment is low and where investments are (or can be made to be) effective.

If aid **is** fungible within the government budget then an expansion of aid will have the same effect as any other expansion of government resources. Aid will be effective when it flows to those countries in which government resources are used well now (or to those countries where aid itself can induce overall efficient resource of government funds). If aid **is not** fungible, then aid should be allocated to those parts of the government budget where resources are being used well. Of course, this is not necessarily where resource flows are insufficient, as some government sectors may combine insufficient funds with very inefficient use of whatever funds are made available.

If aid **is** fully fungible even when aid instruments tie it administratively to some particular project or expenditure, then aid instruments which provide more general support deserve greater consideration as general support will produce equivalent effects on investment or expenditure while perhaps allowing a broader dialogue on policies that affect the efficiency of existing resource use. Conversely, if aid **is not** fungible then aid instruments which attempt to allocate resources to particular uses or sectors can be more easily justified.

One point that should be stressed is that the discussion above is only focused on aid resources--the financial flows--not aid overall. Aid projects include great deal of interaction with recipients in the preparation, appraisal and implementation of loans. This technical interaction itself may be a major part of the benefits of aid and will accrue whether or not the financing it



accompanies is fungible or not. This study is limited to the effect of aid resources alone as measuring the impact of the non-finance related beneficial aspects of aid, while important, is beyond the scope of the present exercise.

### **Coordination**

The three participating PRD divisions will coordinate on three dimensions of the empirical implementation of this research. First, although the studies will focus on different sets of dependent variables they will coordinate on using common measures of variables included as determinants (e.g., common variables for representing distortions). Second, to the extent that countries are divided into groups for analysis of the differing impact of aid, these groups will be coordinated across studies. And third, since in many cases aid must be treated as an endogenous variable an examination of the determinants of the supply of aid will be necessary in order to identify the impact of aid, and the studies will coordinate on the determinants of aid.

PRD will also coordinate its research with OED and IEC. OED is planning to extend the previous work on the impact of the country policy environment on the success of Bank financed projects using the OED Annual Review database. OED and DEC are collaborating both on the specific research questions for investigation and on the use of a common set of data to represent country policy conditions. The work described above on the effectiveness of aid will not overlap with OED research on the effectiveness of aid projects. Of course, if the research described above finds that aid financing for projects is fully fungible, or even fungible within sectors, then the determinants of aid financed project effectiveness are not directly relevant to the question of aid effectiveness. IEC is also embarking on research on aid effectiveness and the PRD research will draw on the part of the IEC empirical work creating the data on flows of aid and external conditions.

**Budget and timetable**

The budget for this program of research will include both staff, consultants, and research assistants. The research on the link between aid and domestic savings and investment will cost \$128,000 with 30 staff weeks (or their consultant equivalent) at \$92,000 and one research assistant. The three pronged effort on aid and public spending will cost \$220,000, which includes 68 staff weeks and a research assistant. An additional \$60,000 will be budgeted for a conference in which preliminary results will be discussed with other interested parties and researchers. The total cost of the proposed research would be \$408,000.

## SECTION I: FOREIGN AID, DOMESTIC SAVING AND INVESTMENT

### 1. Introduction

Foreign aid--in any of its different forms ranging from food programs to cash transfers and to concessional loans--can have three effects (or any combination thereof): (i) it can raise consumption, (ii) investment or (iii) net foreign asset holdings (ranging from central bank reserves to private sector flight capital). While much of foreign aid is disbursed with the objective of improving economic performance by raising public or private investment, part of it often leaks toward higher consumption spending or foreign asset buildup. It is therefore essential to understand under what circumstances which type of foreign aid will be successful in achieving such objective. However, most of the existing literature focuses on *whether* rather than *when* aggregate aid affects investment or saving. The *when* issue seems the more relevant one as well as more analytically tractable in future research. Before turning to the features of our proposed research we briefly review the existing empirical literature.

### 2. The Existing Literature

The empirical literature is indeed not conspicuously successful at resolving the *whether* issue. To begin with *saving*, the question whether domestic saving is crowded out by foreign resource inflows has received extensive attention. Consider first the evidence on the effects of foreign resource inflows on domestic saving. With a non-econometric analysis, Chenery and Strout (1966) found a negative initial effect of capital inflows on domestic saving, although the secondary effects on capacity growth tend to increase saving. Giovannini (1983) finds coefficients on foreign saving to have mixed signs and to be insignificant in a cross-country

sample of developing countries. Fry (1978, 1980) and Giovannini (1985) find a small, significant and negative effect of foreign saving in LDCs. Gupta (1987) finds positive coefficients of foreign saving, which are significant for Latin America but not for Asia. Schmidt-Hebbel et al. (1992) show a significant negative effect of foreign saving on household saving for a panel sample of 10 developing countries.

Now consider the evidence on the possible displacement of domestic saving by foreign aid. Griffin (1970, 1971) reports probably the first statistical cross-country evidence that aid displaces saving, with offset coefficients which range from -0.67 to -0.82. White (1992a, 1992b, 1994) criticizes Griffin's simple specification and finds no evidence for aid displacing domestic saving in a more complete model. For private saving in Egypt, Levy (1984) finds a significant negative effect of foreign aid. For a sample of SSA countries, the Global Coalition for Africa (1993) claims a negative and significant effect of foreign aid on domestic saving. Also for Sub-Saharan Africa, the recent World Bank study on African adjustment estimates that a \$1 increase in net transfers to Sub-Saharan countries in the late 1980s is associated to a \$0.4 increase in consumption (decline in domestic saving) across Sub-Saharan African countries in the late 1980s (World Bank, 1994). Background econometric work for RAL3 using reduced-form equations found significant negative responses of domestic saving to aid volumes, especially in lower-income countries.

Hence the empirical evidence on the aid and saving links is largely inconclusive, probably a reflection of varying samples involving vastly different circumstances in aid-receiving countries, and unsatisfactory specification and estimation methods. "The aid-savings relationship is a debate very much in need of some attention to quality, rather than quantity, of analysis" (White 1994).

Studies of aid and *investment* have focused either on aggregate investment or on the public investment response. Most of them have tried to assess aid's impact on investment using simple regressions including some measure of aid volume--although a few studies, like Bhalla (1990), have tried to incorporate some feedback effects, e.g., from aid-induced output growth. Along these lines, Levy (1988) finds a foreign aid-investment coefficient close to unity on a sample of Sub-Saharan African countries. More recently, the Bank's Africa adjustment study finds a much smaller impact, on the order of 0.6. In turn, the Bank's Reports on Adjustment Lending highlighted a seemingly negative association between Bank-sponsored adjustment programs and aggregate investment; to the extent that Bank programs often act as catalysts for foreign donors, this would suggest a small (or even negative) impact of aid on investment.

Empirical analyses focused specifically on the impact of aid on *public investment* have for the most part been conducted in the general context of the 'fiscal response' literature initiated with Heller (1975), which is concerned with the reaction of public investment expenditures to exogenous shifts in the government budget constraint. Some studies show a more-than-proportionate impact of aid on public investment (e.g., Pack and Pack 1990, Gang and Khan 1991), while others (e.g., Khan and Hoshino 1992 on a cross-section of countries, Cassen, et al. 1990 on Pakistan) find instead a significant diversion of aid towards public consumption. Like with saving, these disparate results probably reflect the failure to control for the different circumstances under which aid is received, as well as inadequate specification of the empirical models, which often fail to consider relevant financing sources in the government's budget constraint or ignore important components of public expenditure (White 1994).

### **3. Proposed Research**

A key factor behind the inconclusive results of the empirical literature probably is the failure to control for the circumstances under which aid is received. On theoretical grounds, the

effects of aid on investment and saving should be very different depending on the economic and political framework in aid-receiving countries, and depending also on the nature of the aid flows themselves. Thus, the proposed research will focus on identifying the factors that shape the impact of aid, and will assess aid's effect controlling for changes in them. The research will address the two following questions:

- What factors determine the impact of aid on domestic saving?
- Under what circumstances does aid raise private investment?

We would examine the coefficient of aid in regressions with domestic saving or private investment as dependent variables, controlling in the estimation for the effects of other factors that determine the impact of aid.

We will control for the other factors in three ways. First, we will simply add the other factors to a cross-country regression. Controlling for third factors will decrease the likelihood that a coefficient on aid is biased because of the omission of third factors that are correlated with aid. Second, we will test the significance of interaction terms of third factors with aid, to see whether these factors affect the coefficient on aid. Third, we will carry this exercise one step further and test the equality of the aid coefficients between sub-samples of countries/periods partitioned according to such third factors (for example, a test whether aid coefficients are equal in macroeconomically stable and macroeconomically unstable groups, or in severely liquidity-constrained countries and the rest).

The proposed tests will have to take into consideration the potentially important selectivity biases that affect all empirical studies of aid effectiveness, arising from the fact that aid flows themselves are not independent of countries' saving and investment performance. For example, if aid is given mostly to low-investment countries with the purpose of raising their investment levels, cross-country data will tend to show a negative association between investment

and aid. This type of problem has been extensively analyzed in the context of panel data studies exploring the effects of treatments (e.g., job-training programs) on outcomes (e.g., wage levels), and a number of estimation procedures free of selectivity biases have been proposed (Heckman and Robb 1986, Heckman and Singer 1985). Basically, these methods attempt to identify the idiosyncracies of aid-receiving countries either by modelling explicitly the decision whether to request aid (as done, for example, in RAL2 and RAL3) or by using additional information from periods/countries in which such decision did not arise (e.g., in the case of adjustment lending, using data for years prior to its introduction as the source of identifying information). While it is doubtful that any one of these procedures may be completely bias-free, the proposed research will implement, to the extent feasible, some of these alternative estimators in order to assess the robustness of the inferences.

The third factors that we shall control for in the empirical work will include conditions in recipient countries (macroeconomic stability, other policy distortions, institutional characteristics, political stability, and access to external financing) and the nature of aid flows (different aid instruments, permanent vs. temporary aid flows). We review them subsequently.

#### **4. Conditions in Recipient Countries**

(a) *Macroeconomic instability.* The recent investment literature has underscored the adverse impact on private investment of macroeconomic uncertainty and policy instability. The basic reason is that these factors make the returns to irreversible investment more uncertain and raise the 'value of waiting', giving investors an incentive to defer fixed investment decisions until uncertainty is reduced. (For saving, the issue is less clear, as increased uncertainty may encourage precautionary saving.) Recent empirical studies (Serven and Solimano 1993, Pindyck and Solimano 1993) have confirmed the important effect of macro instability on private investment. We would test the hypothesis that increased macro instability makes less likely that

aid will translate into increased private investment. For this purpose, we will use standard measures of instability found in the literature, such as high inflation, real exchange rate overvaluation, and high real exchange rate variability.

(b) *Other policy distortions.* The hypothesis to be tested is that aid is less likely to be translated into investment the more severe are other policy distortions. King and Levine (1994) have a suggestive result that structural adjustment in general is more successful in countries with more financial depth (measured by indicators such as M3/GDP). Similar considerations would apply to private investment. We would test if larger distortions, as measured for example by high black-market premia or low financial depth (reflecting financial repression) are associated with a weaker impact of aid on private and public investment.

(c) *Institutional characteristics.* The hypothesis to be tested is that countries with high levels of corruption and insecure property rights will have less aid translate into private investment. Recent empirical literature (e.g., Knack and Keefer 1994, Mauro 1993) shows that measures of corruption and lack of secure property rights are significantly associated with a worsened private investment performance. Cross-country measures of corruption and property rights will be taken from this literature, which utilizes subjective measures of corruption, contract enforcement and expropriation risk collected by international business surveys.

(d) *Political instability.* Political tensions make the returns to investment more uncertain, and raise risks such as expropriation. Rapid government turnover likewise tends to make the overall policy and incentive framework more uncertain. On both accounts, private investors tend to postpone irreversible fixed investment decisions. Empirically, recent studies (e.g., Alesina and Perotti 1993, Mauro 1993) find evidence that political instability hampers private investment. Using cross-country time-series political instability indicators similar to those developed in the political economy literature (Alesina et al. 1992, Cukierman and Webb



1993), we will test the hypothesis that aid is more likely to raise private investment under conditions of political stability.

(e) *Access to external financing.* On theoretical grounds, the response of saving and investment to foreign aid flows should be quite different depending on whether countries face borrowing constraints in world financial markets. If aid effectively relaxes an external borrowing constraint, it will raise investment and/or consumption expenditures in some mixture, and hence reduce saving in the short term (in the longer term, saving may rise reflecting the investment-induced increase in real output). By contrast, if borrowing constraints are absent, and aid is provided on market terms, saving and expenditure decisions would remain wholly unaffected, and larger aid inflows would just result in a reduction in other types of (net) foreign inflows. In turn, when aid is provided at concessional terms (but no borrowing constraints exist), its grant element involves a positive wealth effect, likely to raise investment and consumption expenditures. Empirically, this implies the need to control for changes in the external borrowing regime in order to estimate aid's impact on saving and investment. This can be achieved in a number of ways, ranging from the use of structural equations encompassing alternative regimes, to a priori sample separation according to suitable indicators, such as the occurrence of debt rescheduling (e.g., Cohen 1993). The null hypothesis would be that aid's positive impact on investment (and negative short-run impact on domestic savings) are larger, other things equal, when the recipient countries are severely liquidity-constrained in international financial markets. In this case the definition of "aid" would have to be extended beyond the usual DAC definition of ODA to include loans with little explicit grant element but which are made in liquidity constrained conditions.

## 5. Nature of Aid Flows

(a) *Different aid instruments.* The composition of aid may be important for its effects on saving and investment. This happens when constraints are imposed on the use of aid flows (i.e., when aid is tied, as is the case of 25 percent of OECD foreign aid) and the constraints are binding--e.g., they force aid recipients to undertake expenditures they would not have otherwise made. In such case, for example, food aid would be more likely to raise consumption (and reduce saving), while project aid would tend to raise investment more than other aid forms. Empirically, we would disaggregate aid flows to the extent that data permits (for example, into project and non-project, food and non-food, tied and untied, etc.) and test whether different forms of aid have the same impact on saving and investment.

(b) *Permanent and transitory aid flows.* Public and private expectations of how temporary foreign aid is should drive the optimal spending response to it. It is rational to save most of foreign grants when they are very temporary (such as the massive transfers to Egypt in the aftermath of the 1991 Gulf War) and to consume them when they are permanent (and not project-related). Hence permanent foreign grants should be expected to lead to higher domestic spending, a real exchange rate appreciation, and a consequent reduction in net exports. This "Dutch-disease" type response is entirely optimal as long as it is known how permanent foreign aid is, and could even lead to a current account deterioration when domestic investment responds slowly to higher domestic demand (Schmidt-Hebbel and Serven 1994). The obvious difficulty for policy makers and private consumers alike (as well as for modelers) is to assess ex-ante how permanent a country's foreign aid streams are in an uncertain world. Empirically, we would attempt to classify aid episodes into temporary and permanent. This could either be on the basis of the the observed persistence of the flows or on the basis of the functional classifications available in the DAC database (e.g., food aid, emergency aid). We would test the hypothesis that more persistent flows tend to result in increased crowding-out of domestic saving.

## SECTION II: FOREIGN AID AND PUBLIC SPENDING

The second area of research moves from the macroeconomic level to the level of public expenditures. To examine the issue of when aid alters the composition of public expenditures, three questions are proposed. First, when does aid alter the overall *sectoral* composition of expenditures, say between military expenditures and health or between education and infrastructure? Second, when does aid alter the *within* sector composition of expenditures? And third, when does aid alter the composition (or magnitude) of public *investment*?

### 1. Sectoral Composition

One would like to determine the impact of aid on poverty alleviation. However, lack of adequate and consistent time-series data on poverty indices (e.g., income by deciles) in most developing countries precludes a systematic analysis of the direct relationship between aid and poverty. An alternative is to carry out research on the composition of public expenditures, a policy that is connected to poverty. This can be supplemented by an analysis of the impact of foreign aid on a few socio-economic variables--infant mortality rates, primary and secondary school enrollments--on which a reasonable amount of information is available.

It is commonly believed that social sector spending--e.g., on education and health--is critical for raising the productivity of the poor (*World Development Report* 1990). However, other components of public expenditures--e.g., physical infrastructure--can also be growth enhancing and poverty alleviating; indeed, development assistance has historically been channeled toward physical infrastructure, and it would be useful to know the impact of aid on infrastructure spending as well. Moreover, the issue of the relationship between aid and military spending has been of inherent interest to donors because there have been concerns that development assistance has been indirectly financing "unproductive" military expenditures

(World Bank 1992). Given all of the above, it is useful to examine the broader issue of the relationship between aid and the overall composition of public expenditures, including social spending, physical infrastructure and military expenditures.

In assessing the effectiveness of aid, another important issue is the fungibility of resources. Given that a significant portion of aid is provided for specific projects or sectors (e.g., road projects or health projects), donors/lenders would like to know whether aid is indeed effective in increasing *net* expenditures on that sector, or whether specific purpose aid merely *substitutes* for expenditures that governments would otherwise have undertaken. In addition, it would be useful to know what is the impact of general purpose assistance--e.g., general balance of payments, import support, or adjustment lending--on the composition of public spending. Does balance of payments support lead to the increase in particular types of expenditures (e.g., social sector or military spending)?

*In this context, the objective of this component is to analyze the impact of foreign aid on the composition of public spending, and in particular the country or aid related conditions that make aid effective in bringing about favorable shifts. To the extent data are available, a secondary objective of this research is to analyze the impact of foreign aid on socio-economic outcomes, as measured by infant mortality rates and primary and secondary school enrollments.*

At the outset, it is important to underscore some central caveats about the scope and limits of both normative and positive analysis in the proposed research. Turning first to normative implications, if the ultimate objective of the aid effectiveness exercise is to determine whether aid is helpful in alleviating poverty, then there are significant limits to whether a focus on the composition of spending will help accomplish this objective. Even if it is determined, for instance, that aid led to an increase in the share or level of health or education expenditures, this may not necessarily be desirable for three reasons. First, the increased spending may be

on items--subsidies at the tertiary level for example--that do not benefit the poor (we allow this to some degree by examining the within sector expenditures in the case of education--see below). Second, even if spending is allocated to potentially poverty reducing activities, implementation may be deficient or public spending may simply crowd out private spending (we also allow for this by exploring the relationship between outcome variables and aid--see below). And third, even if the spending influences outcome variables, we still do not know that such spending is better for the poor than, say, spending on rural roads (the research does not attempt to answer this question).

If normative implications are limited, what about the positive analysis--the impact of aid on the composition of public spending, irrespective of whether that is necessarily desirable? While it is possible to do a positive analysis, there are important caveats to be underscored in this context as well. Positive analysis would require an estimation of the determinants of public expenditure composition, or of each major category of public expenditure including the incremental impact of aid. Estimating the determinants of health, education, and other spending is each a complex and difficult exercise that has not been adequately attempted in the literature for developing countries (possibly for good reasons). In terms of data requirements, the determinants of public expenditures would in principle include various indicators of social and physical infrastructure (e.g., school enrollments and completions, health status, road stock). Although data on some social indicators are available, researchers have had to construct series for other variables, and there are some questions about the reliability and comprehensiveness of these estimates (e.g., Barro's human capital variable has reasonably reliable estimates for only 40 percent of the observations).

With the above caveats, the proposed research focuses on the following questions: When does aid--including different types of aid--alter the composition of public spending on amongst

health, education, physical infrastructure, military? Has sectoral project aid been more effective than non-project aid in changing sectoral expenditures (i.e., are project aid resources less fungible)? Which sectoral expenditures have general balance of payments support accrued to? A second important set of questions examine not the effect of aid on government inputs, but on outputs. What has been the impact of foreign aid on outcomes such as infant mortality rates and primary and secondary enrollment ratios and can one identify those instances in which aid has been more or less effective?

While the controversy surrounding adjustment lending has prompted research on the effects of lending on macro variables and outcomes, to our knowledge there has not been a study that statistically analyzes the impact of an aid variable (e.g., ODA) on public spending variables. The earliest study on this issue is of Heller (1975). In a model of public fiscal behavior in developing countries, Heller analyzed the impact of an aid variable (total foreign grants to the public sector from all sources) on macro variables including aggregate public investment and consumption spending. Based on a panel data set from eleven African countries (Nigeria, Ghana, Zambia, Kenya, Uganda, Tanzania, Malawi, Liberia, Ethiopia, Tunisia, and Morocco), his findings indicate that foreign aid causes a strong shift away from public consumption and toward investment. The subsequent literature has had more mixed findings (see Section I above).

A number of recent studies (Cornia and Stewart 1990, Heller and Diamond 1990, Hicks 1991, Pradhan and Swaroop 1993, World Bank 1988, 1990, 1992) have analyzed the impact of structural adjustment on public spending in developing countries. The work of Heller and Diamond (1990) was among the first few attempts to undertake an international comparison of public expenditure composition, focusing among other things on econometric estimation of the determinants of expenditure composition. However, that study does not focus on the impact of

aid or adjustment lending per se. In particular, based on a panel data set of developing countries they estimated regression equations relating each component of functional composition to a set of variables on which internationally comparable data were readily available (e.g., GNP per capita, population by age group, infant mortality, share of sector in total GDP). The regressions did not have any underlying model explaining why particular variables would be important in explaining expenditure shares, and hence omitted several key variables (e.g., infrastructure stocks, neighbors' military spending). The main finding of the Heller-Diamond study was that in during 1975-86 in Africa and Asia, education, health, housing and community amenity services appear to have maintained and even strengthened their expenditure shares in GDP "relative to what would have been predicted" based upon the fitted regression equations.

On the other hand, Cornia and Stewart (1990) used selected country-specific evidence to claim that the fiscal austerity these policy-based lending programs impose has forced governments to curtail social sector spending, particularly for health and education. Based primarily on a comparison of expenditure shares of countries that received adjustment loans versus those that did not, Pradhan and Swaroop (1993) conclude that countries receiving adjustment loans have maintained aggregate social spending and reduced defense outlays while cutting fiscal deficits. On the determinants of individual categories of public spending, there exist some studies in particular sectors (e.g., Hewitt 1991, Landau 1992 for military expenditures), but a more thorough review of the literature for each of the key sectors and sub-sectors will be required.

As information is scantily available on social outcome variables in developing countries there have not been many studies that have systematically tried to analyze the determinants of such outcomes using time-series data across countries. While more review of the literature needs to be done, to the best of our knowledge, there is only one study that analyzes this issue.

Based on data from 68 countries over the period 1960-87, Bhalla and Gill (1991) have made attempts to link public spending with improvements in infant mortality and secondary school enrollment rates. Their findings indicate a weak link between government spending and improvements in health and education levels (as measured by infant mortality rates and school enrollments at the primary and secondary levels, respectively). In order to analyze the impact of aid on the available socio-economic outcome variables, however, a simultaneously determined multi-equation model would be needed where both spending as well as outcomes are endogenously determined, a rather ambitious undertaking.

One way to analyze the impact of aid on the level and composition of public spending is to build a simultaneous equations model in which major spending variables are determined endogenously. The spending variables would include (i) education and health as well as their disaggregation (to the extent possible); (ii) expenditures on transport and communication as a proxy of physical infrastructure spending; and (iii) military expenditures.<sup>1</sup> The independent variables in the reduced form system of the model would involve among others, foreign aid, GDP, institutional variables, measure of political stability, and outcome variables [school enrollment ratios, infant mortality rates, a few stock variables such as the infrastructure stock variable constructed by Canning and Fay (1993) and the human capital stock variable constructed by Barro and Lee (1993), as well as neighbors' military spending and political variables constructed in Landau (1992)].<sup>2</sup> In order to understand the conditions under which aid is more

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<sup>1</sup> One could think of a government which maximizes its citizens' welfare by optimally choosing a vector of public spending. Based on this model a linear expenditure system involving restrictions (e.g., budgetary shares add up to one) could be derived. Panel data could then be used to estimate the system.

<sup>2</sup> Recently, Barro and Lee (1993) have constructed a human capital stock variable--educational attainment--which by definition is a good indicator of social outcomes. In constructing this variable, they were able to fill at a four level classification (no schooling, primary, secondary, and tertiary education) about 40 percent of the possible cells for a panel data set of over 100 economies observed at five-year intervals between 1960 and 1985. While admitting that the procedure was less than satisfactory and introduced errors, they filled the remaining cells by a



effective the model would attempt to control for institutional variables such as measures of corruption and lack of secure property rights, political instability, and policy distortions (e.g., black market premia). In addition, some other independent variables (e.g., GDP per capita, population, etc.) would be introduced depending upon what emerges from the underlying behavioral model. This approach would establish a link between development assistance and public spending. Moreover, as stated earlier, we propose to treat aid--or ODA--not as a homogeneous, monolithic variable, but would like to examine as well the impact of *different types of ODA*. Three types of ODA disaggregation can be examined as explanatory variables: (i) multilateral ODA (e.g., IDA) versus bilateral aid; (ii) balance of payments support versus project ODA; and, (iii) sectoral composition of project aid or aid-in-kind provided. The data for examining these classifications is generally available, although with some limitations<sup>3</sup>. Given this, the fungibility issue, for instance, can be analyzed by examining the impact of sectoral project ODF commitments on sectoral expenditures, and by examining which sectoral expenditures the balance of payments support accrues to at the margin.<sup>4</sup>

Any such econometric study is subject to *selectivity biases* introduced in the sample selection process. Aid to developing countries varies from country to country and the degree of poverty of a country is an important factor in determining the size of aid. To be eligible to receive concessional loans from the International Development Agency (IDA), a country's GDP has to be less than a certain threshold. It is important to underscore that this general problem

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perpetual inventory method.

<sup>3</sup> The distinction between multilateral and bilateral ODA is straightforward. The DAC data classification also identifies "Programme" aid. However, the sectoral composition of aid flows is however available only on a commitments (not disbursements) basis and the technical cooperation component of ODF is not disaggregated by sector.

<sup>4</sup> Some additional issues pertaining to fungibility could be explored by building upon Shah (1989).

of selectivity bias has been extensively analyzed elsewhere, and various attempts to control for the problem have not been entirely successful. To the extent feasible, our research methodology will explicitly deal with the econometric complexities stemming from these problems, building upon estimation procedures that have been proposed elsewhere in the literature (Heckman 1979).

A final issue in research methodology is the reliance on cross-country, time-series analysis versus time-series analysis within some selected countries. While the latter approach could in principle provide more persuasive evidence on the impact of aid, sufficient, reliable/comparable, time series data on public expenditures, aid and other determinants are likely to be available for only a small group of countries (e.g., India, Indonesia, Korea). Sub-Saharan Africa, for instance, where issues about aid effectiveness are most lively, would be left out of such analysis. There would, in addition, be questions about how generalizable are the results emanating from individual country studies. In this context, the proposed research has focused upon the cross-country approach. It is an outstanding issue as to whether a few country-specific econometric estimations need also be attempted; if so, it would need to be reflected in correspondingly higher costs and longer time frame for the study.

One order of business would be to define the aid variable. There are at least two definitions of aid:

- In GFS, the aid variable is listed as "Grants." It is defined as unrequited, non-repayable, noncompulsory government receipts from other governments or international institutions. Net lending (at market rate as well as concessional lending) from other governments and international organizations is part of "Lending minus Repayments." Grants are basically of two kinds: (i) those that are earmarked for a specific expenditure, project, or program; and (ii) those

providing general budget support. Data on this variable are available across-country and over-time from GFS Yearbook.

- Official Development Assistance (ODA) is defined by the DAC as loans and grants made on concessional financial terms by all bilateral official agencies and multilateral sources to promote economic development and welfare.
- A final possible definition would include all non-commercial lending, such as the Bank's, to capture the effect of "aid" in relieving liquidity constraints even in situations in which the loans are on near commercial terms (see page 7 above).

If the latter definition of aid is chosen for the study then more information would be needed beyond the net disbursements numbers. If available, it would be useful to collect the information on (a) what portion of this number is concessional loan and what is the non-repayable aid; (b) aid by multilateral versus bilateral institutions; (c) general balance of payments support versus project aid; and (d) sectoral composition of project aid or aid-in-kind.

A major weakness of this approach is that it will have to rely on GFS data, data which are subject to several deficiencies such as their failure to adequately capture spending at all levels of government. Notwithstanding the various caveats in using the GFS data (World Bank 1992), we would have to rely on it in the sectoral component of the research because to date, GFS is the only source for consistent data on government expenditures. In a separate analysis of sector-specific expenditure determination, however, data from alternative sources will be used. For example, the SIPRI data series on military expenditures that was developed in PRDPE for Landau (1992) could be used in analyzing military expenditures. Similarly, data collected for a project in PRDMG (Easterly and Rebelo 1993) on consolidated public sector investment by type could be used in analyzing infrastructure spending. We will also draw on non-GFS data for the social sectors (see below). While not part of a consistent data set on

public spending, these disparate sources will be used to check the reliability of GFS data and the plausibility of GFS generated results.

Table 1 shows the data availability in the GFS on the main functional categories of public spending for consolidated central government expenditures. It shows that on average, data on aggregate education, health, infrastructure and defense spending are available for about 60 developing countries for much of the period 1970-90, implying a total of close to 700 observations for each variable. Even for the disaggregation of education and health spending by programs, data are available for about 40 countries each implying a total of about 500 observations on each variable. The problems with expenditures by social sector programs, however, is that this data are primarily only available for central government expenditures, when in several countries these expenditures are undertaken by state and local governments. Data for general government--which would capture expenditures by these sub-national levels of government--is available only for 12 countries as shown in Table 2.

For data on outcome indicators for each of the sectors, Table 3 shows the data available on 12 such outcome parameters from various sources. These include: primary, secondary and tertiary enrollment rates; illiteracy rates; educational attainment; infant mortality rates; life expectancy; length of road, including paved roads; length of track; neighbors' military spending; and indices of political instability. In addition, we will be using data on black market premia, population, etc., depending upon the variables that emerge from further reflection on the underlying behavioral relationships.

## **2. Within Sectoral Composition**

In addition to its impacts on sectoral composition, aid could change the *within* sectoral composition of expenditures towards, for instance, projects with more favorable outcomes for the poor. This question is impossible to address at the level of projects because one would need

a comparable set of aid and non-aid financed projects with documented outcomes to compare.<sup>5</sup> An alternative approach is examine the within sector composition of expenditures. However, the difficulty is finding a sector for which there are within sectoral data that are both available and for which the some generally accepted normative beliefs about the preferred within sectoral composition of government spending so that one could assess not only when aid affected the within sectoral composition but also whether that was a good thing.

The education sector satisfies both of these requirements. First, the data on expenditure composition of primary versus secondary versus tertiary is generally available (not from GFS but from sectoral studies).<sup>6</sup> Second, there is consensus that primary expenditures both have more favorable distributional impact than tertiary (or secondary) and are more likely to involve the externalities which typically justify government subsidization.

Therefore it should be feasible to examine whether those countries which received more aid (or more aid of specific types) also devoted more money to primary expenditures, either absolutely (per capita or per child) or as a shares of educational expenditure. After controlling for other determinants of educational expenditures do countries with higher aid devote more to primary education? In total? As a share? From those basic results about the "when" of fungibility one can move ahead to ask the "whether" questions: Do countries differ systematically in the degree to which aid translates into improved within sectoral composition? Are these country conditions for aid effectiveness related to policy? To political factors? To institutional differences?

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<sup>5</sup> The problem is even more difficult. Even if there were a set of aid and non-aid financed projects with documented outcomes-for growth, for poverty, whatever-one would have to know that there was an exogenous component of the division into aid and non-aid financed to assert from the presence of an aid-outcome correlation that aid effected the outcome.

<sup>6</sup> Although, with the usual caveats above that creating comparable data across countries is extremely difficult.

### 3. Infrastructure Investment

While the sectoral and within sectoral composition of expenditures by functional classification is interesting, there is also interest in examining the conditions for an impact of aid not just on expenditures but also on the allocation of expenditures between consumption and investments. Existing studies of aid and public investment have also been hampered by their reliance on the *Government Finance Statistics* of the IMF, an inadequate source because investment by public enterprises financed by own resources is excluded. Data collected for the research project, "How do national policies affect long-run growth?" on consolidated public sector investment by type (given in Easterly and Rebelo 1993), as well as data collected by Fay on physical indicators of public infrastructure (roads, telephones, power generating capacity, etc., in Canning and Fay 1993 and Fay 1994) could be used to remedy this shortcoming. Both of these data sets are panels, with yearly observations on a cross-section of countries. For our research on infrastructure, we plan to use these new data sets.

There are reasons to believe that the impact of aid on raising infrastructure investment differs across countries. For instance, one hypothesis to be tested is that very little of the aid received in the midst of a macroeconomic crisis translates into public infrastructure investment. In the midst of a macro crisis, there is generally excess aggregate demand as well as pressures for diverting public resources into private hands, so additional aid could simply wind up financing capital flight or consumer imports. The government is likely to face severe liquidity constraints, making it unable to come up with counterpart financing for infrastructure in the midst of a macro crisis. There will also be a strong temptation to use the aid to finance public spending that is more politically sensitive than infrastructure, such as government workers' salaries or food subsidies for urban consumers therefore it is plausible that a long-term priority like infrastructure suffers in the midst of a short-term crisis. Another hypothesis is that with

financial or price distortions there is likely to be more rent-seeking and hence diversion of resources away from socially remunerative activities like infrastructure.

Another hypothesis is that the impact of aid on public infrastructure investment is also likely to suffer under politically unstable conditions. This effect can be expected in addition to the impact of political instability on the level of infrastructure investment. It is more difficult for donors to enforce conditionality with frequent executive turnover. In turn, government officials will have less incentive to use resources for projects with long-term payoffs if they expect their tenure to be short. Also, under political tensions, governments are more likely to give priority to redistributive expenditures over longer-term investment projects.

Regarding public investment, a secondary hypothesis is that for a given amount of aid the addition to the effective infrastructure *stock* (which after all is the variable of interest) will be smaller in disturbed macroeconomic or institutional environments, because of greater waste and theft. To test this second hypothesis, we will use data from Easterly and Rebelo (1994) and Canning and Fay (1993) on infrastructure investment and increases in infrastructure stocks, respectively.

**Table 1: Consolidated Central Government Expenditures  
in Developing Countries (1970-90)**

Variables	Mean (% of GDP)	Number of Countries	OBS
Education	3.26	60	884
Primary & Secondary	2.12	43	573
Tertiary	0.61	42	577
Others	0.57	42	572
Health	1.56	59	882
Hospital	1.05	39	553
Clinic	0.15	37	538
Others	0.37	37	542
Welfare	0.19	40	684
Housing	0.64	60	883
Recreation	0.37	58	869
Defense	2.74	58	871
Transportation & Telecommunication	2.07	56	851

*Note:* Not all countries have data for all years.

*Source:* Government Finance Statistics

**Table 2. Developing Countries with Consolidated  
General Expenditure Data (1970-90)**

1. Argentina
2. Chile
3. Ethiopia
4. Gambia
5. Greece
6. Hungary
7. Indonesia
8. India
9. Kenya
10. Malawi
11. Panama
12. Zimbabwe

*Note:* Not all countries have data for all years.

*Source:* Government Finance Statistics



**Table 3. Social and Economic Indicators in Developing Countries**

Variables	Number of Countries	Time Period	OBS	Sources
Primary School Enrollment Rate	86	1970-90	1048	UN: SOCIND
Secondary School Enrollment Rate	86	1970-90	1024	UN: SOCIND
Tertiary Enrollment Rate	77	1970-90	444	UN: SOCIND
Illiteracy Rate (5-year intervals)	61	1970-90	196	UN: SOCIND
Education Attainment (5-year intervals)	129	1950-85	364	Barro & Lee (93)
Infant Mortality Rate	95	1970-90	2008	UN: SOCIND
Life Expectancy	95	1970-90	2003	UN: SOCIND
Length of Road	70	1980-91	293	PRDPE
Length of Paved Road	70	1980-91	288	PRDPE
Length of Track	50	1980-91	491	PRDPE
Road and Railway (5-year intervals)	96	1960-85	317	Canning & Fay (93)
Military Expenditure as a percentage of GDP	72	1969-89	1512	Landau (93)
Neighbors' Military Expenditure as a percentage of GDP	72	1969-89	1512	Landau (93)

*Note:* Not all countries have data for all years.

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**MARK BAIRD**

July 13, 1994

Mr. Michael Bruno

Aid Effectiveness Proposals

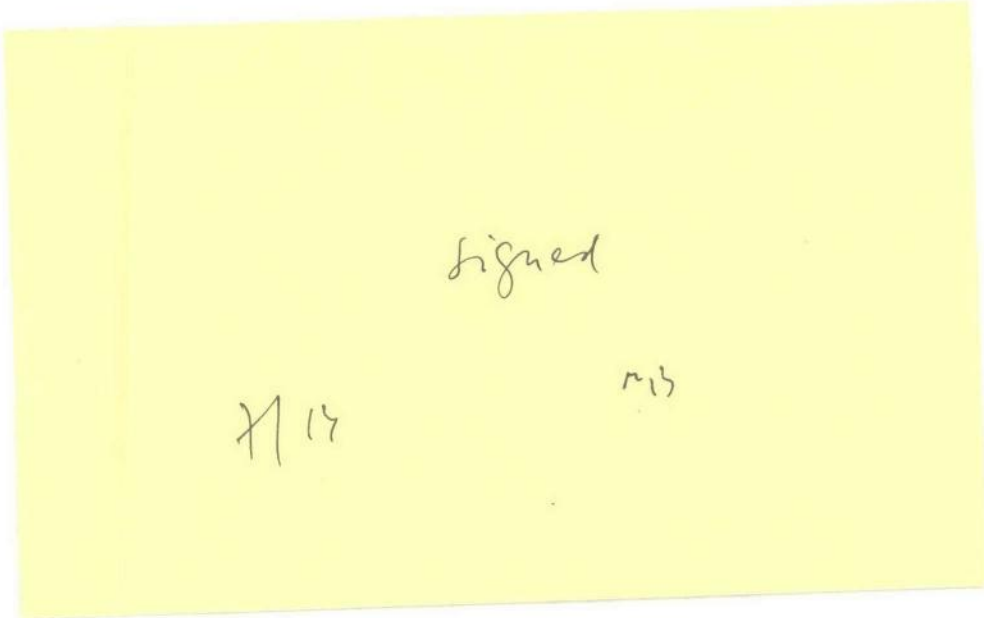
Michael,

Attached, for your signature, is the cover note to the Steering Committee, with the package of three proposals attached. Note that we are suggesting that members send you comments by July 22. You will then call a meeting of the Steering Committee in September, to discuss any outstanding issues.



Mark

Attachment



signed

7/17

mb

## OFFICE MEMORANDUM

DATE: July 13, 1994

TO: Distribution

FROM: Michael Bruno MB

EXTENSION: 33774

SUBJECT: Aid Effectiveness Proposals

1. In its last meeting, the Steering Group met to discuss Phase II of the aid effectiveness work. At that time DEC was requested to develop the research program in greater detail. Attached you will find three detailed proposals for your consideration. IEC was also requested to pull together information on the common critiques of aid. Such a list has been compiled and is also attached. Unfortunately, it will not be possible to get together before the vacation season. However, I would welcome any comments in writing, if possible by July 22. I propose to call a meeting of the Steering Committee in September, when we can discuss any outstanding issues.

2. As agreed, the proposed research will focus on the conditions under which aid is effective rather than whether aid is effective or not. Framing the research in this way provides a stronger basis for drawing policy conclusions and lessons for improving the effectiveness of aid in the future. The first component addresses one of the central questions not answered by previous research: is aid fungible or not? Here the focus is on aid's role as a monetary transfer. If aid financing is not fungible, then aid effectiveness will be influenced by those factors that affect the particular uses or sectors that aid targets. To the extent that aid financing is fungible, then it will have an impact, but the same impact as the expansion of resources from any other source. This implies that the effective use of aid will be influenced by those factors that contribute to the effective use of all resources. The second component of work, to be carried out in a joint effort by OED and PRD, examines the country policy factors that contribute to project effectiveness. Here the notion of aid may be interpreted more broadly to include not only money, but the whole aid package (including staff advice and policy guidance as proxied by staff inputs). Previous work in this area has found that the level of distortion of domestic policies has an impact on project effectiveness.<sup>1/</sup> Finally, the last component of the proposed work includes research on the effect of aid on institutions in aid-dependent countries. Synopses of the components follow:

- **The Impact of Aid on Saving, Investment and Public Expenditure.** (PRD) This component of the research addresses the fungibility issue and will be carried out in two parts: Foreign Aid, Domestic Saving and Investment; and Foreign Aid and Public Spending. The first part will focus on identifying the factors that determine the impact

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<sup>1/</sup> PRD is therefore considering undertaking further research on the impact of aid broadly defined on policies. However, a proposal for this work is not yet ready. Also note that the proposed research does not address the efficiency and effectiveness of donor agencies (along the lines of the Wapenhans agenda for the World Bank). However, complementary research proposed by OED will look at the contribution of Bank processes to project outcomes. Some related issues of aid coordination are also addressed in the third component on aid and institutions.

of aid money on domestic saving and the circumstances under which aid increases private investment. The research will control for other factors that may influence aid's impact on savings and investment, for the selectivity bias that arises since aid flows are not independent of countries' savings and investment performance, and for country conditions (including macroeconomic, policy distortions, institutional characteristics, political stability and access to external financing). It will also consider the impact of different kinds of assistance on savings and investment. This part of the research should tell us the circumstances under which aid affects savings and investment and whether it leads to increased saving and investment or not.

The second part of this work moves from the macroeconomic level to the level of public expenditures. It concentrates on the relationship between aid money and the inter-sectoral composition of expenditures, the intra-sectoral composition of expenditures, and the composition (or magnitude) of public investment. A number of questions will be addressed including the following: When does aid -- including different types of aid -- alter the composition of public spending among health, education, physical infrastructure and military expenditure? Has sectoral project aid been more effective than non-project aid in changing sectoral expenditure (e.g. are project aid resources less fungible)? What has been the impact of foreign aid on outcomes such as infant mortality rates and primary and secondary enrolment ratio? Have countries that have received more aid (or aid of specific types) devoted more resources to expenditure in primary social services? Does aid translate systematically into improved intra-sectoral composition?

- **Bank Project Effectiveness and Country Policy Environment.** (OED/PRD) This component, which is currently under review by OED management, represents work being undertaken under the aegis of OED, but through a coordinated effort with PRD. This work will consider the impact of the policy environment on Bank project effectiveness by building on previous work in three ways. First, using data on project costs and implementation characteristics, the research will examine some of the mechanisms through which poor policies lead to poor project outcomes. Using data available for a recent cohort of projects, the research will examine the link between weakened fiscal conditions, counterpart funding difficulties and project implementation. Second, two sources of time series data on projects will be used to examine the relationship between changes in project success and changes in the policy environment. Of particular interest are the relationships between changes in policies, changes in project rates of return and changes in project implementation. Finally, the research will draw on the recent empirical literature on policy conditions for growth and will consider the implications of these conditions for the rate of return on projects.
- **The Impact of Aid on Recipient Institutions.** (IEC/OPR) This component will be carried out by IEC in collaboration with OPR and will focus on the effects of aid on public sector institution building in countries that are "aid-dependent". The questions to be addressed are: How does a high aid flow affect the capacity of recipients to make and implement the budget? What is the impact of substantial aid flows on the development priorities and the accountability of the recipient government? And what implications do different mechanisms of aid coordination have on the public management capability of recipient governments. Because of the specific nature of public institutions in each country, the research will be based on country case studies. Ideally, in each country, periods in which the country was not highly aid-dependent will be compared with periods in which aid dependency was high, controlling for other factors that may influence public

institutions. Insights into how substantial aid affects recipient institutions will provide information on how assistance can be better tailored to meet the needs of the countries and to promote the development of an efficient public sector.

3. The work between different departments and divisions will be coordinated. PRD will draw on IEC data on flows of aid and external conditions. The different divisions of PRD will coordinate on three dimensions of empirical implementation. First, they will use common measures of the variables included as determinants. Second, to the extent that countries are divided into groups for analysis of the differing impact of aid, these groups will be coordinated across studies. Third, since in many cases aid must be treated as an endogenous variable, an examination of the determinants of the supply of aid will be necessary in order to identify the impact of aid and the studies will coordinate on the determinants of aid. Once approved, the research work program will be carried out just as any other research is carried out. The results would be made available through blue cover reports and articles. Any decision to organize a conference or to publish a volume will depend on the overall outcome of the research program, which is expected to take 18-24 months to complete.

4. Funding for staff salaries will be committed in PRD, OED, IEC and OPR. The proposals will seek money from the Research Committee for non-staff expenditures. Staff costs for the PRD, OED/PRD and IEC/OPR components are estimated at \$154,000, \$22,000 and \$100,000, respectively. Non-staff costs are estimated at \$254,000, \$35,000, and \$215,000, respectively. Should the proposals not be accepted by the Research Committee, we will return to the Steering Committee to consider other options. Consideration also needs to be given to the time and funding required by IEC of any additional work that must be done on preparation of the data on aid.

5. In addition, we seek the Steering Committee's guidance on the following issues:

- Phasing of the work. Should all components be undertaken at the same time, or would it be useful to carry out the first two components and then use the case studies to address questions that arise from cross-country analysis?
- Other development agencies have expressed great interest in this work and have suggested developing interactions between the donors on this issue. At the same time, it is important that expectations are not raised about what the research will find. What is the best way to proceed with respect to other donors interested in this work?
- How should work on critiques of aid proceed?

#### Attachments

Distribution: Messrs. Choksi, Linn, Picciotto, Rigo, Serageldin, Shihata.

cc: Messrs./Mss. Baird, Vieira da Cunha, Wetzel (DECVP); Ahmed, Johannes (IEC); Squire, Pritchett (PRD); Ayres, Stevens (HRO); Donovan, Yap, Elliot, Ohashi (FRM).



**RESEARCH PROPOSAL ON AID EFFECTIVENESS  
THE IMPACT OF AID ON SAVING, INVESTMENT AND PUBLIC EXPENDITURE**

**Policy Research Department**

**July 13, 1994**

# OFFICE MEMORANDUM

0 1 1 D

DATE: April 6, 1994

TO: Mr. Armeane Choksi

FROM: Michael Bruno *MB*

EXTENSION: 33774

SUBJECT: **Proposal for a Market-Based System of Funding for Cross Support**

1. We very much appreciated the opportunity of reviewing Mr. Gore's proposal for a market-based system of funding for cross support (his note of April 17). As you know, DEC would be very interested in joining HRO in piloting such a system in FY95.

2. I have discussed HRO's proposal with DEC senior managers. In general, we endorse the proposed approach, and offer the following comments on the various elements of Mr. Gore's proposal.

3. DEC managers support the following:

- As a transitional measure, obtaining from the Regions a minimum purchase guarantee. The Regions are likely, however, to want this guarantee to be less than the equivalent of the "dollar value of cross support demand included in the regional business plans" so that the risk is shared somewhat. We propose, therefore, that the guarantee be equivalent to some percentage (80%, say) of the business plan proposals.
- Providing to the Regions funding for the direct costs of cross support (higher-level salaries, consultant fees, and travel) as part of their resource envelopes.
- Providing to DEC funding for the indirect costs of cross support (higher-level benefits, support-level salaries/benefits, and other discretionary costs such as computing, communications, translations, etc.) and overheads (time spent on MAA, leave, holidays, and training).
- Billing the Regions monthly for the direct costs of cross support on the basis of (a) TRS time costed at the actual cost of higher-level staff salaries (excluding benefits) and consultant fees; and (b) the actual cost of travel.

4. We are concerned that the advance payments, premiums, and fees suggested in Mr. Gore's proposal would (a) be difficult to keep track of; (b) provide a disincentive for the Regions to use DEC support rather than consultants; and (c) not be in keeping with the spirit of a true market-based system. We would prefer, therefore, to eliminate these penalties from the proposed system. If you feel strongly that they are essential, however, we would be willing to experiment with them on a trial basis.

5. While we agree generally that a three-month horizon is a sensible one for making firm cross support commitments, we would prefer to avoid a formal (and potentially cumbersome) contracting cycle every three months. Cross support agreements will be made on an ongoing basis throughout the year between the CVPs managers and the Regions, and the Regions should be encouraged to "book" our staff as early as possible to avoid last-minute rushes. An informal system of sending RPS cross support plans to the Regions every three months for endorsement might serve the purpose of getting regional managers to focus on their cross support needs in a timely fashion.

6. Again, I look forward to joining HRO in this pilot for FY95, and will be happy to join with you in a proposal to the Regions and PBD.

cc: DEC Senior Managers, Mr. Gore

MARK BAIRD

94 APR -6 AM 10: 27

RECEIVED  
DEVELOPMENT ECONOMICS  
VP & CHIEF ECONOMIST

April 6, 1994

Mr. Michael Bruno

Market-Based System of Funding for Cross Support

Michael,

Lesley has prepared the attached reply to Armeane Choksi on the proposal for a market-based system of funding for cross support. It follows your discussion at last week's DECSM meeting. I recommend you sign.



Mark

*C.28 files*

March 17, 1994

Mr. Armeane M. Choksi

**A Market Based System of Funding of Cross Support**

Armeane,

Please find attached for your review a revised draft proposal for the above. This draft is consistent with the principles outlined in your memo of November 17, 1992, and also includes your specific suggestions made during our discussions about 10 days ago. I am sending the draft concurrently to K. Y., Janet (and Jorge), and Jim for their review and comments. I will appreciate comments from the HRO departments by the end of next week (March 25) please.

Once we have an agreement within HRO, I would like to send the draft to the Regions (CAOs and a sample of HR division chiefs and task managers) and PBD. The proposal would be finalized after that.

For your information, DEC has expressed interest in moving to a market based system. I am, therefore, taking the liberty giving them a copy of this draft, with the understanding that there might be changes in the proposals.

Thank you very much,

  
Anil

cc: Messrs./Mmes. Amoako, de Merode, Adams, Barrientos, Psacharopoulos  
Jacob, Truong, Amy-McAlister, Garg

DRAFT

## A MARKET-BASED SYSTEM OF FUNDING OF CROSS SUPPORT A PILOT APPROACH

### A. Introduction

1. This note spells out the operating procedures for a market-based system for the funding of cross support from HRO in FY95 and the years beyond. The advantages of such a system are clear: (i) the Regional managers would be able to integrate cross support more closely into their overall resource planning decisions, and therefore, to make informed tradeoffs; and (ii) the system would make sure that the cross support offered by HRO would be fully responsive to the Regional requirements, and, in turn, to the Bank's ultimate clients--our borrowers--thereby improving accountability; and (iii) by decentralizing the cross support purchasing/selling decisions to the actual decision makers, the enormous amount of time spent by the CAO community and PBD in operating the current "central planning" system would be avoided. It is hoped that other CVPU's would also eventually adopt the system, so that the full benefits of the Regions' ability to shift resources across sectors, in response to the changing demand, would be realized.

2. In brief, the dollar resources for cross support would be placed in the hands of the Regional front-line decision makers--the division chiefs and the task managers. The Regional division chiefs and task managers would purchase the required amount of cross support from the HRO units on a pay-as-you-go basis, by transferring dollars directly to the providers' accounts. Some safeguards would be built into the system to protect the HRO staff against an unfair competition with (cheaper) consultants.

3. The proposals outlined below should be considered as a "pilot" because the experience in the Bank with market-based systems is limited; the potential budgetary risks for HRO and the institution arising from volatile demand need to be understood; and staff anxieties need to be addressed.

## B. Operating Procedures<sup>1</sup>

### The Business Planning Stage

4. The cross support would be planned, monitored, and paid for in dollars made up of HL staff salaries, consultant costs, and travel expenses (called the "direct costs" hereafter)—unlike the current system which also includes HL staff benefits. This way, cost comparison will be more appropriate with outside consultants, who do not have to bear the high cost of the Bank overheads and benefits.

5. At the time of business planning in February/March, the Regional units would provide the HRO units with an overall planning estimate of the demand for cross support for the next fiscal year, both in direct costs in dollar and in staffyears<sup>2</sup>. The aggregate of the plans of the constituent departments and divisions would be incorporated in the Regional and HRO business plans as the starting assumption for the next fiscal year.

6. To the extent possible, the demand would be broken down by the Regions by functional specialties (e.g. social security, nutrition, etc.).

7. The funding for the direct costs of cross support (HL staff salaries, consultant costs and travel) would be provided by the institution to the Regions as a part of their total resource envelopes.

8. The "indirect costs" of cross support would be estimated by HRO and included in its business plan. These costs include: (i) SL salaries and benefits, other discretionary costs such as internal computing, and communications; (ii) MAA and leave/holiday/training; (iii) HL staff benefits; and (iv) soon to be decentralized office occupancy costs. Funding for the indirect costs would be provided by the institution to HRO, and would not be recovered from the Regions through the cross support chargeback prices.

9. As a transitional measure for 1-2 years (FY95 and FY96), the RVP offices would give HRO a minimum purchase guarantee equal to the dollar value of cross support demand included in the Regional business plans. The minimum purchase guarantee is necessary to protect HRO and the institution against budgetary cost overruns due to a sudden fluctuation in demand. As the comfort level with the new system increases, a medium term objective would be to do away with the minimum purchase guarantee for cross support.

---

<sup>1</sup> Unless specified otherwise, the Regional unit means a Regional sector and country operations division or a task manager purchasing HRO cross support. HRO unit means HRO division or department providing cross support.

<sup>2</sup> The staffyear estimate is necessary because the Regional CAM and also the staff resource plans of the CVPUs would continue to be prepared in this accounting unit.

### The CAM Stage

10. As is currently done, in April/May, HRO would input task level details of cross support for the entire year in the Resource Planning System (RPS). The Regions are also encouraged to do the same. This initial programming in the RPS is desirable to make sure that the demand from the Regions and HRO's supply capacity is reasonably in balance. Unlike today, however, the initial program would not be used resource transfers.

11. Given the uncertainty about the tasks especially at the beginning of the fiscal year, HRO has found it necessary to over-program its cross support resources in the RPS. That practice could continue, although with the quarterly contracting of tasks proposed under the new system (see below), the need for over-programming is expected to diminish.

12. HRO also intends to be more selective in terms of the cross support tasks to be undertaken, so as to utilize its available staffing resources and skills more effectively.

### The Budget Distribution Stage

13. The allocation of cross support resources to the departments, divisions and tasks would be done by the Regions in exactly the same manner as other discretionary resources. Each Region would need to work out its own procedures to back up the minimum purchase guarantee from its departments/divisions. HRO is not expecting the minimum purchase guarantee from individual departments/divisions within a Region.

### The Contracting Stage

14. The "contracting" horizon for cross support would be normally three months (one fiscal quarter) at a time. At least 15 days before the beginning of a quarter, the Regional and HRO units would agree on the precise duration (including the mission dates) of the tasks to be initiated in that quarter. The contracts would cover the whole tasks even though the tasks may be actually implemented in more than one quarter. The process would be repeated for each quarter.

15. A purchasing Regional unit might wish to enter into a "forward" contract with HRO units (including locking-in a particular staff member) with a lead time longer than the normal three months. In such cases, the purchasing Regional unit would pay the providing HRO unit 25% of the estimated cost at the time of the forward contract. The subsequent "invoicing" would adjust the advance paid.



### The Implementation Stage: Monitoring and Billing

16. **Cross support monitoring:** The cross support would be monitored in dollars in the Resource Planning System (RPS), as done at present.

17. **Billing of cross support:** The invoices for the cross support actually delivered would be sent to the purchasing Regional units at the end of each month on the basis of: (i) the actual staff time costed at the actual salary of staff; (ii) the actual consultant time costed at the actual consultants' rate; plus (iii) the actual cost of travel.

18. **Payment Procedures:** The purchasing units in the Regions would transfer resources to HRO's supplying units directly to the latter's account. A system would need to be put in place to aggregate the payment information at the VPU level for statistics and analysis.

19. **Management of routine business uncertainties:** A purchasing Regional unit may want cross support at a short notice, outside of the quarterly contracting cycle. Under this situation, a schedule of premiums shown in Annex 1 would be adopted.

20. A purchasing unit may have to cancel its contract because of slippages. To offset the costs of sudden disruption for the providing HRO unit's work program, a schedule of cancellation fees shown in Annex 2 would be adopted.

21. **Major changes in demand:** If during implementation, major imbalances develop as compared to the demand and supply assumptions made in the business plan, these could be raised to a higher level of management either by the purchasing or the providing unit. There would be an agreed framework at the third quarter to revisit the amount of the minimum purchase guarantee from the Regions.

### C. FY95 Budgets

22. The Regions have put forward the cross support demand of \$4.3 million for FY95, excluding HL staff benefits as follows. The institution would provide these resources to the Regions.

	\$'000
Africa	1,315
EAP	740
SAS	460
ECA	650
MNA	550
LAC	<u>550</u>
	4,265

23. The corresponding indirect costs are estimated at \$5.1 million, comprising of HL benefits (\$1.8 million) and other overheads (\$3.3 million) (para. 8). The cost of office space is not included in these numbers. These resources would be provided to HRO upfront by the institution.

RPS would  
will be  
all of options  
was introduced  
one guarantee  
there -  
disapproval

**A MARKET BASED SYSTEM OF FUNDING OF CROSS SUPPORT  
A PILOT APPROACH****Schedule of Fees for Unplanned Tasks**

<u>No. of Days of Notice</u>	<u>Premium to be charged to the to the Purchaser (%)</u>
Less than 15 Days	100
15 Days to 1 Month	75
1 to 2 Months	50
2 to 3 Months	25

**A MARKET BASED SYSTEM OF FUNDING OF CROSS SUPPORT  
A PILOT APPROACH**

## Schedule of Cancellation Fees

<u>No. of Days of Cancellation Notice</u>	<u>Amount to be Refunded to the to the Purchaser (%)</u>
More than 2 Months	100
1 - 2 Months	50
15 days to 1 Month	25
Less than 15 Days	0

MARK BAIRD

94 APR -6 AM 10:27

RECEIVED  
DEVELOPMENT ECONOMICS  
VP & CHIEF ECONOMIST

April 6, 1994

Mr. Michael Bruno

Market-Based System of Funding for Cross Support

Michael,

Lesley has prepared the attached reply to Armeane Choksi on the proposal for a market-based system of funding for cross support. It follows your discussion at last week's DECSM meeting. I recommend you sign.



Mark

I would like to have  
Mark's view on this, for  
second opinion

MB 4/1

⇒ Michael:

I have checked with Greg &  
Lesley. This change makes a lot of  
sense. The marginal budgetary impact  
will be absorbed by WDR. Therefore,  
I recommend that you sign.

Mad  
4/5.

# REQUEST FOR CHANGE IN POSITION COMPLEMENT

**Date:** March 17, 1994

**To:** Mr. Michael Bruno

**From:** Gregory K. Ingram, Staff Director, WDR

I propose to change the position complement in my Department/Unit. Following are the pertinent details:

1. Number of Allocated Positions in Department: H/L: 0  
S/L: 4
2. Proposed Change in Position Numbers: H/L: 1  
S/L: 3
3. Expected Change in Salary/Benefits Charges by Virtue of this Change:  
Current FY: \$ 935  
Annual: \$ 3740  
(assuming 4/1/94 effective date)
4. Reason for Proposed Change: *(e.g. specific task; imbalance in levels; new objectives; etc.)* Regrading of Administrative Assistant (Level 17) to Administrative Officer (Level 18) as agreed at last year's Management review.
5. Duration of Change: *(e.g. indefinitely; for two-year fixed-term; number of months; etc.)*

Indefinite

This Department will fund the salary and benefits of the proposed change through redeployment from other budget categories if necessary, and will not seek an increase in next year's budget to fund the incremental costs (if any) of this change.

Approved: \_\_\_\_\_

(Vice President's Signature)

Date: \_\_\_\_\_

cc: Mss. Davis, Cardona

8957

March 30, 1994

Note to: Michael Bruno

From: Lesley Davis

*LD*

94 MAR 30 PM 6:12  
RECEIVED  
DEVELOPMENT ECONOMICS  
V.P. & CHIEF ECONOMIST

### Attached Request for Change in Position Complement

The attached form proposes the upgrade of a level 17 position in WDR to level 18 (from support- to higher-level, in other words). This is the first such request that we have received since the introduction of dollar budgeting and the abolition of position ceilings at the start of this fiscal year.

This request has the blessing of our Personnel Team, and I also support it. The position description has been reviewed by Personnel's Job Evaluation Unit and graded at level 18.

The responsibilities of this position have changed significantly over the past nine months from those of a support level Administrative Assistant (handling budgets, work programs, etc.) to those of a "production manager" for WDR, coordinating production and dissemination schedules and activities with EXT, IPA, PUB, etc.. Until now, the WDR Staff Director or a member of the WDR core team has had to shoulder these responsibilities. Under this new arrangement, they are being handled by a permanent member of the WDR staff who has the advantage of continuity from year to year.

I recommend that you sign the attached request.

Attachment

cc: Greg Ingram, Cathy Cardona

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: April 6, 1994 09:15am

TO: Mark Baird  
TO: Lesley Davis

( MARK BAIRD )  
( LESLEY DAVIS )

FROM: Michael Bruno, DECVP

( MICHAEL BRUNO )

EXT.: 33774

SUBJECT: Attached

F. Y. I.

Kate



A L L - I N - 1 N O T E

DATE: 05-Apr-1994 06:08pm EST

TO: Ismail Serageldin ( ISMAIL SERAGELDIN )

FROM: Stephen Eccles, CTRVP ( STEPHEN ECCLES )

EXT.: 81674

SUBJECT: FY95 Cross-Support Resources for ESD

Ismail:

This is in response to your memorandum of March 29.

On your first point, there must be a mis-understanding (shared at least by HRO). Attached is a copy of my EM to Armeane on a very similar question.

On your second question, this was the first I had heard about 'overheads' and the concept of 'gross' and 'direct' budgets for cross-support. I have therefore now been briefed on the subject. While I can understand (just) how the situation came about for setting the initial budgets, following the reorganization, the system as currently operated does not seem particularly useful for handling year-to-year or within-year changes. I have therefore discussed with PBD staff some ways of simplifying the system. These will be discussed further with Regional CAOs and CVP Program Coordinators, early next week.

As I understand other CVPs are also concerned about the 'overhead' issue, I am copying this EM to them also.

Thanks.

CC: Richard Lynn	( RICHARD LYNN )
CC: Kabir Ahmed	( KABIR AHMED )
CC: Mohamed T. El-Ashry	( MOHAMED T. EL-ASHRY )
CC: Michel Petit	( MICHEL PETIT )
CC: Louis Pouliquen	( LOUIS POULIQUEN )
CC: Andrew Steer	( ANDREW STEER )
CC: Christine A. Stover	( CHRISTINE A. STOVER )
CC: Anjali Chadha	( ANJALI CHADHA )
CC: Armeane Choksi	( ARMEANE CHOKSI )
CC: Michael Bruno	( MICHAEL BRUNO )
CC: Jean-Francois Rischard	( JEAN-FRANCOIS RISCHARD )
CC: Koji Kashiwaya	( KOJI KASHIWAYA )

A L L - I N - 1 N O T E

DATE: 05-Apr-1994 06:03pm EST

TO: Armeane Choksi ( ARMEANE CHOKSI )

FROM: Stephen Eccles, CTRVP ( STEPHEN ECCLES )

EXT.: 81674

SUBJECT: Resources for Cross Support from HRO in FY95

Armeane:

In response to your memo of March 22, let me first assure you that, in accordance with the agreed procedures, PBD has no preliminary position on the issue of resources for HRO for cross support in FY95; nor will it develop one. Same is true for the other CVPs. The level of resources will be determined by what the Regions want. PBD is playing, and can only play, a role in assisting the various units in coming to a mutually acceptable position. There are two possible caveats to this statement:

- a. if the resources requested overall from any one CVP greatly exceeded or fell short of the FY94 amounts, there may have to be some phasing in/out, purely to allow the various CVPs to adjust over time;
- b. if there appeared to be a marked reduction overall in the cross-support requested from the CVPs as a group, there may be an institutional issue about the whole arrangement and role of CVPs.

2. The numbers that PBD have circulated (will be circulating) are:

- a. numbers showing the FY94 matrix, adjusted for cost changes and the like, have already been circulated. The purpose of this matrix is purely to show what the starting point is for 'who pays'. If a Region wants more cross-support than this 'start' matrix shows overall for all CVPs, this is fine by PBD as long as that Region is prepared to have a reduction in its direct administrative budget to meet the costs of this additional support. Similarly, if the Region does not need as much, it will receive additional administrative budget (subject to para 1b above, of course). In essence, this matrix shows how much each Region has 'pre-paid'. Each Region is free to request a completely different 'mix' amongst CVPs, comparing FY95 with FY94, subject to paragraph 1a when the totals are aggregated.

- b. PBD will shortly circulate the FY95 matrix, as aggregated from the Regional Business Plans.

3. It is now necessary for the parties to get together to review this FY95 matrix (representing the Regional Business Plans) in the light of the 'pre-paid' matrix. I understand that PBD will be meeting with the regional CAOs and CVP program coordinators early next week to discuss the ground rules for finalizing the FY95 matrix.

I hope this clarifies the situation. I am copying this EM to the

other CVPs, in case they have similar concerns.

CC: Edward V.K. Jaycox	( EDWARD V.K. JAYCOX )
CC: GAUTAM KAJI	( GAUTAM KAJI @A1@WBHQB )
CC: D. Joseph Wood	( JOE WOOD )
CC: Wilfried Thalwitz	( WILFRIED P. THALWITZ )
CC: Caio Koch-Weser	( CAIO KOCH-WESER )
CC: SHAHID JAVED BURKI	( SHAHID JAVED BURKI @A1@WBHQB )
CC: Richard Lynn	( RICHARD LYNN )
CC: Kabir Ahmed	( KABIR AHMED )
CC: James W. Adams	( JAMES W. ADAMS )
CC: K. Y. Amoako	( K. Y. AMOAKO )
CC: Janet de Merode	( JANET DE MERODE )
CC: Anil Gore	( ANIL GORE )
CC: Ismail Serageldin	( ISMAIL SERAGELDIN )
CC: Jean-Francois Rischard	( JEAN-FRANCOIS RISCHARD )
CC: Michael Bruno	( MICHAEL BRUNO )
CC: Koji Kashiwaya	( KOJI KASHIWAYA )

Mr. Brown

March 31, 1994



Note to: DEC Senior Managers  
From: Lesley Davis *LD*

Budget File

Cross Support in FY95

1. As agreed at Tuesday's DECSM meeting, this note summarizes your comments on HRO's proposal for a market-based system of funding for cross support in FY95 (Anil Gore's note to Armeane Choksi of March 17, 1994).
2. Everyone is in favor of moving to a market-based system in FY95 and putting the funds for the direct costs of cross support in the Regions. There is general agreement that the current system is far too cumbersome and, given the consistent demand from the Regions for DEC support, the risk inherent in a market-based system is not great. DEC managers support the following elements of the HRO proposal:
  - As a transitional measure, obtaining from the Regions a minimum purchase guarantee equivalent to the dollar value of DEC cross support included in the Regions' Business Plans.
  - Providing to the Regions funding for the direct costs of cross support (higher-level salaries, consultant fees, and travel) as part of their resource envelopes.
  - Providing to DEC funding for the indirect costs of cross support (higher-level benefits, support-level salaries/benefits, and other discretionary costs, such as computing, communications, translations, etc.) and overheads (time spent on MAA, leave, holidays, and training).
  - Billing the Regions monthly for the direct costs of cross support on the basis of (a) TRS time costed at the actual cost of higher-level staff salaries (excluding benefits) and consultant fees; and (b) the actual cost of travel.
3. There is concern that the advance payments, premiums, and fees suggested in HRO's proposals would (a) be very difficult to keep track of; (b) provide a disincentive for the Regions to use DEC support rather than consultants; and (c) not be in keeping with the spirit of a true market-based system. DEC managers would therefore prefer to eliminate these penalties from the system. However, they would be willing to experiment with them on a trial basis if HRO felt it necessary.
4. While managers generally agree that a three-month horizon is a sensible one for making firm cross support commitments, they would prefer to avoid a formal (and cumbersome) contracting cycle every three months. Cross support agreements will be made on an ongoing basis throughout the year between DEC managers and the Regions, and the Regions should be

encouraged to "book" DEC staff as early as possible to avoid last-minute rushes. An informal system of sending RPS cross support plans to the Regions every three months for endorsement might serve the purpose of getting regional managers to focus on their cross support needs in a timely fashion.

#### **Next Steps**

5. Please advise if you have any comments on the above notes. Once we have concensus on our preferred approach, I suggest that a note be sent from Michael Bruno to Armeane Choksi expressing DEC's interest in joining HRO in piloting a market-based system of cross support funding, and proposing our modifications to HRO's proposal. The joint HRO/DEC proposal would then be sent to the Regions (and probably PBD) for their comments.

6. May I have your comments by cob this Friday? Many thanks.

**Distribution: Messrs. Ahmed, Squire, Golan, Ingram, Lav, Yusuf, Chander,  
Vieira da Cunha**

cc: Mr. Bruno, Ms. Cardona

1. Mike Lav - F.Y. ]

2 - K. O

March 21, 1994

Budget file

**Note to:** DEC Senior Manager

**From:** Lesley Davis

*Lav*

### Cross Support in FY95

You will recall that there was a lot of support at a DECSM meeting earlier this year for DEC to move to a market-based system for cross support in FY95. Armeane Choksi is also proposing that HRO do the same, and of course the Regions are very keen to switch to this kind of a system which places the cross support resources of regional division chiefs and task managers.

I attach for your review and comment a proposal put to HRO managers for a market-based system of funding for cross support. Would this be a system that we in DEC would endorse for a pilot effort in FY95?

I believe the overall approach in this proposal is a good one - firm quarterly plans and reimbursement for salaries only (not benefits) to make DEC staff competitive with consultants. However, I have reservations about the numerous billing adjustments that are proposed for (a) contracting beyond the quarterly horizon (pre-payment of 25%); (b) unplanned tasks (premium to be charged); and cancellations (penalties to be levied). This implies a great deal of manual record-keeping, and may well prove to be more cumbersome than the present system. If we do away with these "penalties", however, are we protected enough from the uncertainties of regional demand?

Also do you agree with the proposed two-year transitional measure of minimum purchase guarantees from the Regions?

Perhaps we could discuss this at next week's DECSM meeting.

Attachment

**Distribution:** Messrs. Bruno, Baird, ter weele, Ahmed, Squire, Yusuf, Ingram

cc: Mss/Mr. Golan (o/r), Dhomon, Siveroni, Tan, Calleja (o/r), Eltezam, Mataaac,  
Angeles

**A MARKET BASED SYSTEM OF FUNDING OF CROSS SUPPORT  
A PILOT APPROACH**

**Schedule of Fees for Unplanned Tasks**

<u>No. of Days of Notice</u>	<u>Premium to be charged to the to the Purchaser (%)</u>
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*Choksi files*

March 17, 1994

Mr. Armeane M. Choksi

**A Market Based System of Funding of Cross Support**

Armeane,

Please find attached for your review a revised draft proposal for the above. This draft is consistent with the principles outlined in your memo of November 17, 1992, and also includes your specific suggestions made during our discussions about 10 days ago. I am sending the draft concurrently to K. Y., Janet (and Jorge), and Jim for their review and comments. I will appreciate comments from the HRO departments by the end of next week (March 25) please.

Once we have an agreement within HRO, I would like to send the draft to the Regions (CAOs and a sample of HR division chiefs and task managers) and PBD. The proposal would be finalized after that.

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Thank you very much,

  
Anil

cc: Messrs./Mmes. Amoako, de Merode, Adams, Barrientos, Psacharopoulos  
Jacob, Truong, Amy-McAlister, Garg



## DRAFT

**A MARKET-BASED SYSTEM OF FUNDING OF CROSS SUPPORT  
A PILOT APPROACH****A. Introduction**

1. This note spells out the operating procedures for a market-based system for the funding of cross support from HRO in FY95 and the years beyond. The advantages of such a system are clear: (i) the Regional managers would be able to integrate cross support more closely into their overall resource planning decisions, and therefore, to make informed tradeoffs; and (ii) the system would make sure that the cross support offered by HRO would be fully responsive to the Regional requirements, and, in turn, to the Bank's ultimate clients--our borrowers--thereby improving accountability; and (iii) by decentralizing the cross support purchasing/selling decisions to the actual decision makers, the enormous amount of time spent by the CAO community and PBD in operating the current "central planning" system would be avoided. It is hoped that other CVPU's would also eventually adopt the system, so that the full benefits of the Regions' ability to shift resources across sectors, in response to the changing demand, would be realized.
2. In brief, the dollar resources for cross support would be placed in the hands of the Regional front-line decision makers--the division chiefs and the task managers. The Regional division chiefs and task managers would purchase the required amount of cross support from the HRO units on a pay-as-you-go basis, by transferring dollars directly to the providers' accounts. Some safeguards would be built into the system to protect the HRO staff against an unfair competition with (cheaper) consultants.
3. The proposals outlined below should be considered as a "pilot" because the experience in the Bank with market-based systems is limited; the potential budgetary risks for HRO and the institution arising from volatile demand need to be understood; and staff anxieties need to be addressed.

## B. Operating Procedures <sup>1</sup>

### The Business Planning Stage

4. The cross support would be planned, monitored, and paid for in dollars made up of HL staff salaries, consultant costs, and travel expenses (called the "direct costs" hereafter)--unlike the current system which also includes HL staff benefits. This way, cost comparison will be more appropriate with outside consultants, who do not have to bear the high cost of the Bank overheads and benefits.
5. At the time of business planning in February/March, the Regional units would provide the HRO units with an overall planning estimate of the demand for cross support for the next fiscal year, both in direct costs in dollar and in staffyears <sup>2</sup>. The aggregate of the plans of the constituent departments and divisions would be incorporated in the Regional and HRO business plans as the starting assumption for the next fiscal year.
6. To the extent possible, the demand would be broken down by the Regions by functional specialties (e.g. social security, nutrition, etc.).
7. The funding for the direct costs of cross support (HL staff salaries, consultant costs and travel) would be provided by the institution to the Regions as a part of their total resource envelopes.
8. The "indirect costs" of cross support would be estimated by HRO and included in its business plan. These costs include: (i) SL salaries and benefits, other discretionary costs such as internal computing, and communications; (ii) MAA and leave/holiday/training; (iii) HL staff benefits; and (iv) soon to be decentralized office occupancy costs. Funding for the indirect costs would be provided by the institution to HRO, and would not be recovered from the Regions through the cross support chargeback prices.
9. As a transitional measure for 1-2 years (FY95 and FY96), the RVP offices would give HRO a minimum purchase guarantee equal to the dollar value of cross support demand included in the Regional business plans. The minimum purchase guarantee is necessary to protect HRO and the institution against budgetary cost overruns due to a sudden fluctuation in demand. As the comfort level with the new system increases, a medium term objective would be to do away with the minimum purchase guarantee for cross support.

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<sup>1</sup> Unless specified otherwise, the Regional unit means a Regional sector and country operations division or a task manager purchasing HRO cross support. HRO unit means HRO division or department providing cross support.

<sup>2</sup> The staffyear estimate is necessary because the Regional CAM and also the staff resource plans of the CVPUs would continue to be prepared in this accounting unit.

### The CAM Stage

10. As is currently done, in April/May, HRO would input task level details of cross support for the entire year in the Resource Planning System (RPS). The Regions are also encouraged to do the same. This initial programming in the RPS is desirable to make sure that the demand from the Regions and HRO's supply capacity is reasonably in balance. Unlike today, however, the initial program would not be used resource transfers.

11. Given the uncertainty about the tasks especially at the beginning of the fiscal year, HRO has found it necessary to over-program its cross support resources in the RPS. That practice could continue, although with the quarterly contracting of tasks proposed under the new system (see below), the need for over-programming is expected to diminish.

12. HRO also intends to be more selective in terms of the cross support tasks to be undertaken, so as to utilize its available staffing resources and skills more effectively.

### The Budget Distribution Stage

13. The allocation of cross support resources to the departments, divisions and tasks would be done by the Regions in exactly the same manner as other discretionary resources. Each Region would need to work out its own procedures to back up the minimum purchase guarantee from its departments/divisions. HRO is not expecting the minimum purchase guarantee from individual departments/divisions within a Region.

### The Contracting Stage

14. The "contracting" horizon for cross support would be normally three months (one fiscal quarter) at a time. At least 15 days before the beginning of a quarter, the Regional and HRO units would agree on the precise duration (including the mission dates) of the tasks to be initiated in that quarter. The contracts would cover the whole tasks even though the tasks may be actually implemented in more than one quarter. The process would be repeated for each quarter.

15. A purchasing Regional unit might wish to enter into a "forward" contract with HRO units (including locking-in a particular staff member) with a lead time longer than the normal three months. In such cases, the purchasing Regional unit would pay the providing HRO unit 25% of the estimated cost at the time of the forward contract. The subsequent "invoicing" would adjust the advance paid.

### The Implementation Stage: Monitoring and Billing

16. **Cross support monitoring:** The cross support would be monitored in dollars in the Resource Planning System (RPS), as done at present.
17. **Billing of cross support:** The invoices for the cross support actually delivered would be sent to the purchasing Regional units at the end of each month on the basis of: (i) the actual staff time costed at the actual salary of staff; (ii) the actual consultant time costed at the actual consultants' rate; plus (iii) the actual cost of travel.
18. **Payment Procedures:** The purchasing units in the Regions would transfer resources to HRO's supplying units directly to the later's account. A system would need to be put in place to aggregate the payment information at the VPU level for statistics and analysis.
19. **Management of routine business uncertainties:** A purchasing Regional unit may want cross support at a short notice, outside of the quarterly contracting cycle. Under this situation, a schedule of premiums shown in Annex 1 would be adopted.
20. A purchasing unit may have to cancel its contract because of slippages. To offset the costs of sudden disruption for the providing HRO unit's work program, a schedule of cancellation fees shown in Annex 2 would be adopted.
21. **Major changes in demand:** If during implementation, major imbalances develop as compared to the demand and supply assumptions made in the business plan, these could be raised to a higher level of management either by the purchasing or the providing unit. There would be an agreed framework at the third quarter to revisit the amount of the minimum purchase guarantee from the Regions.

### C. FY95 Budgets

22. The Regions have put forward the cross support demand of \$4.3 million for FY95, excluding HL staff benefits as follows. The institution would provide these resources to the Regions.

	\$'000
Africa	1,315
EAP	740
SAS	460
ECA	650
MNA	550
LAC	550
	<u>4,265</u>

23. The corresponding indirect costs are estimated at \$5.1 million, comprising of HL benefits (\$1.8 million) and other overheads (\$3.3 million) (para. 8). The cost of office space is not included in these numbers. These resources would be provided to HRO upfront by the institution.

**A MARKET BASED SYSTEM OF FUNDING OF CROSS SUPPORT  
A PILOT APPROACH**

**Schedule of Cancellation Fees**

<u>No. of Days of Cancellation Notice</u>	<u>Amount to be Refunded to the to the Purchaser (%)</u>
More than 2 Months	100
1 - 2 Months	50
15 days to 1 Month	25
Less than 15 Days	0

OFFICE MEMORANDUM

8913

*VanBuren/L.D.*  
*File Budget*

DATE: March 25, 1994

94 MAR 25 PM 5: 36

TO: Mr. Michael Bruno, DECVP

RECEIVED  
DEVELOPMENT ECONOMICS  
V.P. & CHIEF ECONOMIST

FROM: Richard Lynn, Director, PBD *RL*

EXT: 30114

SUBJECT: Quarterly Monitoring Report - Third Quarter FY94

1. As you know, this is the time to begin preparation of the Third Quarter Monitoring Report. This is the first year that benefits have been distributed to Bank Units, thereby increasing their flexibility in resource management. In particular, low fill ratios have allowed most Units considerable savings in allocated benefits. We will take these savings into account in considering any requests for additional resources at Third Quarter.

2. Please send your submission to PBD by c.o.b. Friday, *April 15* and include the following:

- a listing of all the indicators included in your Contract showing third quarter actual and estimated end-of-year outcomes against plans; for this purpose, please use the attached table (for your convenience we are also enclosing a diskette);
- a single page write-up explaining major deviations, if any, from agreed plans<sup>1</sup>;
- if you expect a program shortfall, an indication of the amount of funds your Unit will be returning to the Institution;
- if you are requesting incremental funding, a justification for the request along with a discussion of redeployment possibilities;
- an indication of how your Unit is using the expected savings of about in allocated benefits and in OBP chargebacks; and
- a confirmation of your cross support deliveries, after consultations with the Regions concerned, and of the corresponding transfer of the remaining balance (25%) of the agreed cross support adjustment.

3. Based on your submissions, we will consolidate the Bank-wide report for circulation to the Office of the President, VPs and Bank managers by April 28. To meet this schedule, we will greatly appreciate your timely submission. If you have any questions, please do not hesitate to contact Mrs. Hennrich-Hanson (x 34656) or Mr. Ahmed (x 81386). Thank you for your cooperation.

<sup>1</sup> Any institutionally agreed revisions to your original plans in your Budget Contract should be explicitly noted.

Attachment

cc: Messrs./Mmes. Eccles (CTRVP); Davis (DECVP); Ahmed, Garcia-Thoumi, Rizo (PBDPR); Chatterjee (PBDPS); Schloss (PBDCP)

## OFFICE MEMORANDUM

8876

DATE: March 21, 1994

TO: Distribution

FROM: Lesley Davis *LD*

EXTENSION: 33775

SUBJECT: FY93 Administrative Budget - End-Year Outcome/Accrual Status

94 MAR 22 PM 3:43  
 RECEIVED  
 DEVELOPMENT ECONOMICS  
 U.P. & CHEM. ECONOMIST

1. Now that the end-FY93 books are closed, we can see what was our final budget outcome (accrual results have already been circulated on February 11).

	Accrued Amount	Accruals Paid	% Paid
DECVP	116.5	119.3	102%
RAD	22.4	21.2	95%
WDR	651.0	633.9	97%
EDI	2,709.1	2,676.5	99%
DPG	16.6	16.6	100%
DECGE	9.5	13.6	143%
IEC	773.8	825.5	107%
PRD	1,050.0	1,095.4	104%
RSB	1,745.8	1,683.5	96%
<b>TOTALS</b>	<b>7,094.7</b>	<b>7,085.5</b>	<b>100%</b>

End-Year (Revised) Budget	Actual Expenses	Actual as % of Budget
1,156.7	1,139.1	98%
782.4	769.1	98%
2,306.0	2,296.7	100%
18,888.4	18,835.2	100%
1,062.9	1,039.3	98%
652.5	567.3	87%
12,513.6	12,565.6	100%
9,109.0	9,068.8	100%
5,213.6	5,149.0	99%
<b>51,685.1</b>	<b>51,430.1</b>	<b>100%</b>

2. Two pretty good outcomes!

Distribution: Messrs. Bruno, Baird, Ahmed, Squire, Golan, Ingram, Yusuf  
 cc: Mss. Dhomun, Villagran, Tan, Calleja (o/r), Siveroni, Eltezam, Mataac, Angeles



THE WORLD BANK/IFC/MIGA  
**OFFICE MEMORANDUM**

DATE: March 18, 1994

TO: Distribution

FROM: Lesley Davis

EXTENSION: 33775

SUBJECT: **FY93 Administrative Budget - End-Year Outcome/Accrual Status**

*B*  
 enter all with  
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 biggest move  
 to make  
 is look  
 better!

1. Now that the end-FY93 books are closed, we can see what was our final budget outcome (accrual results have already been circulated on February 11).

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18,888.4	18,835.2	99.9%
1,062.9	1,03.39	97.8%
652.5	567.3	86.8%
12,513.6	12,565.6	99.2%
9,109.0	9,068.8	99.1%
5,213.6	5,149.0	100%
<b>51,685.1</b>	<b>51,430.11</b>	<b>100%</b>

2. Two pretty good outcomes!

Distribution: Messrs. Bruno, Baird, Ahmed, Squire, Golan, Ingram, Yusuf  
 cc: Mss. Dhomon, Villagran, Tan, Calleja (o/r), Siveroni, Eltezam, Mataac, Angeles

Attachments

## OFFICE MEMORANDUM

8701

LS



To m Banked for action

DATE: February 22, 1994

94 FEB 24 AM 11:41

TO: Mr. Michael Bruno, DECVP

FROM: Richard Lynn, PBDDR

EXT: 30114

SUBJECT: **FY94 Budget: Midyear Resource Allocations**

1. Based on PBD's review of your Unit's Midyear submission and the decisions reached by the Office of the President concerning institutional resources and priorities, **no additional resources have been allocated to cover the costs detailed in Attachment 1. In addition, net travel savings amounting to \$105,000 will be recovered from DEC, based on the principles stated in para. 3 below.** This decision does not include any adjustments that may be required as a result of the Midyear review of the cross support services from the CVPs. That is being communicated separately. The resource allocation decisions are based on the following principles:

2. **Secondment of Staff:** As you know, releasing Units cannot permanently fill positions temporarily vacated by staff members on secondment to WDR. It is expected that the seconded staff will be replaced by consultants to complete the Unit's work program. The salary costs, which are reimbursed by the receiving Unit, will be sufficient to cover the consultant fees. In addition, benefits continue to be paid to the seconded staff. Therefore, reimbursing benefits to the releasing Units would result in funding benefits twice.

3. **Travel Cost Savings:** As a result of the revised travel policy, Units will achieve travel cost savings in the remainder of FY94. Based on a methodology agreed with the VPU's, PBD has estimated savings for each Unit. To the extent that these savings have exceeded the Unit's own savings estimate, the excess amount is being recovered by the Institution (Attachment 1, fn.a). In other words, each Unit's redeployment plans for the travel savings that they themselves have estimated have been accepted. Recoveries will not be made from Units where travel savings are estimated to be \$50,000 or less for the second half of FY94. The agreed methodology used to calculate travel savings for FY94 and FY95 base adjustment and specific assumptions for your Unit are described in Attachment 2.

4. **Cross Support:** Two main issues were reviewed:

- (i) **Demand for Cross Support:** Almost all Regions have indicated that they expect to fully utilize or exceed their original allocated levels of cross support. However, consistent with the recommendations of the Cross Support Task Force, any expected increase over a Region's originally allocated level of cross support will be paid out of the Region's regular budget, unless it is able to demonstrate program growth. Based on its review of Unit's submissions, PBD has determined that no program growth is envisaged; hence, no resources have been provided for incremental cross support.

- (ii) **Travel Costs:** These costs are exceeding budgeted levels due to higher travel frequency per staffyear of delivered cross support. However, under dollar budgeting principles, all Units are being asked to absorb these higher costs and put in place mechanisms to monitor and control travel volume.
5. **Program Expansion:** In FY94, dollar resources were provided on the understanding that they would lead to the implementation of the budget contracts. We are alerting all Units that at the time of the Third Quarter Review, they would need to (i) make a final assessment of their program deliveries as contracted; and (ii) in the event of program shortfall, indicate the amount of funds they will be returning to the Institution, particularly in light of the rebates Units are receiving from the OBP chargeback (see para. 6).
6. **OBP Chargeback Refunds:** OBP has announced a reduction in chargebacks, which will result in substantial rebates to users. DEC will save some \$208,000 in FY94. PBD is leaving these savings with DEC for the time being in the expectation that they will be redeployed for legitimate work program needs. We would, however, take these savings into account in considering Third Quarter requests.
7. We appreciate having had the opportunity to discuss the Unit's work programs and resource requests with your staff. If you have any questions, please do not hesitate to contact me or Mr. Ahmed (ext. 81386).

Attachment

cc: Messrs. Karaosmanoglu, Stern  
Eccles (CTRVP), Ahmed (PBDPR)  
Ms. Davis (DECVP)

2/24

Mr. Baird

Mark

re attached

May I assume you will handle with  
LS and, if necessary, brief MB  
o/r.? (I will show ~~complete~~ memo  
with ~~atcs~~ to LS but I'm not copying  
to other Dirs.)

thanks

k

8794 M. Bruno

THE WORLD BANK/IFC/MIGA

# OFFICE MEMORANDUM

1. Let me know when you want it

2. M Board Agenda

DATE: March 8, 1994

TO: Mr. Richard Lynn, Director, PBD

FROM: Masood Ahmed, Acting VP, DEC

EXTENSION: 36099

SUBJECT: **FY95-97 Business Plans for DEC and EDI**

MAR -9 PM 11:33

1. Attached are Business Plans for DEC and EDI, covering the period FY95-97.
2. The required data tables are attached. It is important to note that the data in these tables are not the result of a detailed task-level dollar planning exercise, but rather are based on global staffyear assumptions to which average unit costs have been applied. It is very likely, therefore, that there will be discrepancies between numbers in the attached tables and plan data that result from our dollar task planning exercise, which is scheduled to begin shortly after completion of the business plans. While we understand that it is the Business Plan numbers that go to the Board, the added accuracy of aggregated task level plans would be a better basis for DEC's management contract with the President.
3. We have run into difficulties in past years when the Business Plan table showing "Projected Staff Needs" (Form III in this exercise) has been used by PBD as the basis for space planning. Form III cannot be used for this purpose. It does not include contract staff/consultants, seconded staff/consultants, RSB-funded consultants/long-term temporaries, long-term temporaries funded by trust funds, or staff/consultants funded by Special Grants - all of whom are entitled to office space. If Form III is indeed required for space planning purposes, then we suggest that it be modified in consultation with users, and reissued as a space planning table.

## ATTACHMENTS

- Business Plan for DEC
- Business Plan for EDI

- Form I Total Unit Resource Summary - DEC and EDI
- Form II Unit-Managed Expenses - Administrative Budget - DEC and EDI
- Form III Projected Overall Staff Needs - DEC and EDI
- Form IV Externally-Funded Programs - DEC
- Form IV Externally-Funded Programs - EDI
- Table 1(a) Key Work Program Indicators - DEC
- Table 1(c) Key Work Program Indicators - EDI
- Table 2 Major Outputs
- Table 3(a) POCs - Distribution of Inputs and Outputs - DEC
- Table 3(c) POCs - Distribution of Inputs and Outputs - EDI
- Table 4 Program Summary
- Table 5 Regional Distribution of Trust Funds - EDI

International Bank for Reconstruction and Development  
International Development Association  
International Finance Corporation  
Multilateral Investment Guarantee Agency  
FOR OFFICIAL USE ONLY

R94-20

FROM: Vice President and Secretary

February 8, 1994

DECLASSIFIED

MAY 24 2017

WBG ARCHIVES

REVIEW OF ARRANGEMENTS FOR THE ANNUAL MEETINGS

Attached for consideration by the Executive Directors in a Committee of the Whole to be held on Tuesday, March 8, 1994 is a paper prepared by the Secretary's Department entitled "Review of Arrangements for the Annual Meetings".

Questions on this document may be referred to Mr. Choi (ext. 80201).

Distribution

Executive Directors and Alternates  
Office of the President  
Executive Vice Presidents, IFC and MIGA  
Vice Presidents, Bank, IFC and MIGA  
Directors and Department Heads, Bank, IFC and MIGA

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## REVIEW OF THE ARRANGEMENTS FOR THE ANNUAL MEETINGS

### I. Introduction

1. In the course of their discussion of the FY94 Work Program and Budget, the Bank's Executive Directors asked Management to review the costs associated with holding the Annual Meetings in Washington and abroad. It was agreed that this review would be undertaken after the completion of the 1993 Annual Meetings in order to have the most recent data on costs and attendance. This issue was also raised at an informal meeting between the Executive Directors and the President of the Bank and it was agreed that a paper on the Annual Meetings Arrangements would be prepared by the Secretary. The paper that follows is based on consultations by Secretary's Department staff with Bank Executive Directors. Comments were also sought from the Fund Secretariat.

2. Initially, the Executive Directors were prompted to call for a review because of the large scale and increasing costs of the meetings. There was also the impression among some Executive Directors that overseas meetings imposed a burden on the host countries and that these meetings were considerably more expensive to the two institutions than were the meetings in Washington. Executive Directors, therefore, asked whether the 1954 decision of the Boards of Governors to underscore the international character of the Bank and Fund by holding their Annual Meetings abroad every third year should be reconsidered. In this context, Section II of this paper will address the rationale for holding the Annual Meetings; Section III will review the current arrangements, including the growth in the size and complexity of the meetings over time and the issues raised by the format and scale; Section IV will explore some options for dealing with the identified problems; Section V will present the costs of meetings in Washington and abroad from 1988 to 1993; and Section VI will present some recommendations for changing various aspects of the organization and arrangements of the meetings and for reducing their cost.

### II. Rationale for the Annual Meetings

3. The Bank's Board of Governors is required by the Bank's Articles of Agreement to hold an annual meeting. Article V, Section 2(c) of the Articles of Agreement of the Bank states that:

The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one-quarter of the total voting power.

Because of this mandate, the Board of Governors must hold a meeting at least once a year unless the Articles are amended.

4. In contrast, the Fund's Board of Governors is not required by the Fund's Articles of Agreement to hold an Annual Meeting. Article 12, Section (c) of the Fund's Articles of Agreement states that:

The Board of Governors shall hold such meetings as may be provided for by the Board of Governors or called by the Executive Board. Meetings of the Board of Governors shall be called whenever requested by fifteen members or by members having one-quarter of the total voting power<sup>1</sup>.

The Fund's By-Laws, however, provide for its Board of Governors to meet at annual intervals unless it decides otherwise. On this basis, the Bank and Fund Boards of Governors hold joint meetings each year - with the meetings taking place in Washington for two years and, at the invitation of a member country, abroad every third year.

5. Today the Annual Meetings of the Boards of Governors of the Bank and Fund are attended by the Ministers of Finance and Governors of Central Banks and their senior advisors from virtually all member countries. In addition, chief executives of major financial institutions, prominent academics, and representatives of non-governmental organizations (NGOs) from around the world also find attendance important for their work. As the membership of the two institutions has become nearly universal, the number of individuals and organizations that seek to attend the meetings has grown. These meetings now constitute the largest international gathering, at the ministerial level, on economic and financial issues.

6. In several past reviews of the Annual Meetings, Bank and Fund Executive Directors have reaffirmed the merits of holding Meetings of the Boards of Governors of the Bank and Fund for reasons that the meetings:

- provide a collaborative forum, with a worldwide focus and large attendance, to exchange views on global economic and monetary policies and problems;
- permit senior economic and financial officials from nearly every country in the world to meet and exchange perspectives on global economic and monetary problems and solutions on both a formal and informal basis;
- foster mutually beneficial relationships of systemic value by bringing together senior government officials and private sector financial executives; and
- provide a unique forum for an interchange between a wide range of NGOs and senior Government policy makers on global human and environmental concerns.

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<sup>1</sup>Initially, the Fund's Articles had the same requirements as those of the Bank but these were amended by virtue of the Second Amendment of the Fund's Articles introduced in 1978.



### III. Current Arrangements and Issues

#### Evolution of the Annual Meetings

7. The Inaugural Meetings of the Boards of Governors of the Bank and Fund were held in Savannah, Georgia in 1946 and some of the subsequent meetings were held overseas. In 1954, a decision by the Boards of Governors established the practice of holding the meetings overseas every third year. This practice was reaffirmed by the Governors in 1965. The Annual Meetings, consisting of an Opening Session, Plenary Sessions and a Closing Session, originally lasted five days. These arrangements have been reviewed by the Executive Directors of the Bank and the Fund from time to time and various changes have been made by the Governors. At the last major review in 1987, it was agreed to shorten the Annual Meetings from three and a half days as established in 1978 to two and a half days (See R87-31 "Duration and Timetable of Meetings").

8. A major factor behind the reduction in the duration of the Annual Meetings was the emergence of a number of demands on the time of the Governors associated with ministerial preparations for the Interim and Development Committees. In the fall, the Governors hold an increasing number of meetings. These range from participation in such meetings as the Commonwealth Ministers, Arab Ministers, Franc Zone, Latin American and South East Asian Groups, followed by meetings of the G-10, G-24 and other regional groups and constituencies, and culminating in the two days of meetings provided for the Interim and Development Committees. Thus, the Governors have often found themselves in lengthy absences from their capitals even before the Annual Meetings have officially begun. In fact, some Governors believe that they must return to their capitals before the formal adjournment of the Annual Meetings. As a result of these circumstances, and the pressure of bilateral meetings and other business conducted by Governors during the few days of the Annual Meetings, attendance at Plenary sessions after the opening session has tended to decline.

9. The practice of inviting representatives of private financial and investment institutions to attend the Annual Meetings as "Special Guests" began in 1948 as a way of encouraging acceptance of the World Bank bonds in the financial markets and to introduce the investment community to the Bank and its work. Subsequently, the Fund also found it useful to invite individuals from financial institutions and universities with an interest in Fund matters and monetary affairs. Over time, the guest list has grown in proportion to the heightened interest in the Annual Meetings and the work of the two institutions. To accommodate the growing requests for attendance by those who have an interest in the work of the two institutions, but whose ties to this work were not strong enough to warrant their inclusion on the more limited Special Guest list, a category of "Visitors" was created to include persons from academic institutions, NGOs, businesses, and the general public (see Table I on attendance at the meetings).

#### Current Arrangements

10. The Venue As the membership of the Bretton Woods institutions has grown, the size and complexity of the meetings and the arrangements necessary for them have increased. The Annual Meetings in Washington have traditionally been held at the Sheraton Washington Hotel (SWH). The Ballroom has provided adequate space for all the delegations in the plenary sessions, and hotel rooms have been converted to serve as offices for the delegations, Executive Directors and staff. Many

Executive Directors, however, have expressed concerns about the cost and the mounting logistical difficulties of holding the meetings at this venue. Complaints have been expressed about the confusing layout of the SWH; the inadequate elevators and stairways; the unsuitability of using hotel rooms as offices (discomfort, poor lighting, etc.); pilferage from delegation offices; and the mediocre quality of the hotel services.

11. Attendance at the Opening and Subsequent Plenary Sessions Under the current arrangements, the Opening Session, which features the speeches of the Chairman of the Boards of Governors, the heads of the two institutions, and the President of the U.S. or his representative, is heavily attended and the space in the Ballroom fully utilized. When there is heavy attendance, there is risk of overcrowding. At the subsequent sessions, however, attendance is poor; especially since the inauguration of closed circuit television coverage of the Meetings allows delegation and staff offices to follow the complete proceedings without going to the plenary hall. Thus, it is not unusual for Governors to make their statements to a nearly empty, cavernous hall. Another disturbing practice is the mass exodus of delegates and guests from the plenary hall, with consequent noise and distraction, at the conclusion of a speech made by the Governor representing a major shareholder, while the next Governor is speaking.

12. Ancillary Meetings There are a very large number of meetings attended by the Governors, members of the delegations, etc. taking place outside the formal plenary sessions. Over a period of 12 days in 1993, and in many cases during the time of the plenary sessions, 136 meetings were scheduled by the Joint Secretariat. These meetings included, among others, seminars arranged by staff, large-scale regional meetings, and meetings between the Governors and their delegations and the managements of the two institutions. In addition, there were hundreds of bilateral meetings and other business meetings with private sector representatives. It has been pointed out repeatedly that the scheduling of bilateral and other meetings during the three days of plenary sessions, like the televising of the proceedings noted above, is a contributing factor to the poor attendance by Governors at the plenary.

13. Complexity of Meeting Arrangements As the membership in the Bretton Woods institutions has become nearly universal, and an increasing number of NGOs have developed interest in the work of the institutions, the size and complexity of the Meetings has grown. More office space has become necessary and greater language services and additional security are required. In addition, changes in telecommunications technology have meant that large numbers of personal computers, fax machines, copiers, and telephone lines have to be moved to and installed at the SWH. These elements have not only added to the cost of the meetings, but have added to the logistical complexities of holding the meetings at the SWH.

#### IV. Alternative Arrangements

##### Option One

14. Following the 1993 Annual Meetings, staff from the Secretary's Department interviewed Bank Executive Directors to gather suggestions on possible changes in the arrangements for the Annual Meetings. In the course of these consultations, it was suggested that one approach would be to change the format and venue of the meetings. In this context it was suggested that:

- The Meetings should be moved out of the SWH and the Opening Session should be held in an auditorium or large hall near the Bank and Fund main complexes. (Constitution Hall located at D and 18th St., which has a seating capacity of approximately 3500, was proposed.)
- Subsequent limited or "business sessions" of the plenary should be convened at a facility in the World Bank Main Complex, such as the Atrium which is expected to have a seating capacity of approximately 350 after its completion in 1997. This venue should provide two seats per member country and Governors should deliver brief oral statements and submit fuller texts for the record. Because of the proximity of Constitution Hall to the Bank, no special transportation would be needed to transport the Governors from the Opening to the Business sessions. A closed circuit television system, however, would need to be provided to delegation and EDs' offices.
- Delegation offices should be provided in the Bank and Fund main complexes. Single constituency Governors would be housed in their respective Executive Directors' offices and suites; large constituencies would continue to have separate arrangements in conference rooms or possibly nearby hotels. Delegation offices would be set up in combination with EDs' suites using staff conference rooms (approximately 100 rooms would need to be available in the Bank and Fund). Telephones, fax machines, etc. would be installed as necessary.
- In order to free up a maximum amount of office space, the Opening and Business Sessions would be held on a weekend and the duration of the meetings would be limited to four days (Interim Committee on Thursday, Development Committee on Friday, Opening and Business Sessions on Saturday and Sunday).

15. The rationale behind such suggestions was the desire to produce cost savings and to avoid the logistical problems related to setting up offices and conducting business in the SWH. The issue of poorly attended plenary sessions in a large hall would also be addressed. The difficulties with such an approach, however, include:

- The configuration of the Atrium in the Main Complex may make it an unsuitable forum for the "business sessions" – there may not be suitable space for a dais, seating could not be provided for all the Governors to place their documents on a table, etc. No venue in the Bank/Fund buildings has adequate space to accommodate, at a minimum, all Governors (generally two per delegation) and necessary staff.
- Over 3000 Governors and delegates attend the Meetings. There could be multiple difficulties in finding suitable accommodations to handle this many people in Bank/Fund offices including the lack of convenient space and the need to have offices located in different buildings, the disruption in the work of Bank/Fund staff, and the risks of greatly impeding the flow of traffic within the Bank/Fund Headquarters.
- Similarly, this format and venue could lead to difficulties in the interaction between special guests and the government delegations. Issues of access and security for visitors, special guests, NGOs and the press to Bank/Fund premises would have to be considered.

## Option Two

16. Another approach would be to consider down-sizing the meetings beginning in 1995 based on the experience of the Annual Meetings in Madrid where it is planned that the opening session and the remaining plenary sessions will be held at separate venues and in meeting halls with very different seating capacities. An assessment of these arrangements may provide a guide to adaptations that could be useful when the Meetings return to Washington.

17. One such adaptation could be based on continuing to have the meetings at SWH which, despite its problems, does have the space capacity to handle the Annual Meetings. (The SWH has 1300 rooms and the nearby Shoreham Hotel has 700.) The configuration of the plenary hall, however, could be changed to allow the seating to be reduced after the Opening Session. The Ballroom, which is used for the plenary sessions, has a seating capacity of approximately 3100. As shown in Annex I (drawing No. 1), the room could be reconfigured so that delegation seating would remain in front of the dais, but with the number of seats for each delegation reduced from approximately 10 per delegation (Governors plus eight extras) to approximately 4 (Governors plus 2 extras). The rest of the seating would be provided in rows of chairs on either side of the dais. Following the morning session on opening day, the Ballroom would be partitioned (see Annex I Drawing No. 2), thereby reducing the seating capacity to approximately 1300 (or less, if desired). It is expected that this capacity would be adequate for all subsequent plenary sessions, but if necessary, overflow seating would be available on the other side of the partition through the use of closed circuit television. These arrangements would address the problems of Governors speaking in a large empty hall and would limit the disruption caused by the exodus of people from the plenary following speeches by Governors representing major shareholders. At the same time, it would provide the large amount of seating necessary for the opening session. Other "downsizing" and cost-saving arrangements could also be adopted as suggested below.

## V. Cost of the Annual Meetings (1988-1993)

18. Concerns have been expressed about the cost of the Annual Meetings in Washington and overseas. Executive Directors have asked for a breakdown of costs and for suggestions for lowering them. Table II shows the costs of the Annual Meetings during the period 1988-1993 broken down by major expense categories. The costs of the meetings comprise of two principal components: (i) the travel and subsistence expenses of the Governors attending the meetings; and (ii) the provision of "Other Services" which includes: communications, computer services, equipment and supplies, offices at the SWH, contractual services (security, interpreters, printing, etc.), social functions, wages for temporaries, consultants and overtime, and miscellaneous expenses. Travel and subsistence expenses are paid for by the respective institutions on the basis of actual costs. Most other expenses are on a cost-sharing basis with 57% paid by the Bank and 43% paid by the Fund.

19. The following are cost-savings measures which might be considered in addition to changing the plenary hall.

### Governors Travel and Per Diem

20. Governors' travel and per diem account for approximately 50% of the costs of the Annual Meetings. Because this is the major expense incurred by the institutions, several alternatives merit consideration. In this connection, possible options include: (i) eliminating reimbursement to Governors

altogether; (ii) limiting reimbursements to Governors only (not Alternate Governors); or (iii) limiting reimbursements to Governors from IDA-eligible countries. It should be noted, however, that the Articles and By-Laws of the Bank and the Fund stipulate reimbursement of Governors' expenses in the following terms:

Article V, Section 2(g) of the Bank's Articles of Agreement states that:

Governors and Alternates shall serve as such without compensation from the Bank, but the Bank shall pay them reasonable expenses incurred in attending meetings.

Section 13(a) of the Bank's By-Laws states that:

Governors and Alternates shall receive reimbursement for reasonable expenses incurred in attending meetings of the Board of Governors.

Article XII, Section 2(h) of the Fund's Articles of Agreement states that:

Governors and Alternates shall serve as such without compensation from the Fund, but the Fund may pay them reasonable expenses incurred in attending meetings.

Section 14(a) of the By-Laws of the Fund states that:

Governors and Alternates shall receive reimbursement for reasonable expenses incurred in attending meetings of the Boards of Governors.

Thus, any significant curtailment of reimbursement would require an amendment of the Articles and the By-Laws. Amendment of the Articles of Agreements of the Bank and the Fund requires the approval of 60% of the Governors exercising 85% of the total voting power. Such an action would lead to time-consuming and often protracted action by the legislatures of member countries. Amendments of the By-Laws requires approval by a majority of the votes cast by Governors.

21. As an alternative to recommending to the Governors a change in the Articles or By-Laws, the Executive Directors could use moral suasion to decrease reimbursements claimed by Governors, particularly by those from OECD countries. A majority of MIGA Directors have favored eliminating reimbursement for MIGA-only Governors. It should be noted that neither the MIGA Convention nor the By-Laws of MIGA contain reference to reimbursement to Governors for attending the meetings of the Council of Governors.

22. Another option to reduce costs, which would involve the Governors directly, would be to change the reimbursement for Governors' travel from round trip first class airfare to conform with the recently approved travel policy for the Executive Directors, Senior Management and staff of the two institutions that provides for air travel in one class above economy. This change would not require any amendment of the By-Laws or Articles. In terms of propriety in dealing with the Governors, however, the endorsement of the Governors should be sought prior to making such a change.

### Other Expenses

23. Social Functions The number of official social functions (Chairman's Reception, Governors' Dinner, Concert and Spouse Program) could be reduced. Consultations with Bank Executive Directors showed a diversity of views on this issue, but a majority of Directors indicated that they would like to see the concert retained. They would, however, be able to support elimination of the Governors' Dinner. In 1993, 816 invitations to the dinner (including those to spouses) were sent but acceptances totalled only 450.

24. Seminars Seminars held during the Annual Meetings could be eliminated or the number reduced by limiting these meetings to a certain theme each year. It has been suggested that seminars might be tied to the topic of the World Development Report.

25. Offices for Staff and Executive Directors Offices for staff and Executive Directors at the site of the meetings could be reduced or eliminated. This would have a direct savings in the rental costs of hotel rooms. In addition, there would be a substantial savings related to the moving and installing of office equipment and technology.

26. Fees Fees could be charged for special guests and visitors. This issue was last reviewed by the Bank's Board in 1991 (Report on Annual Meetings Arrangements: Options for a System of Charges for Special Guests and Visitors (R91-216)). It was agreed at that time that fees would not be charged. Recent consultations with Bank Executive Directors indicated that, while there was a diversity of views, a majority did not support introducing fees for the time being.

### Overseas Meetings

27. When the Meetings are held overseas, the Bank and Fund meet not only the travel and subsistence costs of the Governors, but also those of the Executive Directors, Alternates and their staff, senior management, departmental and operational staff, and staff of the Joint Secretariat. It is these travel and subsistence costs which account for most of the additional expense of holding meetings outside of Washington. The Bank and Fund also meet the cost of some other services and the host government provides all meeting and office space, local transportation, social events (except the Chairman's Reception) and security (see details in Table II). The two institutions, therefore, pay less in effect for many of the support functions in years when the meetings are overseas. To reduce the cost of overseas meetings, consideration could be given to reducing the number of staff from Headquarters attending the meetings, including staff from the EDs' offices.

28. Despite the additional costs associated with overseas meetings, consultations with Bank Executive Directors have indicated that the majority find the practice of holding the Annual Meetings overseas to be important in maintaining the international character of the institutions. Other reasons advanced in favor of holding meetings overseas have included: the prestige and publicity for the host country which can attract trade, tourism and investment in the country or region; the prospect that other international conferences may follow; and the interest of delegations in learning more about other geographic areas. In addition, host countries have their own national considerations in deciding to invite the Bank and Fund to hold the Annual Meetings in their countries. As a cost-saving measure, however, consideration could be given to holding the meetings overseas less frequently than every 3 years.

## VI. Recommendations

### Format and Venue

29. While option one (paragraphs 14-15) was intended to address many of the shortcomings of holding the Annual Meetings at the SWH, on balance, it does not appear practical to implement. Logistical difficulties with this option include uncertainties about the completion date of the Atrium in the Main Complex and whether this space would, in any event, prove suitable for the purpose of the business sessions of the plenary, and the availability of adequate and suitable office space in the Bank/Fund buildings to house the delegations. Using Bank/Fund Headquarters as the venue for the meetings would complicate interaction with special guests, visitors, the press and staff and create a variety of security and public access issues.

30. A more practicable solution would be to retain the current venue and format, but to "down-size" the Meetings beginning in 1995 (paragraph 16-17). This would include not only reconfiguring the hall for the opening and other sessions of the plenary, but reducing or curtailing the provision of individual offices for staff and most Management of the two institutions at the meeting site. The experience with "down-sizing" in 1994 (Madrid) and 1995 (Washington) could then be assessed by the Executive Directors and further changes made as necessary.

### Cost Savings

31. Several changes are recommended for consideration as cost-saving measures. These are:

- Governors' Reimbursements As noted in paragraph 20 above, changing the Articles and the By-Laws to eliminate the travel and per diem expenses for some or all Governors would be difficult. However, it would be possible for the Executive Directors to request that Governors consider refraining from seeking reimbursement from the two institutions. In the same vein, Executive Directors could consider whether to approach the Governors to ascertain whether they would support changing the reimbursement of travel costs from first-class to one class above economy in conformity with the travel policy in effect for the Executive Directors and staff of the two institutions.
- Social Functions It is recommended that consideration be given to discontinuing at least one of the social functions. Informal consultations with Bank Executive Directors indicate that eliminating the Governors' Dinner would be the least objectionable option.
- Staff and EDs Offices It is recommended that staff offices at the SWH, other than for those staff directly involved in matters concerning the Annual Meetings, be eliminated or drastically reduced and replaced by two conference rooms for each Regional Vice President and Executive Vice President to meet with delegations. Other Vice Presidents in the Bank, IFC and MIGA would be allocated one conference room. The Executive Directors may also wish to consider reducing their own office space from two to one office each. This would not only achieve cost savings in the rental of offices, but also achieve savings in costs of moving and installing office equipment in the SWH.

- Fees for Special Guests This issue was reviewed extensively in 1991 and recent consultations with Bank Directors suggest that a majority do not want the institutions to charge fees to special guests and visitors for the time being.

### Overseas Meetings

32. Because preparations for proposing to the Governors that the 1997 Annual Meetings be held in Hong Kong are in their final stages, it is not recommended that the question of curtailing or limiting overseas meetings be taken up until 1998 and beyond. Consultations with Bank Directors, however, indicate that a majority feel that holding meetings outside of Washington is important for maintaining the international character of the two institutions. Other factors, as discussed in paragraph 28 above, also argue for maintaining the practice of meeting outside of Washington. As a cost saving measure consideration might be given to lengthening the period of time between overseas meetings from three years to four or five years. It should be noted, however, that with the advent of the new travel policy for the two institutions, the largest expense (travel and per diem) for Executive Directors, Alternates and their staff, as well as staff of the two institutions, will be reduced. Since the host government is responsible for many of the costs of support functions, the costs of holding meetings overseas for the two institutions may more closely resemble that of the meetings in Washington.

Secretary's Department  
February 8, 1994



Table I

Bank/Fund Annual Meetings - Attendance									
Category	1991 (Bangkok)			1992			1993		
	Spouse	Total		Spouse	Total		Spouse	Total	
Governors	272	88	360	299	63	362	328	72	400
Alternate Governors	241	51	292	266	35	301	300	41	341
Delegates	1,834	203	2,037	2,450	246	2,696	2,610	311	2,921
TOTAL DELEGATIONS	2,347	342	2,689	3,015	344	3,359	3,238	424	3,662
Observers to AMS/IC/DC	90	11	101	62	3	65	68	6	74
Special Guests	525	271	796	591	221	812	580	215	795
Visitors	1,929	252	2,181	2,553	331	2,884	2,964	325	3,289
Press	1,737	10	1,747	959	10	969	838	6	844
EDs/AltED/ED Staff <u>1/</u>	48	9	57	94	16	110	106	19	125
Joint Sec. Staff <u>2/</u>	292	36	328	379	9	388	380	9	389
Staff IMF	120	37	157	996	38	1,034	1,105	23	1,128
Staff BANK/MIGA	162	30	192	1,128	36	1,164	1,140	20	1,160
Staff IFC	48	12	60	168	4	172	308	9	317
Others <u>3/</u>	6,028	10	6,038	1,484	4	1,488	1,606	1	1,607
GRAND TOTAL	13,326	1,020	14,346	11,429	1,016	12,445	12,333	1,057	13,390

1/ Not on delegations.

2/ Including Fund and Bank staff seconded to the Joint Secretariat for the Annual Meetings.

3/ Mainly hotel/conference center staff and temporary contractual staff.

## ANNUAL MEETINGS EXPENSES

1988-1993

Table II

(\$000)

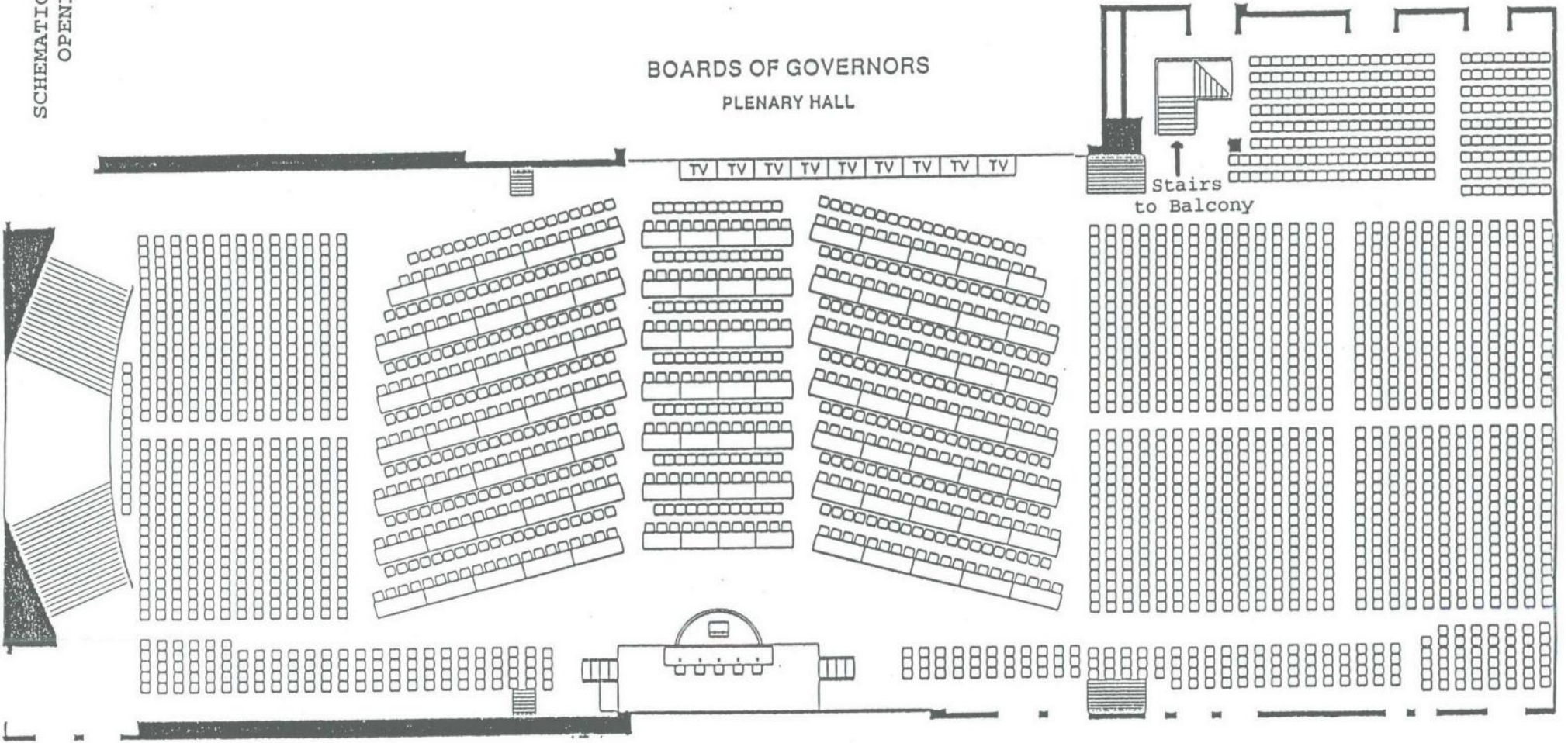
	BERLIN		BANGKOK			
	1988	1989	1990	1991	1992	1993
<b>Travel</b>	<b>5,574.8</b>	<b>3,405.8</b>	<b>3,919.9</b>	<b>8,086.0</b>	<b>5,319.7</b>	<b>5,379.7</b>
Governors /1	2,552.7	3,350.0	3,801.3	4,152.7	5,238.3	5,173.0
Executive Directors /2	1,162.6	0.0	0.0	1,711.1	0.0	0.0
Joint Secretariat	1,859.5	55.8	118.6	2,222.2	81.4	206.7
<b>Communications</b>	<b>314.7</b>	<b>189.4</b>	<b>342.7</b>	<b>540.0</b>	<b>641.7</b>	<b>964.2</b>
<b>Computer Services</b>	<b>465.4</b>	<b>494.2</b>	<b>445.7</b>	<b>778.5</b>	<b>802.3</b>	<b>963.9</b>
<b>Equip. &amp; Supplies</b>	<b>259.1</b>	<b>176.4</b>	<b>191.7</b>	<b>158.0</b>	<b>228.9</b>	<b>232.5</b>
<b>Offices at Mtgs. Site</b>	<b>0.0</b>	<b>557.1</b>	<b>597.2</b>	<b>0.0</b>	<b>782.0</b>	<b>820.7</b>
Executive Directors	0.0	98.5	105.5	0.0	125.6	139.6
Operational Staff	0.0	395.3	443.2	0.0	562.2	582.0
Joint Secretariat	0.0	63.3	48.5	0.0	94.2	99.1
<b>Contractual Services</b>	<b>121.9</b>	<b>421.1</b>	<b>491.7</b>	<b>218.5</b>	<b>607.1</b>	<b>720.5</b>
Security	0.0	44.3	46.8	0.0	52.8	55.4
S.I. Equip. & Services	0.0	49.5	55.3	0.0	70.3	86.1
Local Transportation	1.0	86.3	79.7	2.0	85.0	105.9
Interpreters	75.2	66.0	85.2	147.8	101.8	114.9
Audio & Lighting	0.0	38.9	42.6	0.0	47.2	59.3
Office & Mtg. Rm. Arrg.	8.0	89.8	136.8	22.8	165.8	173.4
Printing Equipment	0.0	0.0	0.0	0.0	0.0	89.0
Other (Medcl., Photo., etc.)	37.7	46.3	45.3	45.9	84.2	36.5
<b>Social Functions</b>	<b>191.3</b>	<b>272.2</b>	<b>427.4</b>	<b>111.9</b>	<b>423.8</b>	<b>456.4</b>
Chairman's Reception	184.0	101.6	108.8	92.6	114.6	113.5
Governors' Dinner	0.0	35.9	38.8	0.0	41.7	40.3
Concert	0.0	0.0	104.5	0.0	96.3	110.0
Spouses Program	0.0	49.4	46.4	0.0	57.9	56.1
Particpnts.Luncheons/3	0.0	83.5	82.8	0.0	75.3	107.1
Other	7.3	1.8	46.1	19.3	38.0	29.4
<b>Temp., Cons., OT for Jt.Sec. Staff</b>	<b>759.3</b>	<b>506.7</b>	<b>604.6</b>	<b>653.5</b>	<b>871.5</b>	<b>981.3</b>
<b>Miscellaneous</b>	<b>84.1</b>	<b>89.7</b>	<b>101.2</b>	<b>31.8</b>	<b>102.0</b>	<b>106.7</b>
<b>GRAND TOTAL</b>	<b>7,770.6</b>	<b>6,112.6</b>	<b>7,122.1</b>	<b>10,578.2</b>	<b>9,779.0</b>	<b>10,625.9</b>
(Bank	3,967.1	3,359.8	3,986.3	5,504.3	5,394.9	5,963.9)
(Fund	3,803.5	2,752.8	3,135.8	5,073.9	4,384.1	4,662.0)

/1 Includes MIGA Governors.

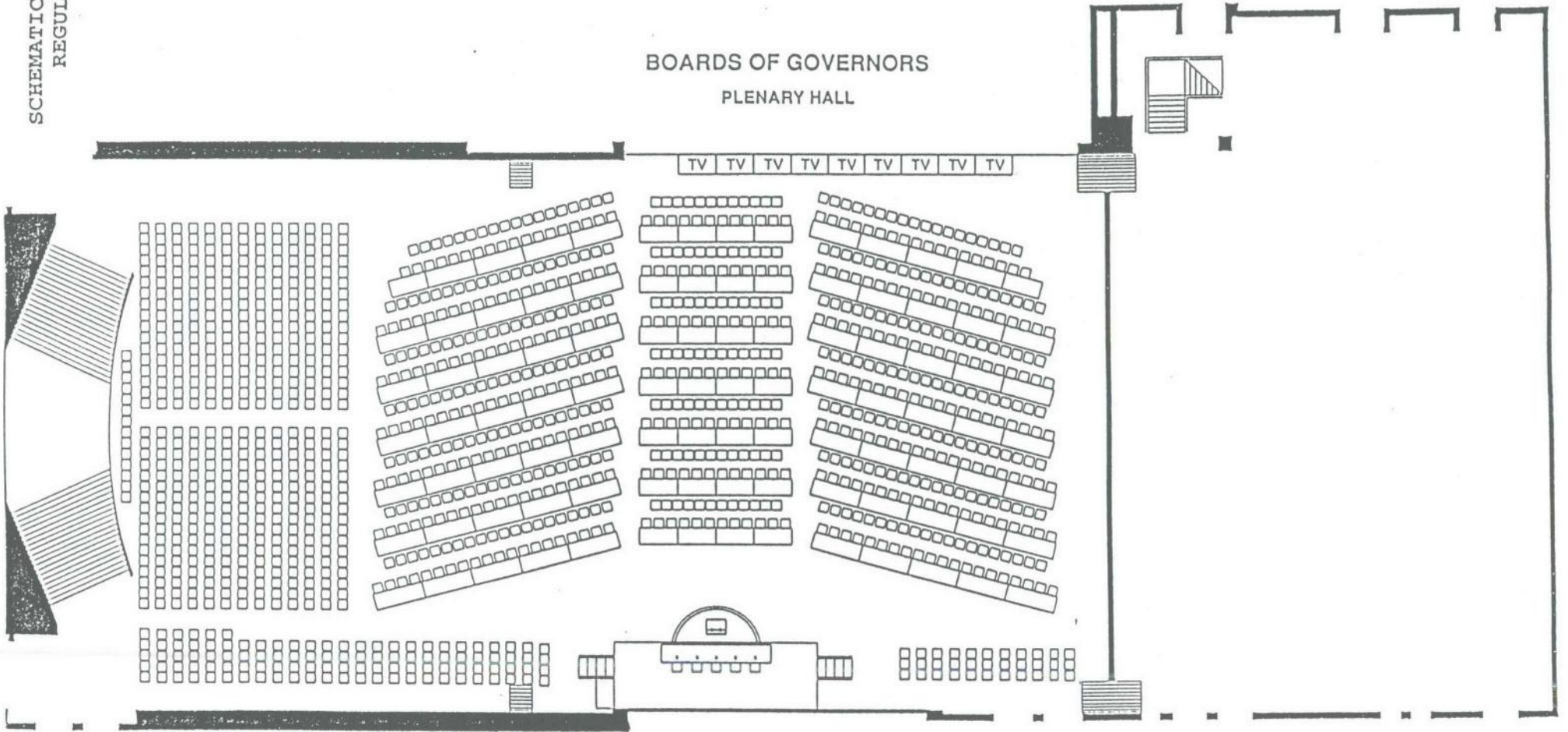
/2 For Overseas Meetings in 1988 in West Berlin and 1991 in Bangkok, estimates were used for EDs' travel.

/3 Luncheons at Fund Headquarters for IC/DC Participants.

Annex I  
SCHEMATIC DRAWING NO. 1  
OPENING SESSION



BOARDS OF GOVERNORS  
PLENARY HALL



9006

**The World Bank**

From the  
Vice President and General Counsel

Mr. Bruno

You may find the attached  
exchange of letters of interest  
especially in view of its  
possible impact on the scope  
and pace of your work on  
"aid effectiveness"

\$ 4/5

✓

Ibrahim F. I. Shihata



UNDER SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON

*cc. Mark Baker*

94 APR -6 PM 1:24

March 9, 1994

RECEIVED  
DEVELOPMENT ECONOMICS  
& A CHIEF ECONOMIST

Rudolf Hommes  
Chairman  
Development Committee

Dear Rudolf,

I am writing with regard to the initiative you launched to review the Development Committee. I share fully your goal of improving Committee operations and look forward to the first Ministerial level meeting of the review group in April.

The Committee's 1974 mandate directs it to maintain an overview of the development process and to report to Governors on the broad question of the transfer of real resources to developing countries. As you well know, developing countries now rely heavily on the World Bank and the regional development banks to support their own domestic development efforts. This year, new commitments from the multilateral development banks (MDBs) will total about \$45 billion.

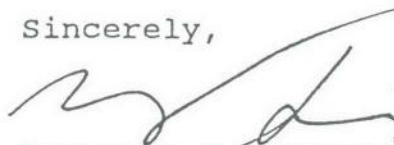
The magnitude of the development problems now being addressed by borrowers underscores the importance of doing all that is possible to increase the effectiveness of MDB assistance. This is recognized in the commendable effort by the World Bank, now being replicated in the regional banks, to strengthen portfolio performance. It is also reflected in Ministers selecting "aid effectiveness" as the agenda topic for our fall meeting.

It is in this context, that I would like to propose that the Development Committee establish a Task Force to review the development role being played by the MDBs. I envision such a Task Force examining the operations and experience of the MDBs in light of prospective development problems we will be facing for the remainder of the 1990s and beyond, and seeking to identify areas where management or operational improvements could strengthen the MDBs' impact on the development process.

We would hope that the April 26 meeting of the Committee could formally establish the Task Force, with the Task Force hopefully providing an interim status report to Ministers at our fall meeting.

I would very much welcome your thoughts on this issue and would like to work closely with you to secure its adoption.

Sincerely,

A handwritten signature in black ink, appearing to be 'LH Summers', written over a horizontal line.

Lawrence H. Summers

cc: Managing Director Camdessus  
President Preston

00201

*República de Colombia*  
*Ministerio de Hacienda y Crédito Público*  
*Despacho del Ministro*

Santafé de Bogotá, D.C., 11 MAR. 1994

Dr. Lawrence H. Summers  
Under Secretary for International Affairs  
Department of the Treasury  
1500 Pennsylvania Ave, N.W.  
Washington D.C., 20220  
U. S. A.

Fax: 90-1-202-622 0081

Dear Larry:

Thank for your letter of March 9. It is a suggestion that I can endorse with enthusiasm. As you know, I had an opportunity to discuss this idea with Lew Preston and Michel Camdessus when I was in Washington on March 7.

We all feel that it is a very useful and timely initiative, fits in well with the current plans for the future of the Committee and would contribute to define its role. I shall therefore send copies of your letter to all the members of the Committee, adding my own personal support for the proposal.

I will be glad to discuss this idea with you further when I return to Washington in April for the Development Committee meeting. Meanwhile the Committee's Executive Secretary, Peter Mountfield, is available for discussions with Treasury, and will be glad to cooperate in working out the details of the plan. If we are to meet your suggested timetable, it would be well to come to the meeting with a fairly detailed set of proposals.



- 3 00201

*República de Colombia*  
*Ministerio de Hacienda y Crédito Público*  
*Despacho del Ministro*

---

You may like to know that I have had a chance to mention this idea to Enrique Iglesias, who agrees that it would be useful. I think also that it would be advisable that Mr. Mountfield visits the management of the Asian and African development banks to obtain their points of view.

Sincerely,



RUDOLF HOMMES  
Minister of Finance and Public Credit

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: March 15, 1994 03:43pm

TO: Michael Bruno ( MICHAEL BRUNO )

FROM: Mark Baird, DECVP ( MARK BAIRD )

EXT.: 31666

SUBJECT: Aid Effectiveness

The agreed minutes of the Steering Committee meeting were distributed on March 9. Johannes Linn subsequently notified us that he had no problem with publishing the ODI literature review (without a full press release effort). We will suggest that ODI publish their own report (noting World Bank funding, but without endorsement), and submit Howard White's paper for the blue-cover working papers series. We don't intend to publish the French and Japanese reviews. This completes the first round of the work.

Lyn, Masood and I met last week to agree on the next stage. This involves preparing more detailed proposals on the consequences of aid and reviewing the work already underway on common criticisms. The division of labor will be as follows:

Aid and investment	PRD
Aid and economy-wide performance	PRD
Aid and poverty	PRD
Project-level performance	PRD
Aid and institutions	IEC
Aid coordination	IEC
Common criticisms	IEC

We have agreed that the draft proposals will be ready for DEC review by April 22. Ron Johannes will coordinate the work in IEC. Lyn is still identifying PRD's coordinator (one possible candidate is Lant Pritchett). Debbie Wetzel will be involved from DECVP. There will be a need for coordination across Departments on the database and country studies.

CC: Lyn Squire ( LYN SQUIRE )  
CC: Masood Ahmed ( MASOOD AHMED )  
CC: Paulo Vieira Da Cunha ( PAULO VIEIRA DA CUNHA )

File AID

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: March 15, 1994 03:43pm

TO: Michael Bruno

( MICHAEL BRUNO )

FROM: Mark Baird, DECVF

( MARK BAIRD )

EXT.: 31666

SUBJECT: Aid Effectiveness

The agreed minutes of the Steering Committee meeting were distributed on March 9. Johannes Linn subsequently notified us that he had no problem with publishing the ODI literature review (without a full press release effort). We will suggest that ODI publish their own report (noting World Bank funding, but without endorsement), and submit Howard White's paper for the blue-cover working papers series. We don't intend to publish the French and Japanese reviews. This completes the first round of the work.

Lyn, Masood and I met last week to agree on the next stage. This involves preparing more detailed proposals on the consequences of aid and reviewing the work already underway on common criticisms. The division of labor will be as follows:

Aid and investment	PRD
Aid and economy-wide performance	PRD
Aid and poverty	PRD
Project-level performance	PRD
Aid and institutions	IEC
Aid coordination	IEC
Common criticisms	IEC

We have agreed that the draft proposals will be ready for DEC review by April 22. Ron Johannes will coordinate the work in IEC. Lyn is still identifying PRD's coordinator (one possible candidate is Lant Pritchett). Debbie Wetzel will be involved from DECVF. There will be a need for coordination across Departments on the database and country studies.

CC: Lyn Squire

( LYN SQUIRE )

CC: Masood Ahmed

( MASOOD AHMED )

CC: Paulo Vieira Da Cunha

( PAULO VIEIRA DA CUNHA )

CC: Deborah Wetzel

( DEBORAH WETZEL )

## OFFICE MEMORANDUM

*Kate*

DATE: March 9, 1994

TO: Distribution Below

FROM: Michael Bruno *P.P. Walton*EXTENSION: 33774 *File*SUBJECT: Aid Effectiveness Steering Group Meeting

On Friday, February 18th, the Steering Group on Aid Effectiveness met to discuss the proposal prepared by Mike Walton for "Phase II" of the work on aid effectiveness. The minutes of this meeting are attached.

The principal agreements requiring action are as follows:

- 1.) DEC will prepare a more detailed proposal for the work on the consequences of aid and submit it to the Steering Group in about two months.
- 2.) DEC will carry out the work on assembling and reviewing the common criticisms of aid and in doing so will first review the work already underway in External Affairs and FPR this issue.

Members of the Steering Committee agreed to consider sharing the expenses of the study between DEC, FPR and HRO as was done for the literature reviews, although commitments will depend on the ultimate size and scope of the study. As the framework for the study is further developed, appropriate components will also be submitted to the Research Committee for funding. Finally, contact will be made with DAC to discuss in more detail their ongoing work on aid effectiveness.

Attachment

Distribution:

Messrs/Mmes. Choksi, Ayres, Stevens (HRO); Linn (FPRVP); Donovan (FRMDR); Picciotto, Penalver-Quesada (OED), Serageldin, Landell-Mills (ESD); Shihata, Rigo (LEG); Squire, Serven, Walton (PRD); Ahmed, Johannes (IEC); Baird, Vieira da Cunha, Wetzel (DECVP).

cc: Messrs. Karaosmanoglu, Sandstrom, Stern  
Vice Presidents  
Regional Chief Economists

## Minutes of meeting of Aid Effectiveness Steering Group

1. Mr. Bruno chaired a meeting of the Aid Effectiveness Steering Group on February 18th, 1994. Present at the meeting were members of the steering group or their representatives, including Messrs. Linn (FPRVP), Shihata (LEGVP), Landell-Mills (ESDVP), Penalver-Quesada (OED), and Stevens (HROVP). Others in attendance were Messrs. Ahmed, Johannes (IEC); Walton (PRDPH); Baird, Vieira da Cunha and Ms. Wetzel (DECVP).
2. The meeting endorsed the Working Group's conclusions not to undertake another overarching study of aid effectiveness. There was also agreement with the views expressed regarding the limitations of the existing literature. A decision on how to proceed with dissemination of the literature reviews was deferred until members of the Steering Committee had a chance to look at the reviews more carefully.
3. Concerning the proposed new work on aid effectiveness, the meeting concluded that a more detailed proposal for the work on the consequences of aid needs to be prepared with attention to setting out the research methodology. By addressing the issues through serious research, the study should contribute to a better understanding of how, when, and where aid is effective -- and thus support the broad mandate of the Bank. DEC agreed to manage the preparation of this proposal and to submit it to the Steering Group in about two months.
4. In preparing the proposed new work, the following observations should be considered:
  - In order to attain the credibility of a non-partisan study, the purpose of the work is to establish a rationale for aid broadly defined, rather than a defense of IBRD or IDA lending per se.
  - The study's focus should be "What are the factors that contribute to aid effectiveness?" rather than "Does aid work?" This allows us to make recommendations about how aid effectiveness can be improved.
  - "Effectiveness" should focus on investment, growth, and particularly poverty reduction. The link to poverty reduction needs to be brought out more clearly.
  - The yardstick by which the success or failure of aid is measured must take into account that by definition development finance is an inherently risky business and that a 100 percent success rate cannot be expected.
  - The "determinants of aid" component of the proposal should be reduced and integrated into the "consequences of aid" component and developed only to the extent that it is necessary to explain the consequences of aid.
  - The issues of institutions, aid dependency, and aid coordination should be tackled

directly. More work needs to go into preparing how these two issues will be addressed in the study.

5. The component on the common criticisms of aid needs to be done. External relations has already begun collecting information on these critiques and FPR has also undertaken work in this area. This work should be co-ordinated. A representative of External Relations should be invited to the next Steering Group meeting. The work already done should be reviewed to determine how to proceed on this component.

6. It was also noted that:

- There was an agreement to consider sharing the expenses of the study between DEC, FPR and HRO as was done for the literature reviews. However, commitments would depend on the overall cost and scope of the study.
- It was also agreed that appropriate components would be submitted to the Research Committee for funding.
- It would be useful to discuss the issue with DAC.

7. The Working Group was thanked for its efforts and contribution and was officially dissolved. The Steering Group agreed to continue to supervise the work.

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TO: Distribution Below

FROM: Michael Bruno



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Notes

m. Bruno 2/18/94 : AFD

What were the intentions of aid flows?

Johns Lyons : Aid documents not good topic, picture leaning excessive. as research exercise not useful.

Caution on development effectiveness has diff. modelled ~~too~~ for analysis.

Prepared not all '94. failed projects Aid as risky investment - should look for

criteria / picture.

Development assistance the support risky enterprise.

missed benefits of poverty reduction, ~~missing~~ energy & tree planting aspects of projects.

look at list of project analysis & public expenditure allocation

Layton Dudson yet on another occasion.

What can be achieved?

What types of aid were successful?

Basic or effective ; or

Table first - dependency issue  
spreads building?

Receipting & construction - how

8650

February 17, 1994

94 FEB 17 P11 3:01

To: Michael Bruno

Aid Effectiveness: Estimated Cost

Michael:

The literature review cost \$81,000 for consultant fees and travel, of which \$25,000 came from FRM, \$13,200 from HRO and \$42,800 from DEC. Adding in staff time (mainly Mike Walton), the total cost was probably around \$100,000.

I have asked Lyn and Masood for their estimates of the cost of the planned aid effectiveness work. Together with some DECVP time for coordination, the total cost is as follows:

	---- Staff ----		Consultant	Total
	Time	Cost	Cost	Cost
	(SW)	(\$000) /a	(\$000)	(\$000)
PRD	70	215	371	586
IEC	104	320	150	470
DECVP	26	80	0	80
<u>Total</u>	<u>200</u>	<u>615</u>	<u>521</u>	<u>1,136</u>

/a Valued at \$160,000 per staffyear (slightly above the average cost, including benefits, for a Level 24 staff).

More details on Lyn's estimates are attached. I have not made any effort to check whether these are realistic or not. But taking the numbers at face value, we clearly have a huge undertaking -- over \$1 million -- on our hands. This is equivalent to 3% of DEC's budget (excluding EDI and cross-support) in FY95. Even with some sub-contracting, and spreading the work over a couple of fiscal years, this will have major implications for our work program.

At the Steering Committee meeting on Friday, I would suggest you stick to the proposal for DEC management but also float the option of cost sharing.

Mark

Attachment

cc: Messrs. Squire, Ahmed, Vieira Da Cunha.

Cost of Work  
on Aid Effectiveness

This note sets out very rough cost estimates for three activities in the work program on aid effectiveness; aid and investment levels; project performance; and aid and policy (called aid and economy-wide performance in the proposal).

**1. AID AND INVESTMENT LEVELS**

<u>Purpose</u>	<u>Rate</u>	<u>Cost</u>
Research Assistant data management	Six months at \$3,000 a month	\$18,000
Econometrician		\$15,000
Bank task manager		20 sws
Country Studies	Four papers at \$12,000 a paper	\$48,000
Sub-Total (\$)		<u>\$81,000</u>
Sub-Total (sws)		<u>20</u>

**2. PROJECT PERFORMANCE**

Research Assistant data management	Twelve months at \$3,000 a month	\$36,000
Econometrician		\$15,000
Bank task manager		30 sws
Project Case Studies	Four papers at \$12,000 a paper	\$48,000
Sub-Total (\$)		<u>\$99,000</u>
Sub-Total (sws)		<u>30</u>

**3. AID AND POLICIES**

Research Assistant data management	Six months at \$3,000 a month	\$18,000
Econometrician		\$15,000
Bank task manager		20 sws
Country Studies	Four papers at \$12,000 a paper	\$48,000
Sub-Total (\$)		<u>\$81,000</u>
Sub-Total (sws)		<u>20</u>

**4. OTHER**

Miscellaneous (temporary secretaries, computers)		\$50,000
Workshop on preliminary results		<u>\$60,000</u>
Sub-Total		<u>\$110,000</u>
Grand Total (\$)		<u>\$371,000</u>
Grand Total (sws)		<u>70 sws</u>

A L L - I N - 1    N O T E

DATE: 17-Feb-1994 09:46pm

TO: Michael Bruno ( MICHAEL BRUNO )

FROM: Michael Walton, PRDPH ( MICHAEL WALTON )

EXT.: 38418

SUBJECT: Aid effectiveness meeting

Michael,

I'd recommend that you have three objectives for the meeting:

1. to get agreement on a work program--along the overall form and lines proposed or some variant thereof--that would form the go ahead to develop a proposal in detail (perhaps after touching base with the President's office)
2. to get agreement on management--e.g. the continuance of the steering committee, DEC as manager of individual tasks, other VPs involved also at working level in tasks
3. to propose the principle of cost-sharing (drawing on the precedent of the literature review; accepting some contributions in kind i.e. of people), but don't necessarily insist on reaching closure on this.

I'll be there, and some of the others, to represent the views of the working group.

Mike

CC: Mark Baird ( MARK BAIRD )  
CC: Paulo Vieira Da Cunha ( PAULO VIEIRA DA CUNHA )  
CC: Deborah Wetzel ( DEBORAH WETZEL )

**The World Bank**  
Washington, D.C. 20433  
U.S.A.

MICHAEL BRUNO  
Vice President Development Economics  
and Chief Economist

February 14th, 1994

To: Aid Effectiveness Steering Group

I would like to call a meeting of the Aid Effectiveness Steering Group on Friday, February 18th at 2:30 pm in Room S9-021 to discuss the attached proposal of the working group. I hope the time is convenient for you.

Thanks.

  
Michael Bruno

Distribution:

Messrs: Choksi, Linn, Picciotto, Rigo, Serageldin, Shihata.

cc. Messrs/Mss Baird, Vieira da Cunha, Wetzel, (DECVP); Ahmed, Johannes (IEC); Squire, Serven (PRD); Ayres, Stevens (HRO) Donovan, Yap, Elliot, Ohashi (FRM)

Attachment



# OFFICE MEMORANDUM

DATE: February 14, 1994

TO: Distribution

FROM: Michael Walton, PRDPH<sup>MW</sup>

EXTENSION: 38418

SUBJECT: Aid Effectiveness

I attach a report prepared by the working group on aid effectiveness. This group was formed to oversee a literature review on the topic, and draw up recommendations for follow up. The attached is close to a consensus position, though some diversity of views remains. Michael Bruno, as chair of the steering committee, will be calling a meeting to discuss this. Three areas will need decisions:

(a) does the proposed program of follow-up work make sense? We propose a series of studies designed to produce empirical results and respond to some of the common criticisms on aid, but not a high profile overall study of the topic.

(b) who should manage the follow up? We propose the life of the steering committee be extended to oversee the work, in view of its cross-cutting character, and that DEC actually manage the work, with parts probably contracted to, or undertaken jointly with, other Vice-Presidencies.

(c) what should be done with the literature reviews? We recommend that these be published so that they are available to the aid community (and governments), but not as statements of the World Bank's position.

I am not sending round additional copies of the literature reviews, but these are available on request.

Distribution:

Messrs: Bruno, Choksi, Linn, Picciotto, Rigo, Serageldin, Shihata

cc. Messrs/Mss Baird, Vieira da Cunha, Wetzel (DECVP) Ahmed, Johannes (IEC) Squire, Serven (PRD), Ayres, Stevens (HRO), Donovan, Yap, Elliott, Ohashi (FRM)

## Aid effectiveness: what should the World Bank do?

1. The value of aid has always been questioned. The questioning has intensified in the 1990s at a time in which new demands are being placed on aid to deal with issues ranging from governance to human rights. The World Bank is very much part of the aid business and frequently faces questions on the effectiveness of its own aid, and on aid in general, notably in the context of IDA replenishments and SPA discussions. Yet despite the vast amount of country and cross-country information and analysis, the Bank is hard put to have convincing answers to such seemingly simple questions as: Does aid work? Does aid reduce poverty? How can aid be made more effective?

2. It was decided, in the first half of 1993, to explore whether there is a need for further work on the question of aid effectiveness. A working group was formed (chaired by DEC) with a mandate to undertake a review of the existing literature on aid effectiveness and form recommendations on where to go next. The group developed an issues paper and commissioned a set of reviews:

- a core review (by the Overseas Development Institute), that covers the literature in four areas: the changing rationale for aid; the economy-wide effects of aid; the performance of aid-supported projects; and institutional development and aid;
- a review of the technical literature on the consequences of aid (by Howard White), with a particular focus on attempts to disentangle effects using econometric techniques;
- a review of the literature in French (by Philippe Messeant and Patrick Guillamont)
- a review of the literature in Japanese (by Hideo Hashimoto)

3. The main messages that come from the surveys are as follows:

- There is very little in the analytical or empirical literature on the new aid issues, e.g. on aid in the post cold war era; aid and human rights; aid and democratization.
- The literature fails to answer the question, Does aid work? in a way that is useful from either an operational or a public relations angle. In particular, despite a considerable body of work on economy-wide effects, there are few robust conclusions. Indeed the bulk of studies on economy-wide effects are conceptually flawed, especially in failing to effectively handle counterfactuals in a situation in which aid is only one amongst many determinants of outcomes.
- The literature on project effects (that corresponds roughly with the evaluation literature) is more satisfying in finding a quite high degree of project success--around two-thirds on average (about 70 percent for Bank projects). There is no clear evidence of a trend in project success during the 1980s. Information on the portfolios of other agencies, e.g. private or NGO, is sparse, but suggests that the performance of portfolios of aid agencies is at least as good. However, the literature is generally unhelpful in explaining the sources of success and failure of projects and links with economy-wide factors.
- There is very little that can be said about the effects of aid on institutional development, and the evidence is especially weak on the attempts to improve institutional functioning at a broad level, (as opposed to narrow technical assistance) that have become much more common in the past 15 years.

4. We have given this stark assessment as background to recommendations on where to go next. There is also a wealth of interesting material surveyed in the consultant reviews, as well as valuable sets of recommendations as to how to make aid more effective, especially in the ODI study. It is

recommended that the studies be made publicly available to the aid community presented exactly as they are--as commissioned literature reviews, but not as a Bank position.

### Recommendations

5. It is recommended that the Bank follow up with a program of work on selected (researchable) aspects of the determinants and consequences of aid, complemented by a systematic review of criticisms of aid and a marshalling of the evidence relevant to the critiques. A high-profile, overarching study of aid effectiveness is not recommended at this point. It is judged that this would raise expectations that may not be realized, especially since there are so many different views on what aid effectiveness is about. It is rather judged to be important to make progress on getting some concrete results in key areas that lie at the core of the Bank's interest in aid effectiveness--the developmental aspects of this question--and then form a view as to how to discuss and disseminate the results. The areas of primary focus in the work program would correspond largely to traditional areas of concern about aid's impact on growth and poverty. While the literature shows that it is not easy to reach definitive conclusions, the kind of economic, empirical tools that the Bank is good at working with can be applied to these areas. There are also a set of other issues, that range from effects on human rights to governance. It is proposed that these be covered in two ways: as determinants of the allocation of aid; and as one part of the work on documenting and assessing the various criticisms of aid.
6. There would, of course, be interactions with other agencies in the course of the implementation of the work program. As soon as the Bank's decides which way to go, contact should be made with DAC. It is probable that the study work would lead to outputs that could be used in a conference and published by the Bank. It should also be of direct use to the preparations of the next IDA round, and other interactions on the effectiveness of aid in the international arena.
7. It is also recommended that the Bank form a group from the concerned vice-presidencies to oversee the work program and other aspects of aid effectiveness. This could be done by extending the life of the current steering committee (of DEC, FPR, OED, Legal, HRO, and ESD). The VP DEC would continue to chair this group and would also be responsible for periodic discussions with the regions, for example via the Regional Chief Economists.
8. It is proposed that DEC manage the program of study work, though it would probably make sense to contract parts of the work to other parts of the Bank, especially FPR, HRO and OED.
9. The anticipated time frame for the program of work is around 18 months, i.e. with the objective of producing substantive outputs in the second half of calendar 1995. It may be feasible to have preliminary results along the way. (And to the extent the Fall Development Committee paper deals with aid effectiveness, this will be an opportunity to present some of the themes that will be covered in the study work.) This work is not budgeted now. Since this is an area that is not only a research concern, it is recommended that resources be provided both from DEC's budget and from other concerned vice-presidencies.

10. Work on the effectiveness of the World Bank's own portfolio and non-lending activities, that HRO is responsible for, is of course closely tied up with the broader question of aid effectiveness. This is ongoing in the range of follow up to the Wapenhans report. This is not discussed further here, though the Wapenhans and aid effectiveness work will be able to usefully draw on each others output.

11. We outline here the proposed major areas of focus for the study work. After the approach and topics have been agreed with the steering committee, this (or a modified list) would be submitted to the President's office. The detailed terms of reference for the study work would be then be developed by the responsible department and the proposals here should be treated as indicative. We also outline other areas of action on aid that would fall under the purview of the steering group on aid.

### **Program of study work**

12. We propose work in three areas: the determinants of aid and options on aid modalities provided by developed countries and multilateral institutions; the consequences of aid for developing countries; and systematic review of the criticisms of aid.

#### *1. The determinants of aid*

13. The work would analyze the determinants of the volume and allocation of aid of the major donors (and NGOs), across countries, sectors and types of aid. Its purpose would be to provide the backcloth to the analysis of aid's effects. It would explore the influence of such factors as donor budget deficits, colonial history, political factors (e.g. for Egypt and Israel), shocks (such as the oil price changes and the end of the Cold War), country needs and level of poverty, changing pressures from home constituencies (e.g. for linking aid to the environment and human rights), changing fads, and measures of the effectiveness in which aid is used (such as the quality of policy stance).

14. Aid modalities would receive particular attention in this review. Some of the instruments of aid, e.g. consultative groups, have been around for decades, while the world has changed both with respect to the level and pattern of capital flows and the role of aid. There may be a case for the Bank participating in an international group to review modalities of transferring and coordinating aid. It would probably be appropriate to do this under DAC auspices.

15. It is expected that the work would involve a mixture of cross-country econometric analysis and case studies of both donors and recipients. It would necessitate the development of a data base on aid flows, differentiated by donor and recipient country, extent of tying, degree of concessionality, sector and instrument (e.g. project or balance of payments support). The need for a data base organized in this way was emphasized by at least one of the consultants for the literature review, and has also been advocated by Robert Cassen. DAC already has a data base on aid, and it is anticipated that this would not involve a lot of new work.

16. This part of the work should motivate the analysis of consequences. In particular the following propositions would be tested:

- the volume and concessionality of aid is falling in relation to some measures of need e.g. population of low income countries;
- aid delivery could be substantially improved from a developmental perspective, because past allocations have often been driven by political, non-developmental criteria;
- aid practices, for example the fact that aid is often tied to some combination of governments, projects, goods or experts, have a significant influence on the within-country use of aid, that could be distortionary.

## *2. The consequences of aid*

17. The literature survey showed that the analysis of consequences of aid is both the toughest and most important area for work. It is proposed that the study work have as a central hypothesis the following proposition:

- aid works well when domestic resources are used well.

This hides a complex set of issues, both on the determinants of the effectiveness of domestic resource use and on the good or bad influences of aid on domestic factors. However, if the hypothesis is true it clearly shows that there will be no simple relationship between aid and growth (or poverty reduction). Four areas would be covered in the program of work.

### *(i) Aid and investment levels*

18. Aid is mainly, though not exclusively, about building domestic capacity--physical and human. The first question is whether aid raises domestic investment levels, in the public and private sectors. This is by no means sufficient for aid to be effective, but is a key question that has not been extensively explored in the literature. This could employ cross-country and time-series econometric work of a reduced-form character, that would attempt to deal with some of the problems of dealing with controls identified in the literature review. Case studies could explore transmission mechanisms in more detail.

### *(ii) Project performance and evaluation.*

19. The second question concerns whether aid-financed projects are productive. This would ideally be undertaken using information of projects financed both with aid resources and domestic resources. Such data is rarely if ever available. However, more systematic work can be undertaken on the determinants of project performance, that seriously controls for the influence of project interventions. It is likely that some headway can be made through work with the existing large data bases on project outcomes kept by evaluation agencies; a research project is planned on the

determinants of project performance. It is recommended that this be brought under the overall ambit of the steering group on aid. It is also valuable to supplement this with better information coming from projects through incorporating controls in the project design stage; this is being done under a couple of research projects working with Bank-financed projects in the human resource area.

20. An associated area is the *economic and social analysis of projects*. More work is needed on project appraisal techniques in defining both effective ways of dealing with economic questions, including the management of risk, and the limits of economic analysis with respect to other project objectives. This is becoming an increasingly important question for the Bank as non-economic factors are given higher priority (e.g. effects on the environment, displacement of people) and as a rising share of new projects are in areas that are not subject to traditional rate of return analysis. The Wapenhans Report suggests project objectives are poorly defined, the quality of economic analysis has declined and there is little analysis of non-economic objectives. These are issues of importance both to the management of aid portfolios and to advice to governments on public spending choices. It is recommended that additional work be undertaken in this area, but not directly under the ambit of the aid effectiveness work.

*(iii) Aid and economy-wide performance*

21. The third question concerns whether aid raises the productivity of resource use throughout the economy. There is now an extensive body of work documenting the strong relationships between government policies and economic performance. This part of the work would look at the relationship between aid and government policy, drawing on the tradition of analysis in the Reports on Adjustment Lending and the Africa Adjustment Study. It would go beyond the RALs (that examined whether Bank-supported adjustment loans were associated with better policy outcomes), in two respects: it would cover all aid flows; and it would not be confined to short-run macroeconomic indicators of good and bad policy. It would make use of indicators of the quality of policy stance, as developed for the African Adjustment Study, again extending these beyond adjustment-oriented factors. Again it is probable that a mixture of econometric and case-study work would make sense here.

22. A particular aspect of this work would be review of the impact of non-lending activities of aid agencies, including analytical work and policy dialogue. If one of the lessons of development history is that getting strategy right is often more important than financial flows, it is critical to look at the impact of this type of work, that could potentially be as important as aid-financed activities in its development payoff. This would probably have to be undertaken via structured case studies.

23. A special focus of the studies is likely to be the issue of effects in high-aid countries. Many countries have a level of aid that is large in relation to domestic resources. Most display the symptoms of aid dependency. They roughly correspond to the low income group (except India, China and a few others) with SubSaharan Africa of special importance. It is probable that really pervasive (and adverse) effects of aid come in when aid is large relative to domestic factors, whether this be savings, the budget, the skilled labor market, the capital market, the activities of top

personnel, or the functioning of public and private sector institutions. Drawing out the implications of the above areas of focus for this group could be of value in its own right, and could be a useful (perhaps essential) input to a WDR on low income countries, if this is undertaken in future years.

*(iv) Aid and institutions*

24. The final area concerns the two-way relationship between aid and domestic institutions. First, how do the institutional workings of a developing country influence the management and effectiveness of aid? Second, does aid help or hinder the performance of public sector institutions? Aid often has institution-building objectives. But aid can also lead to the undermining of domestic institutions, through reducing the accountability of governments who largely depend on aid, through attracting some of the best personnel, and undermining domestic decision-making, whether through advisers or the extensive use of conditionality. This is again likely to be of particular importance for the high-aid group, that would be a major focus of this part of the work. This would probably require in-depth country studies. It is an area that would be high risk in terms of operational output, but is important; it should at a minimum aim to develop do's and don'ts for Bank and other donor action in the institutional domain.

*3. Common criticisms of aid.*

25. There is often a mismatch between existing information analysis and the perceptions of outside critics of aid. The World Bank is an important actor in the debate, and has so far failed to convince critics, even in areas where the internal judgement is that the Bank's position is on quite strong empirical ground e.g. in the importance of adjustment for growth, and the importance of growth for poverty. This is indicative of a failure either in effectively reviewing and marshalling the evidence or in communication.

26. It is recommended that this be approached through a systematic documentation of the common criticisms of aid, and assessment of what empirical evidence has to say for and against the criticisms. This would provide the basis for participating in a considered fashion in the debate, as well as in helping define areas where the answers are not clear cut and we need more study work. The links between aid and poverty and the environment are likely to be on this agenda. For poverty at least there is an increasingly large body of evidence on links between economy-wide conditions and the conditions of the poor.

27. In some areas of aid practice, the lessons are well-known and there could be a fair degree of common ground between the World Bank's views and those of outside critics. Examples are the costs of tying aid; the disadvantages of having a development budget driven by project interests of multiple donors; the problem of donors taking the cream of local staff and distorting local skilled labor markets; the hopelessness of lending into awful policy environments; the low correlation between country aid allocations and country incomes and poverty. The Bank could contribute to both the debate and its image by developing an agenda of such issues and being more forthright in campaigning on them.

February 14, 1994

Mond. 12.00

The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: February 9, 1994 11:12am

TO: Michael Bruno ( MICHAEL BRUNO )

FROM: Mark Baird, DECV ( MARK BAIRD )

EXT.: 31666

SUBJECT: Aid Effectiveness

As agreed, Lyn, Masood and I met yesterday to discuss the organization of the aid effectiveness work within DEC. We reached the following conclusions:

- DEC should offer to manage the whole work program as outlined in Mike Walton's note, including the final section on "common criticisms of aid" and "aid modalities".
- Within DEC, the work program would be managed by a team of the three Directors (myself, Lyn and Masood). We would report to the Steering Group (through you?) and provide regular reports on progress etc.
- DEC staff would be assigned responsibility for components of the work program. The allocation of the work by Department would be as follows:

Determinants of aid	IEC
Aid and institutions	IEC
Common criticisms of aid	IEC
Review of aid modalities	IEC
Aid and investment levels	PRD
Project performance	PRD
Aid & economy-wide performance	PRD

- We may also subcontract parts of the work. Possible contributors could be:

Project performance	OED
Aid & institutions	HRO
Common criticisms of aid	FRM/HRO

- DEC will accommodate this task as a priority item in its work program. This will require rescheduling of other work, unless other VPs are willing to contribute resources (as was done for the literature review).



CC: Lyn Squire  
CC: Masood Ahmed  
CC: Paulo Vieira Da Cunha  
CC: Michael Walton  
CC: Deborah Wetzel

( LYN SQUIRE )  
( MASOOD AHMED )  
( PAULO VIEIRA DA CUNHA )  
( MICHAEL WALTON )  
( DEBORAH WETZEL )

8596

Michael Bruno

94 FEB -4 PM 1:07

Michael,

RECEIVED  
DEVELOPMENTAL ECONOMICS  
FEB 4 1994Aid Effectiveness

Before resolving how DEC could organize itself for the program of study work (that Mark is going to work out with Lyn and Masood), it would be good to know whether you're comfortable with the substantive suggestions for follow-up work. Here's the latest version, that has incorporated comments from some of the working group, Lyn and Mark--still waiting for the others. The key paras are 12 to 20--note that institutions are included in this, since I couldn't think of anyone else to do this.

Thanks,



Mike Walton

cc. Mark Baird, Paulo Vieira da Cunha, Deborah Wetzel

(redlined from version sent out yesterday)

Kate,

Do you need  
this for your  
files? I've got  
a copy.

Dave. P.

### Aid effectiveness: what should the World Bank do?

1. The value of aid has always been questioned. The questioning has intensified in the 1990s at a time in which new demands are being placed on aid to deal with issues ranging from governance to human rights. The World Bank is very much part of the aid business and frequently faces questions on the effectiveness of its own aid, and on aid in general, notably in the context of IDA replenishments and SPA discussions. Yet despite the vast amount of country and cross-country information and analysis, the Bank is hard put to it to have convincing answers to such seemingly simple questions as: Does aid work? Does aid reduce poverty? How can aid be made more effective?

2. It was decided, in the first half of 1993, to explore whether there is a need for further work on the question of aid effectiveness. A working group was formed (chaired by DEC) with a mandate to undertake a review of the existing literature on aid effectiveness and form recommendations on where to go next. The group developed an issues paper (attached) and commissioned a set of reviews:

- a core review (by the Overseas Development Institute), that covers the literature in four areas: the changing rationale for aid; the economy-wide effects of aid; the performance of aid-supported projects; and institutional development and aid;
- a review of the technical literature on the consequences of aid (by Howard White), with a particular focus on attempts to disentangle effects using econometric techniques;
- a review of the literature in French (by Philippe Messeant and Patrick Guillaumont)
- a review of the literature in Japanese (by Hideo Hashimoto)

3. The main messages that come from the surveys are as follows:

- There is very little in the analytical or empirical literature on the new aid issues, e.g. on aid in the post cold war era; aid and human rights; aid and democratization.
- The literature fails to answer the question, Does aid work? in a way that is useful from either an operational or a public relations angle. In particular, despite a considerable body of work on economy-wide effects, there are few robust conclusions. Indeed the bulk of studies are conceptually flawed, especially in failing to effectively handle counterfactuals.
- The literature on project effects (that corresponds roughly with the evaluation literature) is more satisfying in finding a quite high degree of project success--around two-thirds on average (about 70 percent for Bank projects). There is no clear evidence of a trend in project success during the 1980s. Information on the portfolios of other agencies, e.g. private or NGO, is sparse, but suggests that the performance of portfolios of aid agencies is at least as good. However, the literature is generally unhelpful in explaining the sources of success and failure of projects and links with economy-wide factors.
- There is very little that can be said about the effects of aid on institutional development, and the evidence is especially weak on the attempts to improve institutional functioning at a broad level, (as opposed to narrow technical assistance) that have become much more common in the past 15 years.

4. We have given this stark assessment as background to recommendations on where to go next. There is also a wealth of interesting material surveyed in the consultant reviews, as well as valuable sets of recommendations as to how to make aid more effective, especially in the ODI study. It is

recommended that the studies be made publicly available to the aid community presented exactly as they are--as commissioned literature reviews, and not as a Bank position.

### **Recommendations**

5. It is recommended that the principal followup be a program of work on **selected (researchable) aspects** of determinants and consequences of aid. DEC would take the lead on this work. A high-profile, overarching study of aid effectiveness is not recommended at this point. It is judged that this would raise expectations that may not be realized, especially since there are so many different views on what aid effectiveness is about. It is rather judged to be important to make progress on getting some concrete results in key areas that lie at the core of the Bank's interest in aid effectiveness--the developmental aspects of this question--and then form a view as to how to discuss and disseminate the results. **These areas would correspond largely to traditional areas of concern about aid's impact on growth and poverty. While difficult, the kind of economic, empirical tools that the Bank is good at working with can be applied to these areas. There are also a set of other issues, that range from effects on human rights to governance. It is proposed that these be covered in two ways: as determinants of the allocation of aid; and through an attempt to systematically document the various criticisms of aid, and assessing the evidence for and against these views.**

6. There would, of course, be interactions with other agencies in the course of the implementation of the work program. **As soon as the Bank's decides which way to go, contact should be made with DAC.** It is probable that the study work would lead to outputs that could be used in a conference and published by the Bank. It should also be of direct use to the preparations of the next IDA round, and other interactions on the effectiveness of aid in the international arena.

7. It is also recommended that the Bank form a group from the concerned vice-presidencies to oversee the work program and other aspects of aid effectiveness. This could be done by extending the life of the current steering committee (of DEC, FPR, OED, Legal, HRO, and ESD). The VP DEC would continue to chair this group and would also be responsible for periodic discussions with the regions, for example via the Regional Chief Economists.

8. **It is proposed that DEC manage the program of study work, and that HRO manage the other areas. There would of course be interactions across vice-presidencies in both areas and it would all be undertaken under the auspices of the steering group.**

9. The anticipated time frame for the program of work is around 18 months, i.e. with the objective of producing substantive outputs in the second half of calendar 1995. It may be feasible to have preliminary results along the way. (And to the extent the Fall Development Committee paper deals with aid effectiveness, this will be an opportunity to present some of the themes that will be covered in the study work.) This work is not budgeted now. It is recommended that resources be provided both DEC's budget and from other concerned vice-presidencies.

10. Work on the effectiveness of the World Bank's own portfolio, **that HRO is responsible for** is of course closely tied up with the broader question of aid effectiveness. This is ongoing in the range of follow up to the Wapenhans report. **A comparable area concerns the effectiveness of non-lending services (research, BSW and policy dialogue) that is also of rising importance for the Bank and other agencies.** These areas are not discussed further here, though some of the areas proposed for work are of direct relevance to them.

11. We outline here the proposed major areas of focus for the study work. After the approach and topics have been agreed with the steering committee, this (or a modified list) would be submitted to the President's office. The detailed terms of reference for the study work would be then be developed by the responsible department and the proposals here should be treated as indicative. We also outline other areas of action on aid that would fall under the purview of the steering group on aid.

### **Program of study work**

12. We propose work in two areas: in what determines the volume and allocation of aid provided by developed countries and multilateral institutions; and on the consequences of aid for developing countries.

#### *The determinants of aid*

13. The work would analyze the determinants of the volume and allocation of aid of the major donors (and NGOs), across countries, sectors and types of aid. This would explore the influence of such factors as donor budget deficits, colonial history, political factors (e.g. for Egypt and Israel), shocks (such as the oil price changes and the end of the Cold War), country needs and level of poverty, changing pressures from home constituencies (e.g. for linking aid to the environment and human rights), changing fads, and measures of the effectiveness in which aid is used (such as the quality of policy stance).

14. It is expected that the work would involve a mixture of cross-country econometric analysis and case studies of both donors and recipients. It would necessitate the development of a data base on aid flows, differentiated by donor and recipient country, extent of tying, degree of concessionality, sector and instrument (e.g. project or balance of payments support). **DAC already has a data base on aid, and it is anticipated that this would not involve a lot of new work.**

15. This part of the work should motivate the analysis of consequences. In particular the following propositions would be tested:

- the volume and concessionality of aid if falling in relation to some measures of need e.g. population of low income countries;
- aid delivery could be substantially improved from a developmental perspective, because past allocations have often been driven by political, non-developmental criteria;

• aid practices, for example the fact that aid is often tied to some combination of governments, projects, goods or experts, have a significant influence on the within-country use of aid, that could be distortionary.

### *The consequences of aid*

16. The literature survey showed that the analysis of consequences of aid is both the toughest and most important area for work. It is proposed that the study work have as a central hypothesis the following proposition:

- aid works well when domestic resources are used well.

This hides a complex set of issues, both on the determinants of the effectiveness of domestic resource use and on the good or bad influences of aid on domestic factors. However, if the hypothesis is true it clearly shows that there will be no simple relationship between aid and growth (or poverty reduction). Four areas would be covered in the program of work.

#### *(i) Aid and investment levels*

17. Aid is mainly, though not exclusively, about building domestic capacity--physical and human. The first question is whether aid raises domestic investment levels, in the public and private sectors. This is by no means sufficient for aid to be effective, but is a key question that has not been extensively explored in the literature. This could employ cross-country and time-series econometric work of a reduced-form character. Case studies could explore transmission mechanisms in more detail.

#### *(ii) Project performance and evaluation.*

18. The second question concerns whether aid-financed projects are productive. This would ideally be undertaken using information of projects finance both with aid resources and domestic resources. Such data is rarely if ever available. However, more systematic work can be undertaken on the determinants of project performance, that seriously controls for the influence of project interventions. It is likely that some headway can be made through work with the existing large data bases on project outcomes kept by evaluation agencies; a research project is planned on the determinants of project performance. It is also valuable to supplement this with better information coming from projects through incorporating controls in the project design stage; this is being done under a couple of research projects working with Bank-financed projects in the human resource area.

19. An associated area is the *economic and social analysis of projects*. More work is needed on project appraisal techniques in defining both effective ways of dealing with economic questions, including the management of risk, and the limits of economic analysis with respect to other project objectives. This is becoming an increasingly important question for the Bank as non-economic

factors are given higher priority (e.g. effects on the environment, displacement of people) and as a rising share of new projects are in areas that are not subject to traditional rate of return analysis. The Wapenhans Report suggests project objectives are poorly defined, the quality of economic analysis has declined and there is little analysis of non-economic objectives. This is an issue of importance both to the management of aid portfolios and to advice to governments on public spending choices. It is recommended that additional work be undertaken in this area, but not directly under the ambit of the aid effectiveness work.

*(iii) Aid and economy-wide performance*

20. The third question concerns whether aid raises the productivity of resource use throughout the economy. There is now an extensive body of work documenting the strong relationships between government policies and economic performance. This part of the work would look at the relationship between aid and government policy. This is similar to the question posed in the Reports on Adjustment Lending (that examined whether Bank-supported adjustment loans were associated with better policy outcomes), but would be broader, in that it would cover all aid flows. It could also make use of indicators of the quality of policy stance, as developed for the African adjustment Study. Aid may either help or delay reform. Again it is probable that a mixture of econometric and case-study work would make sense here.

21. A special focus of the studies is likely to be the issue of effects in *high-aid countries*. Many number of countries have a level of aid that is large in relation to domestic resources. Most display the symptoms of aid dependency. They roughly correspond to the low income group (except India, China and a few others) with SubSaharan Africa of especial importance. It is probable that really pervasive (and adverse) effects of aid come in when aid is large relative to domestic factors, whether this be savings, the budget, the skilled labor market, the capital market, the activities of top personnel, or the functioning of public and private sector institutions. Drawing out the implications of the above areas of focus for this group could be of value in its own right, and could be a useful (perhaps essential) input to a WDR on low income countries, if this is undertaken in future years.

*(iv) Aid and institutions*

22. The final area concerns the two-way relationship between aid and domestic institutions. **First, how does the institutional workings of developing country influence the management and effectiveness of aid? Second, does aid help or hinder the performance of public sector institutions?** Aid often has institution-building objectives. But aid can also lead to the undermining of domestic institutions, through reducing the accountability of governments who largely depend on aid, through attracting some of the best personnel, and undermining domestic decision-making, whether through advisers or the extensive use of conditionality. **This is again likely to be of particular importance for the high-aid group, that would be a major focus of this part of the work.** This would probably require in-depth country studies. It is an area that would be high risk in terms of operational output, but is important; it should at a minimum aim to develop do's and don'ts for Bank and other donor action in the institutional domain.

**Other action on aid**

23. In some areas new study work is not the priority, either because the problem does not lie in lack of information or because the issues are not conducive to analytical and empirical study. There is a case for action in two areas.

*(i) Dealing with common criticisms of aid.*

24. There is often a mismatch between existing information analysis and the perceptions of outside critics of aid. This is an issue for the World Bank's communication strategy in the broad sense of how it marshals and disseminates the results of analysis and experience. This is relevant to the leadup to the 50th anniversary.

25. It is recommended that there be a systematic examination of the common criticisms of aid in relation to the available evidence. This would provide the basis for participating in a considered fashion in the debate, as well as in helping define the areas where we do not have answers and do need more study work. In addition, many lessons of aid are well-known: e.g. the costs of tying aid; the disadvantages of projectization of the development budget; the problem of donors taking the cream of local staff and distorting local skilled labor markets; the hopelessness of lending into awful policy environments; the low correlation between country aid allocations and country incomes and poverty. The Bank could contribute to both the debate and its image by developing an agenda of such issues and being more forthright in campaigning on them.

*(ii) International review of aid modalities.*

26. Some of the instruments of aid, e.g. consultative groups, have been around for decades, while the world has changed both with respect to the level and pattern of capital flows and the role of aid. There may be case for the Bank participating in an international group to review modalities of transferring and coordinating aid. It would probably be appropriate to do this under DAC auspices. This would also be a forum for campaigning for specific reforms.

February 3, 1994



February 4, 1994

Mr. Michael Bruno  
DECVP

Lunch with Johannes Linn

Michael,

Attached is Mike Walton's new draft on Aid Effectiveness (per Mark's note). The paper argues against an overarching study (see para.5), which could be Johannes' preference. Mike Walton has agreed to revise this version and distribute it next Monday, February 7, to you, DEC Senior Managers, and the Working Group. The following step would be a version to the Steering Committee (which you chair), hopefully by February 11 for a meeting around February 18.

Paulo

cc: Mark Baird

### Aid effectiveness: what should the World Bank do?

1. The value of aid has always been questioned. The questioning has intensified in the 1990s at a time in which new demands are being placed on aid to deal with issues ranging from governance to human rights. The World Bank is very much part of the aid business and frequently faces questions on the effectiveness of its own aid, and on aid in general, notably in the context of IDA replenishments and SPA discussions. Yet despite the vast amount of country and cross-country information and analysis, the Bank is hard put to it to have convincing answers to such seemingly simple questions as: Does aid work? Does aid reduce poverty? How can aid be made more effective?

2. It was decided, in the first half of 1993, to explore whether there is a need for further work on the question of aid effectiveness. A working group was formed (chaired by DEC) with a mandate to undertake a review of the existing literature on aid effectiveness and form recommendations on where to go next. The group developed an issues paper (attached) and commissioned a set of reviews:

- a core review (by the Overseas Development Institute), that covers the literature in four areas: the changing rationale for aid; the economy-wide effects of aid; the performance of aid-supported projects; and institutional development and aid;
- a review of the technical literature on the consequences of aid (by Howard White), with a particular focus on attempts to disentangle effects using econometric techniques;
- a review of the literature in French (by Philippe Messeant and Patrick Guillamont)
- a review of the literature in Japanese (by Hideo Hashimoto)

3. The main messages that come from the surveys are as follows:

- There is very little in the analytical or empirical literature on the new aid issues, e.g. on aid in the post cold war era; aid and human rights; aid and democratization.
- The literature fails to answer the question, Does aid work? in a way that is useful from either an operational or a public relations angle. In particular, despite a considerable body of work on economy-wide effects, there are few robust conclusions. Indeed the bulk of studies are conceptually flawed, especially in failing to effectively handle counterfactuals.
- The literature on project effects (that corresponds roughly with the evaluation literature) is more satisfying in finding a quite high degree of project success--around two-thirds on average (about 70 percent for Bank projects). There is no clear evidence of a trend in project success--for the Bank it has been constant by year of project approval. Information on the portfolios of other agencies, e.g. private or NGO, is sparse, but suggests that the performance of portfolios of aid agencies is at least as good. However, the literature is generally unhelpful in explaining the sources of success and failure of projects and links with economy-wide factors.
- There is very little that can be said about the effects of aid on institutional development, and the evidence is especially weak on the attempts to improve institutional functioning at a broad level, (as opposed to narrow technical assistance) that have become much more common in the past 15 years.

4. We have given this stark assessment as background to recommendations on where to go next. There is also a wealth of interesting material surveyed in the consultant reviews, as well as valuable sets of recommendations as to how to make aid more effective, especially in the ODI study. It is

recommended that the studies be made publicly available to the aid community presented exactly as they are--as commissioned literature reviews, and not as a Bank position.

### Recommendations

5. It is recommended that the principal followup be a program of work on the determinants and consequences of aid. DEC would take the lead on this work. An overarching study of aid effectiveness is not recommended at this point, on the grounds that it is judged important to make some progress on the analysis front before deciding how best to use it. It is probable that the study work would lead to outputs that could be used in a conference of published by the Bank. It should also be of direct use to the preparations of the next IDA round, and other interactions on the effectiveness of aid in the international arena.

?  
unclear  
Need to  
be clear  
on why  
not

6. It is also recommended that the Bank form a group from the concerned vice-presidencies to oversee the work program and other aspects of aid effectiveness. This could be done by extending the life of the current steering committee (of DEC, FPR, OED, Legal, HRO, and ESD). The VP DEC would continue to chair this group and would also be responsible for periodic discussions with the regions, for example via the Regional Chief Economists.

7. Work on the effectiveness of the World Bank's own portfolio is of course closely tied up with the broader question of aid effectiveness. This is ongoing in the range of follow up to the Wapenhans report. It is not discussed further here, though some of the areas proposed for work are of direct relevance to the Wapenhans follow up.

8. We outline here the proposed major areas of focus for the study work. After the approach and topics have been agreed with the steering committee, this (or a modified list) would be submitted to the President's office. The detailed terms of reference for the study work would be then be developed by the responsible department. {that is IEC with support from PRD, or the other way round--Masood and Lyn to agree on this}. We also outline other areas of action on aid that would fall under the purview of the steering group on aid.

### Program of study work

9. We propose work in two areas: in what determines the volume and allocation of aid provided by developed countries and multilateral institutions; and on the consequences of aid for developing countries.

### The determinants of aid

10. The work would analyze the determinants of the volume and allocation of aid of the major donors (and NGOs), across countries, sectors and types of aid. This would explore the influence of such factors as donor budget deficits, colonial history, political factors (e.g. for Egypt and Israel), shocks (such as the oil price changes and the end of the Cold War), country needs and level of poverty, changing pressures from home constituencies (e.g. for linking aid to the environment and

human rights), changing fads, and measures of the effectiveness in which aid is used (such as the quality of policy stance).

11. It is expected that the work would involve a mixture of cross-country econometric analysis and case studies of both donors and recipients. It would necessitate the development of a data base on aid flows, differentiated by donor and recipient country, extent of tying, degree of concessionality, sector and instrument (e.g. project or balance of payments support).

12. This part of the work should motivate the analysis of consequences. In particular the following propositions would be tested: ?

- the volume and concessionality of aid if falling in relation to some measures of need e.g. population of low income countries

- aid delivery could be substantially improved from a developmental perspective, because past allocations have often been driven by political, non-developmental criteria

#### *The consequences of aid*

13. The literature survey showed that the analysis of consequences of aid is both the toughest and most important area for work. It is proposed that the study work have as a central hypothesis the following proposition:

- ● aid works well when domestic resources are used well.

This hides a complex set of issues, both on the determinants of the effectiveness of domestic resource use and on the good or bad influences of aid on domestic factors. However, if the hypothesis is true it clearly shows that there will be no simple relationship between aid and growth (or poverty reduction). Four areas would be covered in the program of work.

#### *(i) Aid and investment levels*

14. Aid is mainly, though not exclusively, about building domestic capacity--physical and human. The first question is whether aid raises domestic investment levels, in the public and private sectors. This is by no means sufficient for aid to be effective, but is a key question that has not been extensively explored in the literature. This could employ cross-country and time-series econometric work of a reduced-form character. Case studies could explore transmission mechanisms in more detail.

#### *(ii) Project performance and evaluation.*

15. The second question concerns whether aid-financed projects are productive. This would ideally be undertaken using information of projects finance both with aid resources and domestic resources. Such data is rarely if ever available. However, more systematic work can be undertaken

on the determinants of project performance, that seriously controls for the influence of project interventions. It is likely that some headway can be made through work with the existing large data bases on project outcomes kept by evaluation agencies; a research project is planned on the determinants of project performance. It is also valuable to supplement this with better information coming from projects through incorporating controls in the project design stage; this is being done under a couple of research projects working with Bank-financed projects in the human resource area.

16. An associated area is the *economic and social analysis of projects*. More work is needed on project appraisal techniques in defining both effective ways of dealing with economic questions, including the management of risk, and the limits of economic analysis with respect to other project objectives. This is becoming an increasingly important question for the Bank as non-economic factors are given higher priority (e.g. effects on the environment, displacement of people) and as a rising share of new projects are in areas that are not subject to traditional rate of return analysis. The Wapenhans Report suggests project objectives are poorly defined, the quality of economic analysis has declined and there is little analysis of non-economic objectives. This is an issue of importance both to the management of aid portfolios and to advice to governments on public spending choices. It is recommended that additional work be undertaken in this area, but not directly under the ambit of the aid effectiveness work.

*(iii) Aid and economy-wide performance*

17. The third question concerns whether aid raises the productivity of resource use throughout the economy. There is now an extensive body of work documenting the strong relationships between government policies and economic performance. This part of the work would look at the relationship between aid and government policy. This is similar to the question posed in the Reports on Adjustment Lending (that examined whether Bank-supported adjustment loans were associated with better policy outcomes), but would be broader, in that it would cover all aid flows. It could also make use of indicators of the quality of policy stance, as developed for the African adjustment Study. Aid may either help or delay reform. Again it is probable that a mixture of econometric and case-study work would make sense here.

*(iv) Aid and institutions*

18. The final question concerns whether aid helps or hinders the performance of public sector institutions. Aid often has institution--building objectives. But aid can also lead to the undermining of domestic institutions, through reducing the accountability of governments who largely depend on aid, through attracting some of the best personnel, and undermining domestic decision-making, whether through advisers or the extensive use of conditionality. This would probably require in-depth country studies. It is an area that would be high risk in terms of operational output, but is important; it should at a minimum aim to develop do's and don'ts for Bank and other donor action in the institutional domain.

19. A special focus of the studies is likely to be the issue of effects in *high-aid countries*. Many number of countries have a level of aid that is large in relation to domestic resources. Most display the symptoms of aid dependency. They roughly correspond to the low income group (except India, China and a few others) with SubSaharan Africa of especial importance. It is probable that really pervasive (and adverse) effects of aid come in when aid is large relative to domestic factors, whether this be savings, the budget, the skilled labor market, the capital market, the activities of top personnel, or the functioning of public and private sector institutions. Drawing out the implications of the above areas of focus for this group could be of value in its own right, and could be a useful (perhaps essential) input to a WDR on low income countries, if this is undertaken in future years.

#### Other action on aid

20. In some areas new study work is not the priority, either because the problem does not lie in lack of information or because the issues are not conducive to analytical and empirical study. There is a case for action in two areas.

##### *(i) Dealing with common criticisms of aid.*

21. There is often a mismatch between existing information analysis and the perceptions of outside critics of aid. This is an issue for the World Bank's communication strategy in the broad sense of how it marshals and disseminates the results of analysis and experience. This is relevant to the leadup to the 50th anniversary.

22. It is recommended that there be a systematic examination of the common criticisms of aid in relation to the available evidence. This would provide the basis for participating in a considered fashion in the debate, as well as in helping define the areas where we do not have answers and do need more study work. In addition, many lessons of aid are well-known: e.g. the costs of tying aid; the disadvantages of projectization of the development budget; the problem of donors taking the cream of local staff and distorting local skilled labor markets; the hopelessness of lending into awful policy environments; the low correlation between country aid allocations and country incomes and poverty. The Bank could contribute to both the debate and its image by developing an agenda of such issues and being more forthright in campaigning on them.

##### *(ii) International review of aid modalities.*

23. Some of the instruments of aid, e.g. consultative groups, have been around for decades, while the world has changed both with respect to the level and pattern of capital flows and the role of aid. There may be case for the Bank participating in an international group to review modalities of transferring and coordinating aid. It would probably be appropriate to do this under DAC auspices. This would also be a forum for campaigning for specific reforms.

January 31, 1994



The World Bank/IFC/MIGA  
O F F I C E M E M O R A N D U M

DATE: February 9, 1994 11:12am

TO: Michael Bruno ( MICHAEL BRUNO )

FROM: Mark Baird, DECV ( MARK BAIRD )

EXT.: 31666

*File AID*

SUBJECT: Aid Effectiveness

As agreed, Lyn, Masood and I met yesterday to discuss the organization of the aid effectiveness work within DEC. We reached the following conclusions:

- DEC should offer to manage the whole work program as outlined in Mike Walton's note, including the final section on "common criticisms of aid" and "aid modalities".
- Within DEC, the work program would be managed by a team of the three Directors (myself, Lyn and Masood). We would report to the Steering Group (through you?) and provide regular reports on progress etc.
- DEC staff would be assigned responsibility for components of the work program. The allocation of the work by Department would be as follows:

Determinants of aid	IEC
Aid and institutions	IEC
Common criticisms of aid	IEC
Review of aid modalities	IEC
Aid and investment levels	PRD
Project performance	PRD
Aid & economy-wide performance	PRD

- We may also subcontract parts of the work. Possible contributors could be:

Project performance	OED
Aid & institutions	HRO
Common criticisms of aid	FRM/HRO

- DEC will accommodate this task as a priority item in its work program. This will require rescheduling of other work, unless other VPs are willing to contribute resources (as was done for the literature review).

CC: Lyn Squire  
CC: Masood Ahmed  
CC: Paulo Vieira Da Cunha  
CC: Michael Walton  
CC: Deborah Wetzel

( LYN SQUIRE )  
( MASOOD AHMED )  
( PAULO VIEIRA DA CUNHA )  
( MICHAEL WALTON )  
( DEBORAH WETZEL )



MICHAEL BRUNO  
Vice President Development Economics  
and Chief Economist

February 14th, 1994

To: Aid Effectiveness Steering Group

I would like to call a meeting of the Aid Effectiveness Steering Group on Friday, February 18th at 2:30 pm in Room S9-021 to discuss the attached proposal of the working group. I hope the time is convenient for you.

Thanks.

  
Michael Bruno

Distribution:

Messrs: Choksi, Linn, Picciotto, Rigo, Serageldin, Shihata.

cc. Messrs/Mss Baird, Vieira da Cunha, Wetzel, (DECVP); Ahmed, Johannes (IEC); Squire, Serven (PRD); Ayres, Stevens (HRO) Donovan, Yap, Elliot, Ohashi (FRM)

Attachment

# OFFICE MEMORANDUM

DATE: February 14, 1994  
TO: Distribution  
FROM: Michael Walton, PRDPH *MW*  
EXTENSION: 38418  
SUBJECT: Aid Effectiveness

I attach a report prepared by the working group on aid effectiveness. This group was formed to oversee a literature review on the topic, and draw up recommendations for follow up. The attached is close to a consensus position, though some diversity of views remains. Michael Bruno, as chair of the steering committee, will be calling a meeting to discuss this. Three areas will need decisions:

(a) does the proposed program of follow-up work make sense? We propose a series of studies designed to produce empirical results and respond to some of the common criticisms on aid, but not a high profile overall study of the topic.

(b) who should manage the follow up? We propose the life of the steering committee be extended to oversee the work, in view of its cross-cutting character, and that DEC actually manage the work, with parts probably contracted to, or undertaken jointly with, other Vice-Presidencies.

(c) what should be done with the literature reviews? We recommend that these be published so that they are available to the aid community (and governments), but not as statements of the World Bank's position.

I am not sending round additional copies of the literature reviews, but these are available on request.

Distribution:

Messrs: Bruno, Choksi, Linn, Picciotto, Rigo, Serageldin, Shihata

cc. Messrs/Mss Baird, Vieira da Cunha, Wetzel (DECVP) Ahmed, Johannes (IEC) Squire, Serven (PRD), Ayres, Stevens (HRO), Donovan, Yap, Elliott, Ohashi (FRM)

## Aid effectiveness: what should the World Bank do?

1. The value of aid has always been questioned. The questioning has intensified in the 1990s at a time in which new demands are being placed on aid to deal with issues ranging from governance to human rights. The World Bank is very much part of the aid business and frequently faces questions on the effectiveness of its own aid, and on aid in general, notably in the context of IDA replenishments and SPA discussions. Yet despite the vast amount of country and cross-country information and analysis, the Bank is hard put to have convincing answers to such seemingly simple questions as: Does aid work? Does aid reduce poverty? How can aid be made more effective?

2. It was decided, in the first half of 1993, to explore whether there is a need for further work on the question of aid effectiveness. A working group was formed (chaired by DEC) with a mandate to undertake a review of the existing literature on aid effectiveness and form recommendations on where to go next. The group developed an issues paper and commissioned a set of reviews:

- a core review (by the Overseas Development Institute), that covers the literature in four areas: the changing rationale for aid; the economy-wide effects of aid; the performance of aid-supported projects; and institutional development and aid;
- a review of the technical literature on the consequences of aid (by Howard White), with a particular focus on attempts to disentangle effects using econometric techniques;
- a review of the literature in French (by Philippe Messeant and Patrick Guillamont)
- a review of the literature in Japanese (by Hideo Hashimoto)

3. The main messages that come from the surveys are as follows:

- There is very little in the analytical or empirical literature on the new aid issues, e.g. on aid in the post cold war era; aid and human rights; aid and democratization.
- The literature fails to answer the question, Does aid work? in a way that is useful from either an operational or a public relations angle. In particular, despite a considerable body of work on economy-wide effects, there are few robust conclusions. Indeed the bulk of studies on economy-wide effects are conceptually flawed, especially in failing to effectively handle counterfactuals in a situation in which aid is only one amongst many determinants of outcomes.
- The literature on project effects (that corresponds roughly with the evaluation literature) is more satisfying in finding a quite high degree of project success--around two-thirds on average (about 70 percent for Bank projects). There is no clear evidence of a trend in project success during the 1980s. Information on the portfolios of other agencies, e.g. private or NGO, is sparse, but suggests that the performance of portfolios of aid agencies is at least as good. However, the literature is generally unhelpful in explaining the sources of success and failure of projects and links with economy-wide factors.
- There is very little that can be said about the effects of aid on institutional development, and the evidence is especially weak on the attempts to improve institutional functioning at a broad level, (as opposed to narrow technical assistance) that have become much more common in the past 15 years.

4. We have given this stark assessment as background to recommendations on where to go next. There is also a wealth of interesting material surveyed in the consultant reviews, as well as valuable sets of recommendations as to how to make aid more effective, especially in the ODI study. It is

recommended that the studies be made publicly available to the aid community presented exactly as they are--as commissioned literature reviews, but not as a Bank position.

### Recommendations

5. It is recommended that the Bank follow up with a program of work on selected (researchable) aspects of the determinants and consequences of aid, complemented by a systematic review of criticisms of aid and a marshalling of the evidence relevant to the critiques. A high-profile, overarching study of aid effectiveness is not recommended at this point. It is judged that this would raise expectations that may not be realized, especially since there are so many different views on what aid effectiveness is about. It is rather judged to be important to make progress on getting some concrete results in key areas that lie at the core of the Bank's interest in aid effectiveness--the developmental aspects of this question--and then form a view as to how to discuss and disseminate the results. The areas of primary focus in the work program would correspond largely to traditional areas of concern about aid's impact on growth and poverty. While the literature shows that it is not easy to reach definitive conclusions, the kind of economic, empirical tools that the Bank is good at working with can be applied to these areas. There are also a set of other issues, that range from effects on human rights to governance. It is proposed that these be covered in two ways: as determinants of the allocation of aid; and as one part of the work on documenting and assessing the various criticisms of aid.

6. There would, of course, be interactions with other agencies in the course of the implementation of the work program. As soon as the Bank's decides which way to go, contact should be made with DAC. It is probable that the study work would lead to outputs that could be used in a conference and published by the Bank. It should also be of direct use to the preparations of the next IDA round, and other interactions on the effectiveness of aid in the international arena.

7. It is also recommended that the Bank form a group from the concerned vice-presidencies to oversee the work program and other aspects of aid effectiveness. This could be done by extending the life of the current steering committee (of DEC, FPR, OED, Legal, HRO, and ESD). The VP DEC would continue to chair this group and would also be responsible for periodic discussions with the regions, for example via the Regional Chief Economists.

8. It is proposed that DEC manage the program of study work, though it would probably make sense to contract parts of the work to other parts of the Bank, especially FPR, HRO and OED.

9. The anticipated time frame for the program of work is around 18 months, i.e. with the objective of producing substantive outputs in the second half of calendar 1995. It may be feasible to have preliminary results along the way. (And to the extent the Fall Development Committee paper deals with aid effectiveness, this will be an opportunity to present some of the themes that will be covered in the study work.) This work is not budgeted now. Since this is an area that is not only a research concern, it is recommended that resources be provided both from DEC's budget and from other concerned vice-presidencies.

10. Work on the effectiveness of the World Bank's own portfolio and non-lending activities, that HRO is responsible for, is of course closely tied up with the broader question of aid effectiveness. This is ongoing in the range of follow up to the Wapenhans report. This is not discussed further here, though the Wapenhans and aid effectiveness work will be able to usefully draw on each others output.

11. We outline here the proposed major areas of focus for the study work. After the approach and topics have been agreed with the steering committee, this (or a modified list) would be submitted to the President's office. The detailed terms of reference for the study work would be then be developed by the responsible department and the proposals here should be treated as indicative. We also outline other areas of action on aid that would fall under the purview of the steering group on aid.

### **Program of study work**

12. We propose work in three areas: the determinants of aid and options on aid modalities provided by developed countries and multilateral institutions; the consequences of aid for developing countries; and systematic review of the criticisms of aid.

#### *1. The determinants of aid*

13. The work would analyze the determinants of the volume and allocation of aid of the major donors (and NGOs), across countries, sectors and types of aid. Its purpose would be to provide the backcloth to the analysis of aid's effects. It would explore the influence of such factors as donor budget deficits, colonial history, political factors (e.g. for Egypt and Israel), shocks (such as the oil price changes and the end of the Cold War), country needs and level of poverty, changing pressures from home constituencies (e.g. for linking aid to the environment and human rights), changing fads, and measures of the effectiveness in which aid is used (such as the quality of policy stance).

14. Aid modalities would receive particular attention in this review. Some of the instruments of aid, e.g. consultative groups, have been around for decades, while the world has changed both with respect to the level and pattern of capital flows and the role of aid. There may be a case for the Bank participating in an international group to review modalities of transferring and coordinating aid. It would probably be appropriate to do this under DAC auspices.

15. It is expected that the work would involve a mixture of cross-country econometric analysis and case studies of both donors and recipients. It would necessitate the development of a data base on aid flows, differentiated by donor and recipient country, extent of tying, degree of concessionality, sector and instrument (e.g. project or balance of payments support). The need for a data base organized in this way was emphasized by at least one of the consultants for the literature review, and has also been advocated by Robert Cassen. DAC already has a data base on aid, and it is anticipated that this would not involve a lot of new work.

16. This part of the work should motivate the analysis of consequences. In particular the following propositions would be tested:

- the volume and concessionality of aid is falling in relation to some measures of need e.g. population of low income countries;
- aid delivery could be substantially improved from a developmental perspective, because past allocations have often been driven by political, non-developmental criteria;
- aid practices, for example the fact that aid is often tied to some combination of governments, projects, goods or experts, have a significant influence on the within-country use of aid, that could be distortionary.

## *2. The consequences of aid*

17. The literature survey showed that the analysis of consequences of aid is both the toughest and most important area for work. It is proposed that the study work have as a central hypothesis the following proposition:

- aid works well when domestic resources are used well.

This hides a complex set of issues, both on the determinants of the effectiveness of domestic resource use and on the good or bad influences of aid on domestic factors. However, if the hypothesis is true it clearly shows that there will be no simple relationship between aid and growth (or poverty reduction). Four areas would be covered in the program of work.

### *(i) Aid and investment levels*

18. Aid is mainly, though not exclusively, about building domestic capacity--physical and human. The first question is whether aid raises domestic investment levels, in the public and private sectors. This is by no means sufficient for aid to be effective, but is a key question that has not been extensively explored in the literature. This could employ cross-country and time-series econometric work of a reduced-form character, that would attempt to deal with some of the problems of dealing with controls identified in the literature review. Case studies could explore transmission mechanisms in more detail.

### *(ii) Project performance and evaluation.*

19. The second question concerns whether aid-financed projects are productive. This would ideally be undertaken using information of projects financed both with aid resources and domestic resources. Such data is rarely if ever available. However, more systematic work can be undertaken on the determinants of project performance, that seriously controls for the influence of project interventions. It is likely that some headway can be made through work with the existing large data bases on project outcomes kept by evaluation agencies; a research project is planned on the

determinants of project performance. It is recommended that this be brought under the overall ambit of the steering group on aid. It is also valuable to supplement this with better information coming from projects through incorporating controls in the project design stage; this is being done under a couple of research projects working with Bank-financed projects in the human resource area.

20. An associated area is the *economic and social analysis of projects*. More work is needed on project appraisal techniques in defining both effective ways of dealing with economic questions, including the management of risk, and the limits of economic analysis with respect to other project objectives. This is becoming an increasingly important question for the Bank as non-economic factors are given higher priority (e.g. effects on the environment, displacement of people) and as a rising share of new projects are in areas that are not subject to traditional rate of return analysis. The Wapenhans Report suggests project objectives are poorly defined, the quality of economic analysis has declined and there is little analysis of non-economic objectives. These are issues of importance both to the management of aid portfolios and to advice to governments on public spending choices. It is recommended that additional work be undertaken in this area, but not directly under the ambit of the aid effectiveness work.

*(iii) Aid and economy-wide performance*

21. The third question concerns whether aid raises the productivity of resource use throughout the economy. There is now an extensive body of work documenting the strong relationships between government policies and economic performance. This part of the work would look at the relationship between aid and government policy, drawing on the tradition of analysis in the Reports on Adjustment Lending and the Africa Adjustment Study. It would go beyond the RALs (that examined whether Bank-supported adjustment loans were associated with better policy outcomes), in two respects: it would cover all aid flows; and it would not be confined to short-run macroeconomic indicators of good and bad policy. It would make use of indicators of the quality of policy stance, as developed for the African Adjustment Study, again extending these beyond adjustment-oriented factors. Again it is probable that a mixture of econometric and case-study work would make sense here.

22. A particular aspect of this work would be review of the impact of non-lending activities of aid agencies, including analytical work and policy dialogue. If one of the lessons of development history is that getting strategy right is often more important than financial flows, it is critical to look at the impact of this type of work, that could potentially be as important as aid-financed activities in its development payoff. This would probably have to be undertaken via structured case studies.

23. A special focus of the studies is likely to be the issue of effects in *high-aid countries*. Many countries have a level of aid that is large in relation to domestic resources. Most display the symptoms of aid dependency. They roughly correspond to the low income group (except India, China and a few others) with SubSaharan Africa of special importance. It is probable that really pervasive (and adverse) effects of aid come in when aid is large relative to domestic factors, whether this be savings, the budget, the skilled labor market, the capital market, the activities of top

personnel, or the functioning of public and private sector institutions. Drawing out the implications of the above areas of focus for this group could be of value in its own right, and could be a useful (perhaps essential) input to a WDR on low income countries, if this is undertaken in future years.

*(iv) Aid and institutions*

24. The final area concerns the two-way relationship between aid and domestic institutions. First, how do the institutional workings of a developing country influence the management and effectiveness of aid? Second, does aid help or hinder the performance of public sector institutions? Aid often has institution-building objectives. But aid can also lead to the undermining of domestic institutions, through reducing the accountability of governments who largely depend on aid, through attracting some of the best personnel, and undermining domestic decision-making, whether through advisers or the extensive use of conditionality. This is again likely to be of particular importance for the high-aid group, that would be a major focus of this part of the work. This would probably require in-depth country studies. It is an area that would be high risk in terms of operational output, but is important; it should at a minimum aim to develop do's and don'ts for Bank and other donor action in the institutional domain.

*3. Common criticisms of aid.*

25. There is often a mismatch between existing information analysis and the perceptions of outside critics of aid. The World Bank is an important actor in the debate, and has so far failed to convince critics, even in areas where the internal judgement is that the Bank's position is on quite strong empirical ground e.g. in the importance of adjustment for growth, and the importance of growth for poverty. This is indicative of a failure either in effectively reviewing and marshalling the evidence or in communication.

26. It is recommended that this be approached through a systematic documentation of the common criticisms of aid, and assessment of what empirical evidence has to say for and against the criticisms. This would provide the basis for participating in a considered fashion in the debate, as well as in helping define areas where the answers are not clear cut and we need more study work. The links between aid and poverty and the environment are likely to be on this agenda. For poverty at least there is an increasingly large body of evidence on links between economy-wide conditions and the conditions of the poor.

27. In some areas of aid practice, the lessons are well-known and there could be a fair degree of common ground between the World Bank's views and those of outside critics. Examples are the costs of tying aid; the disadvantages of having a development budget driven by project interests of multiple donors; the problem of donors taking the cream of local staff and distorting local skilled labor markets; the hopelessness of lending into awful policy environments; the low correlation between country aid allocations and country incomes and poverty. The Bank could contribute to both the debate and its image by developing an agenda of such issues and being more forthright in campaigning on them.

February 14, 1994



Michael Bruno

File

Michael,

Meeting with Choksi and Adams

This is essentially about the development committee agenda. However, this covers two areas--what we do for the spring development committee (where we have agreed in principle to do something on development experience, drawing on the East Asia, Growth project and Africa studies, possibly with a glance to transition economies) and the aid effectiveness study work (attached), where we should focus hard in November, after we have the report of the group.

Mike

September 20, 1993



# Record Removal Notice



<b>File Title</b> Agency for International Development (AID) - Effectiveness		<b>Barcode No.</b>  1459988		
<b>Document Date</b> July 18, 1993	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Distribution From: Michael Walton, DECVF				
<b>Subject / Title</b> Literature Review on Aid Effectiveness				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"> <tr> <td><b>Withdrawn by</b> Shiri Alon</td> <td><b>Date</b> May 24, 2017</td> </tr> </table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 24, 2017
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 24, 2017			

## The Development Effectiveness of Aid—Issues for a Literature Review

### Introduction

1. Aid is under pressure from many sides, that it needs to do more, or that it cannot be afforded. The Bank is considering undertaking or commissioning a major review of the effectiveness of aid. This would both be a hardheaded assessment of the good, bad or indifferent effects of aid on the development process, and of how the design of aid can be changed to improve its effectiveness. Such a study would involve substantial interaction with other members of the aid community.
2. Before launching any study, it has been decided to undertake a review of the current state of thinking and empirical work. This will be managed by a working group led by Development Economics Vice-Presidency. It will be conducted as a structured literature review, in which a set of questions are defined on aid effectiveness, and the literature surveyed to see what answers it has, or does not have, to these questions. This note lays out the questions. These form the terms of reference for the review. This will be undertaken by one core consultant group (the Overseas Development Institute—that has put together a team for the various areas of work), complemented by some smaller consultancies to look at specific issues and to ensure key parts of the non-English literature and alternative perspectives are covered.

### Overall approach

3. The review would be confined to the development effectiveness of aid, that is:
  - (a) it will assess only the *developmental* consequences of aid, though this will be undertaken within a context that recognizes and reviews the multiple objectives of donors;
  - (b) it will be limited to the effects of *aid* on development, though it is again recognized that this will be a function of broader development effectiveness issues, such as the overall behavior of governments.
4. The core of what is included in development will be traditional: effects on aggregate economic performance and household welfare, with reduction of poverty as the central objective of development. This will, however, include intermediate effects, notably the impact of aid on government capabilities and interactions with political factors in the host country that may help or hurt the consequences for development. Evidence on environmental consequences will also be explicitly reviewed, as will literature on the impact of donor desires to influence governance and human rights.
5. The major focus of the review will be the effects of official flows with an explicitly developmental orientation—notably DAC and non-concessional multilateral flows. However, it will also cover the literature on the following flows:

- from NGOs for development purposes--in particular to obtain comparative information on relative performance with official flows;
- non-concessional bilateral flows, but solely from the perspective of their contribution to macroeconomic effects of total official flows (i.e. the success or failure of, say, export credits in meeting their commercial grounds would not be assessed);
- humanitarian aid for short-run relief, again from the perspective of county-wide effects, including the impact of food aid on food markets (i.e. the success or failure in delivering short-run relief will not be reviewed.)

6. Four broad areas would be surveyed:

(a) The role of aid: the analytics of provision of official and/or subsidized capital flows, and NGO flows; the variety of donor (and NGO) objectives for aid; the nature and sources of the various critiques of aid; and the consequences of the end of the Cold War for donor objectives and practices.

?  
quality -  
tid,  
income

(b) The country-wide consequences of aid: the effects of aid on growth, macroeconomic aggregates and poverty; consequences for the functioning of capital, labor (especially skilled labor) and food markets; effects on intermediate variables, such as economy-wide policy choices. *eg. ? population, regional devt, openness*

governance  
participat

(c) The performance of projects: the effects of aid on project outcomes with respect to physical, financial, economic, social and environmental objectives; comparison of aid-supported projects with other projects undertaken by governments, NGOs and the private sector.

sources ?

(d) The effect on government behavior and capabilities: the effects of all aid (including technical cooperation) on government behavior, on governance and corruption, and on the capacity of governments and other public sector institutions to provide services related to developmental objectives.

✓

7. In all of the empirical areas (b-d) there is an overarching problem: it is generally extremely difficult to assess the counterfactual of less aid or different types of aid. Few projects have properly designed control groups, and country conditions are generally too diverse to provide rigorous controls. Some progress was made on this in the World Bank's Reports on Adjustment Lending, but this was only partially convincing, and clearly not convincing to critics of this form of aid. This is likely to be an important issue for any full study; this preliminary stage of the work would review how this has been handled in the past.

Which studies have attempted this?

8. In addition to the review of literature on the above thematic categories, the survey would review country studies (such as the country reviews undertaken by the World Bank's

Operations Evaluation Department) that examine all aspects of aid in a particular country, for additional insight in the four areas. Additional results from such studies would be incorporated into the above four reviews.

9. This first stage will end in a short report from the working group on the results of the literature review and recommendations on next steps, backed by the reports of the consultants in the four areas. This will be prepared by October 31st. Stanley Fischer has agreed to advise on the work as it proceeds.

10. A set of questions in each of the four areas follows. It should be emphasized that the task of the consultants is not to answer these questions (though that would be welcome), but to document what the literature, including documents of aid agencies, ~~has to say about them.~~ *and IMF*

11. **Data on aid and aid-related flows.** New data analysis will not be undertaken in this first phase. However, any major study would need a data base on aid disaggregated by country and by the various categories of aid and other official flows. The International Economics Department will review the existing data bases and assess the need for new work in this area in parallel to the literature review. *status?*

### A. The Case for Aid: Is There One? Is it Changing?

This component of the work would be a survey of the thinking about and analytics of aid, donor objectives and views of various participants in the aid arena. It would include documentation of new and old critiques of aid.

#### Traditional rationales for aid

(1) What is the developmental rationale for providing official and/or subsidized aid to developing countries, in terms of its effects on macroeconomic conditions, investment design (i.e. the choice and quality of projects) and institutional capability? Are there different considerations for NGO flows?

(2) What are the critiques of aid from within an economic welfare paradigm? e.g. what is the rationale for the view that aid substitutes for domestic savings, distorts markets, builds up excessively large and inefficient public sectors, and is a soft alternative to taking hard choices?

(3) What other motives do donors have? How are these likely to affect developmental outcomes?

(a) Furtherance of geopolitical interests.

(b) Furtherance of commercial and related objectives (links to export promotion, etc.).

(c) The humanitarian case for aid to relieve short-run distress.

(4) How do "global management" concerns affect aid? (e.g., war-ravaged economies, migration, refugees, environment, narcotics trafficking, AIDS - in short, aid's contributions to problems that manifestly transcend national boundaries).

#### New aid issues, especially in the Post-Cold War Era

(5) What is the experience in use of aid for the promotion of democracy, popular participation, and human rights; and on aid and military (and other non-developmental) expenditures? What is the rationale for political conditionality? Have past attempts led to success (e.g. U.S. efforts to promote these things in Latin America)?

(6) How does donor concern with the environment influence the composition and direction of aid?

(7) How is the emphasis on the private sector changing thinking on the design of aid?

(8) New thinking about aid modalities:

(a) what role for NGOs in aid provision; or scope for creative partnership between public and private providers of aid?

(b) what are the respective roles of bilateral and multilateral institutions: need for redefinition? Is there a perceived need to sort out comparative advantage and improve coordination?

(c) how does aid relate to other external resource flows: does aid catalyze private flows (or only pay them off)?

(d) is less tying of aid becoming acceptable?

(9) How have public perceptions of aid changed (e.g. as revealed in opinion polls in donor, and, if available, developing countries) and how has this influenced donor attitudes?

income of recipient  
extent of targeting

## B. Country-wide effects of aid

This part of the survey would examine what is said on economy-wide effects, including bottom-line studies of effects on growth and macroeconomic aggregates, influences on the functioning of various markets, and on intermediate policy variables.

### Effects on growth

- (1) What has been the contribution of aid flows to long-term growth in recipient countries? Is there evidence that countries receiving large volumes of aid have achieved faster per capita growth than other countries, other things being equal? Alternatively, do individual country experiences (i.e., time series information) provide such evidence?
- (2) Do macroeconomic outcomes vary by the source and type of aid finance (e.g. tied and untied, conditional and unconditional), time period and country group (e.g. low and middle income; region). Does bilateral tied aid (e.g., in-kind or military aid) help or harm growth?
- (3) Does aid support consumption and investment, i.e. how far does it substitute for domestic savings? Is there a difference between adjustment-type and investment lending on these effects?

### Economic policies and market functioning

- (4) Do greater initial distortions (high inflation, extensive trade distortions, real overvaluation, relative price misalignment) render aid, especially aid not conditioned on policy change, less effective? If this is so, what should be the scope for unconditional (especially debt-creating) aid? *Extent of conditionality*
- (5) Does aid have perverse effects on economy-wide policies and markets:
  - (a) at a macroeconomic level, through "Dutch Disease", supporting overvaluation and excessive budget deficits?
  - (b) through supporting a large public sector?
  - (c) through distorting the functioning of various markets: for foreign exchange (e.g. through tied aid); the financial market (e.g. through large channelling of donor funds); the food market (with large volumes of food aid); and the skilled labor market (through creaming off skilled personnel and pushing up salaries)?
- (5) Does aid, and especially policy-conditioned aid, improve policies (in the direction sought by donors) in macro-indicators, efficiency-enhancing market reforms, sectoral policies?
- (6) When aid has supported fiscal adjustment, to what extent has the quality of such



adjustment supported developmental objectives? Is there a difference between the late 1980s and earlier?

### Poverty

(7) Poverty changes will be a function of the level and pattern of growth, policies and market functioning. This will be brought together as a separate topic. Did the impact of aid on long-run macroeconomic performance lead to poverty reduction? More specifically, what has been the effect on the income distribution and the poor of policy reforms supported by aid (e.g., real depreciations, increases in agricultural prices), and were the poor adequately protected during episodes of reform? Do aid-intensive countries show a better record in the area of social expenditures and social safety nets (as in 2-(iv) above)?

### Environment

(8) Much of the review of environmental effects will be at the project level (Section C), but some sets of economy-wide policies (such as increased incentives for agriculture and forestry exports) can have large effects on the environment. Do aid-supported reforms lead to environmental degradation, through excessive land exploitation, deforestation etc? What impact do they have on the efficiency of energy and water use?

### C. The Development Effectiveness of Aid-Financed Projects

The objective of this section of the literature review is to look at aid effectiveness at the project level. The major questions to be addressed are:

#### **Methodology**

- (1) What methodologies are available to evaluate project performance (eg. ex-post rate of return analysis, survey-based impact evaluations, contingent valuation methods, beneficiary assessments)?
- (2) How useful are they for evaluating non-physical objectives, such as institutional development and policy reform?
- (3) How useful are they for evaluating non-economic effects, such as social and environmental impacts?
- (4) How are these methodologies applied by donors, recipient countries and academics?

#### **Outcomes**

- (5) What is the evidence on project performance (physical, financial, economic, social, environmental)?
- (6) Are there significant differences in project performance by source and type of financing, time period, sector and recipient country?
- (7) What are the major determinants of project performance?
  - (a) Exogenous factors: global (e.g., commodity prices) and country (e.g., drought).
  - (b) Government factors: policies (e.g., exchange rate) and budgets (e.g., counterpart funds).
  - (c) Donor factors: objectives (developmental and other) and processes (e.g., identification, preparation, appraisal, supervision, evaluation).
  - (d) Project factors: institutional capacity for project selection, design, implementation and operation.
- (8) Based on the above, what can we say about aid effectiveness?
  - (a) Do aid projects provide enough benefits to justify the costs?

(b) How do aid-financed projects compare to other projects (e.g., by NGOs and governments)? How does the quality of the portfolio of official bilateral and multilateral agencies compare with NGO agencies and comparable private sector financial institutions with large project portfolios?

(c) What is the value added of aid (e.g., financing, project design and selection, policy and institutional advice)?

#### D. The Consequences of Aid for Government Behavior and Country Institutions

This section of the review would survey the impact of aid on government behavior and the performance of both public and private sector institutions. This would range from broad questions of whether aid serves to keep bad governments in power, to the evidence on whether technical cooperation enhances or inhibits the development of local capabilities.

- (1) What has been the relationship between aid and domestic political developments: has aid been used to support developmentally oriented government behavior or to prop up corrupt elites? Has it led to reduced sovereignty, especially in the context of adjustment? Does it increase or reduce the impetus for governments to undertake reforms?
- (2) What has aid done for (or to) the behavior and quality of individuals in the public sector: does it encourage a new form of rent-seeking behavior? does it cause the diversion of time of officials to meeting the needs and demands of donors? has it led to distortions in skilled labor markets, exacerbating the brain drain from the public sector?
- (3) How effective has aid been in the creation and sustaining of institutions in the public sector (core government and sector agencies)?
- (4) What has been the impact of aid on government financial management? This includes the capacity at both central and local government level, to make and implement budgets, procure goods and services, render accounts, and undertake audits. Has aid improved accountability?
- (5) How has aid affected the capacity of governments to set economic development goals, formulate policies, set realistic expenditure targets, prepare public investment programs, evaluate spending proposals, and make trade-offs and choices?
- (6) What has been the impact of aid on public administration? What role has aid played in the creation, expansion, current problems, and reform of civil services, and how effective have these interventions been?
- (7) What has been the role of aid in the public enterprise sector in the past two decades? Has it developed viable, accountable institutions or continued to support dogs? Is aid effective in supporting privatization?
- (8) Has aid helped develop private sector institutions, including the legal and regulatory framework for competitive private sectors? Have attempts to replicate developed country legal environments in developing countries worked or failed?

June 22nd, 1993.

## OFFICE MEMORANDUM

DATE: September 1, 1993

TO: Mr. Michael Bruno, Chief Economist, DECVP

FROM: D. C. Rao, Director, IEC 

EXTENSION: 33800

SUBJECT: Aid Effectiveness93 AUG 31 PM 5:25  
93 SEP 1 PM 5:27RECEIVED  
DEVELOPMENT FINANCE  
ECONOMICS

This is to brief you on where we stand on our study of aid effectiveness. This is an issue of major concern to the international development community and the Bank. At a meeting of several VPs (Linn, Choksi, Picciotto, Serageldin) and other managers, it was decided earlier this year to have a two-stage approach: first, an extensive review of what the literature has to say on the questions in the debate on the effectiveness of aid; and second, any new work that the Bank should either undertake or commission. There has been some talk of undertaking a WDR on the topic, but DEC's position so far has been that it is not well-suited to the WDR model, since the Bank would be perceived to be too interested a party.

DEC was asked to manage the first stage (i.e., the literature review), and we formed a Steering Committee from the concerned Vice Presidencies (chaired by DECVP) and a working group led by Michael Walton. The working group prepared an issues paper and work plan that was approved by the Steering Committee in June. A progress report is attached. The final report is due to the Steering Committee later this year; this will include options or recommendations on how the Bank may proceed on the second stage of work. It is likely that OECD/DAC will need to be involved in the next stage. I have spoken to the chairman (Ray Love) who is glad we have undertaken this study.

cc: Attila Karaosmanoglu

Attachment



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<b>File Title</b> Agency for International Development (AID) - Effectiveness		<b>Barcode No.</b>  1459988		
<b>Document Date</b> July 18, 1993	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Distribution From: Michael Walton, DECVP				
<b>Subject / Title</b> Literature Review on Aid Effectiveness				
<b>Exception(s)</b> Personal Information				
<b>Additional Comments</b>		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.</p> <table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> May 24, 2017</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 24, 2017
<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 24, 2017			

## The Development Effectiveness of Aid--Issues for a Literature Review

### Introduction

1. Aid is under pressure from many sides, that it needs to do more, or that it cannot be afforded. The Bank is considering undertaking or commissioning a major review of the effectiveness of aid. This would both be a hardheaded assessment of the good, bad or indifferent effects of aid on the development process, and of how the design of aid can be changed to improve its effectiveness. Such a study would involve substantial interaction with other members of the aid community.

2. Before launching any study, it has been decided to undertake a review of the current state of thinking and empirical work. This will be managed by a working group led by Development Economics Vice-Presidency. It will be conducted as a structured literature review, in which a set of questions are defined on aid effectiveness, and the literature surveyed to see what answers it has, or does not have, to these questions. This note lays out the questions. These form the terms of reference for the review. This will be undertaken by one core consultant group (the Overseas Development Institute--that has put together a team for the various areas of work), complemented by some smaller consultancies to look at specific issues and to ensure key parts of the non-English literature and alternative perspectives are covered.

### Overall approach

3. The review would be confined to the development effectiveness of aid, that is:

(a) it will assess only the *developmental* consequences of aid, though this will be undertaken within a context that recognizes and reviews the multiple objectives of donors;

(b) it will be limited to the effects of *aid* on development, though it is again recognized that this will be a function of broader development effectiveness issues, such as the overall behavior of governments.

4. The core of what is included in development will be traditional: effects on aggregate economic performance and household welfare, with reduction of poverty as the central objective of development. This will, however, include intermediate effects, notably the impact of aid on government capabilities and interactions with political factors in the host country that may help or hurt the consequences for development. Evidence on environmental consequences will also be explicitly reviewed, as will literature on the impact of donor desires to influence governance and human rights.

5. The major focus of the review will be the effects of official flows with an explicitly developmental orientation--notably DAC and non-concessional multilateral flows. However, it will also cover the literature on the following flows:

- from NGOs for development purposes--in particular to obtain comparative information on relative performance with official flows;
- non-concessional bilateral flows, but solely from the perspective of their contribution to macroeconomic effects of total official flows (i.e. the success or failure of, say, export credits in meeting their commercial grounds would not be assessed);
- humanitarian aid for short-run relief, again from the perspective of county-wide effects, including the impact of food aid on food markets (i.e. the success or failure in delivering short-run relief will not be reviewed.)

6. Four broad areas would be surveyed:

(a) *The role of aid*: the analytics of provision of official and/or subsidized capital flows, and NGO flows; the variety of donor (and NGO) objectives for aid; the nature and sources of the various critiques of aid; and the consequences of the end of the Cold War for donor objectives and practices.

(b) *The country-wide consequences of aid*: the effects of aid on growth, macroeconomic aggregates and poverty; consequences for the functioning of capital, labor (especially skilled labor) and food markets; effects on intermediate variables, such as economy-wide policy choices.

(c) *The performance of projects*: the effects of aid on project outcomes with respect to physical, financial, economic, social and environmental objectives; comparison of aid-supported projects with other projects undertaken by governments, NGOs and the private sector.

(d) *The effect on government behavior and capabilities*: the effects of all aid (including technical cooperation) on government behavior, on governance and corruption, and on the capacity of governments and other public sector institutions to provide services related to developmental objectives.

7. In all of the empirical areas (b-d) there is an overarching problem: it is generally extremely difficult to assess the counterfactual of less aid or different types of aid. Few projects have properly designed control groups, and country conditions are generally too diverse to provide rigorous controls. Some progress was made on this in the World Bank's Reports on Adjustment Lending, but this was only partially convincing, and clearly not convincing to critics of this form of aid. This is likely to be an important issue for any full study; this preliminary stage of the work would review how this has been handled in the past.

8. In addition to the review of literature on the above thematic categories, the survey would review country studies (such as the country reviews undertaken by the World Bank's



Operations Evaluation Department) that examine all aspects of aid in a particular country, for additional insight in the four areas. Additional results from such studies would be incorporated into the above four reviews.

9. This first stage will end in a short report from the working group on the results of the literature review and recommendations on next steps, backed by the reports of the consultants in the four areas. This will be prepared by October 31st. Stanley Fischer has agreed to advise on the work as it proceeds.

10. A set of questions in each of the four areas follows. It should be emphasized that the task of the consultants is not to answer these questions (though that would be welcome), but to document what the literature, including documents of aid agencies, has to say about them.

11. *Data on aid and aid-related flows. New data analysis will not be undertaken in this first phase. However, any major study would need a data base on aid disaggregated by country and by the various categories of aid and other official flows. The International Economics Department will review the existing data bases and assess the need for new work in this area in parallel to the literature review.*

### A. The Case for Aid: Is There One? Is it Changing?

This component of the work would be a survey of the thinking about and analytics of aid, donor objectives and views of various participants in the aid arena. It would include documentation of new and old critiques of aid.

#### Traditional rationales for aid

- (1) What is the developmental rationale for providing official and/or subsidized aid to developing countries, in terms of its effects on macroeconomic conditions, investment design (i.e. the choice and quality of projects) and institutional capability? Are there different considerations for NGO flows?
- (2) What are the critiques of aid from within an economic welfare paradigm? e.g. what is the rationale for the view that aid substitutes for domestic savings, distorts markets, builds up excessively large and inefficient public sectors, and is a soft alternative to taking hard choices?
- (3) What other motives do donors have? How are these likely to affect developmental outcomes?
  - (a) Furtherance of geopolitical interests.
  - (b) Furtherance of commercial and related objectives (links to export promotion, etc.).
  - (c) The humanitarian case for aid to relieve short-run distress.
- (4) How do "global management" concerns affect aid? (e.g., war-ravaged economies, migration, refugees, environment, narcotics trafficking, AIDS - in short, aid's contributions to problems that manifestly transcend national boundaries).

#### New aid issues, especially in the Post-Cold War Era

- (5) What is the experience in use of aid for the promotion of democracy, popular participation, and human rights; and on aid and military (and other non-developmental) expenditures? What is the rationale for political conditionality? Have past attempts led to success (e.g. U.S. efforts to promote these things in Latin America)?
- (6) How does donor concern with the environment influence the composition and direction of aid?

(7) How is the emphasis on the private sector changing thinking on the design of aid?

(8) New thinking about aid modalities:

(a) what role for NGOs in aid provision; or scope for creative partnership between public and private providers of aid?

(b) what are the respective roles of bilateral and multilateral institutions: need for redefinition? Is there a perceived need to sort out comparative advantage and improve coordination?

(c) how does aid relate to other external resource flows: does aid catalyze private flows (or only pay them off)?

(d) is less tying of aid becoming acceptable?

(9) How have public perceptions of aid changed (e.g. as revealed in opinion polls in donor, and, if available, developing countries) and how has this influenced donor attitudes?

## B. Country-wide effects of aid

This part of the survey would examine what is said on economy-wide effects, including bottom-line studies of effects on growth and macroeconomic aggregates, influences on the functioning of various markets, and on intermediate policy variables.

### Effects on growth

- (1) What has been the contribution of aid flows to long-term growth in recipient countries? Is there evidence that countries receiving large volumes of aid have achieved faster per capita growth than other countries, other things being equal? Alternatively, do individual country experiences (i.e., time series information) provide such evidence?
- (2) Do macroeconomic outcomes vary by the source and type of aid finance (e.g. tied and untied, conditional and unconditional), time period and country group (e.g. low and middle income; region). Does bilateral tied aid (e.g., in-kind or military aid) help or harm growth?
- (3) Does aid support consumption and investment, i.e. how far does it substitute for domestic savings? Is there a difference between adjustment-type and investment lending on these effects?

### Economic policies and market functioning

- (4) Do greater initial distortions (high inflation, extensive trade distortions, real overvaluation, relative price misalignment) render aid, especially aid not conditioned on policy change, less effective? If this is so, what should be the scope for unconditional (especially debt-creating) aid?
- (5) Does aid have perverse effects on economy-wide policies and markets:
  - (a) at a macroeconomic level, through "Dutch Disease", supporting overvaluation and excessive budget deficits?
  - (b) through supporting a large public sector?
  - (c) through distorting the functioning of various markets: for foreign exchange (e.g. through tied aid); the financial market (e.g. through large channelling of donor funds); the food market (with large volumes of food aid); and the skilled labor market (through creaming off skilled personnel and pushing up salaries)?
- (5) Does aid, and especially policy-conditioned aid, improve policies (in the direction sought by donors) in macro-indicators, efficiency-enhancing market reforms, sectoral policies?
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adjustment supported developmental objectives? Is there a difference between the late 1980s and earlier?

### Poverty

(7) Poverty changes will be a function of the level and pattern of growth, policies and market functioning. This will be brought together as a separate topic. Did the impact of aid on long-run macroeconomic performance lead to poverty reduction? More specifically, what has been the effect on the income distribution and the poor of policy reforms supported by aid (e.g., real depreciations, increases in agricultural prices), and were the poor adequately protected during episodes of reform? Do aid-intensive countries show a better record in the area of social expenditures and social safety nets (as in 2-(iv) above)?

### Environment

(8) Much of the review of environmental effects will be at the project level (Section C), but some sets of economy-wide policies (such as increased incentives for agriculture and forestry exports) can have large effects on the environment. Do aid-supported reforms lead to environmental degradation, through excessive land exploitation, deforestation etc? What impact do they have on the efficiency of energy and water use?

### C. The Development Effectiveness of Aid-Financed Projects

The objective of this section of the literature review is to look at aid effectiveness at the project level. The major questions to be addressed are:

#### **Methodology**

- (1) What methodologies are available to evaluate project performance (eg. ex-post rate of return analysis, survey-based impact evaluations, contingent valuation methods, beneficiary assessments)?
- (2) How useful are they for evaluating non-physical objectives, such as institutional development and policy reform?
- (3) How useful are they for evaluating non-economic effects, such as social and environmental impacts?
- (4) How are these methodologies applied by donors, recipient countries and academics?

#### **Outcomes**

- (5) What is the evidence on project performance (physical, financial, economic, social, environmental)?
- (6) Are there significant differences in project performance by source and type of financing, time period, sector and recipient country?
- (7) What are the major determinants of project performance?
  - (a) Exogenous factors: global (e.g., commodity prices) and country (e.g., drought).
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June 22nd, 1993



# THE WORLD BANK/IFC/M.I.G.A.

Headquarters: Washington, D.C. 20433 U.S.A.

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DATE: August 3, 1993

NO. OF PAGES: 13  
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MESSAGE NUMBER: \

TO  
Name: Professor Michael Bruno  
Organization: Hebrew University

Fax Tel. No. 011-9722-816-071  
City: Jerusalem  
Country: Israel

FROM  
Name: Michael Walton  
Dept./Div. DECVP  
Room No. S9-029

Fax Tel. No. 202-477-0549  
Dept/Div No. 622/05  
Tel. No. 202-473-8418

SUBJECT: Literature Review on Aid Effectiveness

MESSAGE:

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		<table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> May 24, 2017</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 24, 2017
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- (3) What other motives do donors have? How are these likely to affect developmental outcomes?
  - (a) Furtherance of geopolitical interests.
  - (b) Furtherance of commercial and related objectives (links to export promotion, etc.).
  - (c) The humanitarian case for aid to relieve short-run distress.
- (4) How do "global management" concerns affect aid? (e.g., war-ravaged economies, migration, refugees, environment, narcotics trafficking, AIDS - in short, aid's contributions to problems that manifestly transcend national boundaries).

#### New aid issues, especially in the Post-Cold War Era

- (5) What is the experience in use of aid for the promotion of democracy, popular participation, and human rights; and on aid and military (and other non-developmental) expenditures? What is the rationale for political conditionality? Have past attempts led to success (e.g. U.S. efforts to promote these things in Latin America)?
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(9) How have public perceptions of aid changed (e.g. as revealed in opinion polls in donor, and, if available, developing countries) and how has this influenced donor attitudes?

## **B. Country-wide effects of aid**

This part of the survey would examine what is said on economy-wide effects, including bottom-line studies of effects on growth and macroeconomic aggregates, influences on the functioning of various markets, and on intermediate policy variables.

### **Effects on growth**

- (1) What has been the contribution of aid flows to long-term growth in recipient countries? Is there evidence that countries receiving large volumes of aid have achieved faster per capita growth than other countries, other things being equal? Alternatively, do individual country experiences (i.e., time series information) provide such evidence?
- (2) Do macroeconomic outcomes vary by the source and type of aid finance (e.g. tied and untied, conditional and unconditional), time period and country group (e.g. low and middle income; region). Does bilateral tied aid (e.g., in-kind or military aid) help or harm growth ?
- (3) Does aid support consumption and investment, i.e. how far does it substitute for domestic savings? Is there a difference between adjustment-type and investment lending on these effects?

### **Economic policies and market functioning**

- (4) Do greater initial distortions (high inflation, extensive trade distortions, real overvaluation, relative price misalignment) render aid, especially aid not conditioned on policy change, less effective? If this is so, what should be the scope for unconditional (especially debt-creating) aid?
- (5) Does aid have perverse effects on economy-wide policies and markets:
  - (a) at a macroeconomic level, through "Dutch Disease", supporting overvaluation and excessive budget deficits?
  - (b) through supporting a large public sector?
  - (c) through distorting the functioning of various markets: for foreign exchange (e.g. through tied aid); the financial market (e.g. through large channelling of donor funds); the food market (with large volumes of food aid); and the skilled labor market (through creaming off skilled personnel and pushing up salaries)?
- (5) Does aid, and especially policy-conditioned aid, improve policies (in the direction sought by donors) in macro-indicators, efficiency-enhancing market reforms, sectoral policies?
- (6) When aid has supported fiscal adjustment, to what extent has the quality of such



adjustment supported developmental objectives? Is there a difference between the late 1980s and earlier?

### **Poverty**

(7) Poverty changes will be a function of the level and pattern of growth, policies and market functioning. This will be brought together as a separate topic. Did the impact of aid on long-run macroeconomic performance lead to poverty reduction? More specifically, what has been the effect on the income distribution and the poor of policy reforms supported by aid (e.g., real depreciations, increases in agricultural prices), and were the poor adequately protected during episodes of reform? Do aid-intensive countries show a better record in the area of social expenditures and social safety nets (as in 2-(iv) above)?

### **Environment**

(8) Much of the review of environmental effects will be at the project level (Section C), but some sets of economy-wide policies (such as increased incentives for agriculture and forestry exports) can have large effects on the environment. Do aid-supported reforms lead to environmental degradation, through excessive land exploitation, deforestation etc? What impact do they have on the efficiency of energy and water use?

### C. The Development Effectiveness of Aid-Financed Projects

The objective of this section of the literature review is to look at aid effectiveness at the project level. The major questions to be addressed are:

#### **Methodology**

- (1) What methodologies are available to evaluate project performance (eg. ex-post rate of return analysis, survey-based impact evaluations, contingent valuation methods, beneficiary assessments)?
- (2) How useful are they for evaluating non-physical objectives, such as institutional development and policy reform?
- (3) How useful are they for evaluating non-economic effects, such as social and environmental impacts?
- (4) How are these methodologies applied by donors, recipient countries and academics?

#### **Outcomes**

- (5) What is the evidence on project performance (physical, financial, economic, social, environmental)?
- (6) Are there significant differences in project performance by source and type of financing, time period, sector and recipient country?
- (7) What are the major determinants of project performance?
  - (a) Exogenous factors: global (e.g., commodity prices) and country (e.g., drought).
  - (b) Government factors: policies (e.g., exchange rate) and budgets (e.g., counterpart funds).
  - (c) Donor factors: objectives (developmental and other) and processes (e.g., identification, preparation, appraisal, supervision, evaluation).
  - (d) Project factors: institutional capacity for project selection, design, implementation and operation.
- (8) Based on the above, what can we say about aid effectiveness?
  - (a) Do aid projects provide enough benefits to justify the costs?

(b) How do aid-financed projects compare to other projects (e.g., by NGOs and governments)? How does the quality of the portfolio of official bilateral and multilateral agencies compare with NGO agencies and comparable private sector financial institutions with large project portfolios?

(c) What is the value added of aid (e.g., financing, project design and selection, policy and institutional advice)?

### D. The Consequences of Aid for Government Behavior and Country Institutions

This section of the review would survey the impact of aid on government behavior and the performance of both public and private sector institutions. This would range from broad questions of whether aid serves to keep bad governments in power, to the evidence on whether technical cooperation enhances or inhibits the development of local capabilities.

- (1) What has been the relationship between aid and domestic political developments: has aid been used to support developmentally oriented government behavior or to prop up corrupt elites? Has it led to reduced sovereignty, especially in the context of adjustment? Does it increase or reduce the impetus for governments to undertake reforms?
- (2) What has aid done for (or to) the behavior and quality of individuals in the public sector: does it encourage a new form of rent-seeking behavior? does it cause the diversion of time of officials to meeting the needs and demands of donors? has it led to distortions in skilled labor markets, exacerbating the brain drain from the public sector?
- (3) How effective has aid been in the creation and sustaining of institutions in the public sector (core government and sector agencies)?
- (4) What has been the impact of aid on government financial management? This includes the capacity at both central and local government level, to make and implement budgets, procure goods and services, render accounts, and undertake audits. Has aid improved accountability?
- (5) How has aid affected the capacity of governments to set economic development goals, formulate policies, set realistic expenditure targets, prepare public investment programs, evaluate spending proposals, and make trade-offs and choices?
- (6) What has been the impact of aid on public administration? What role has aid played in the creation, expansion, current problems, and reform of civil services, and how effective have these interventions been?
- (7) What has been the role of aid in the public enterprise sector in the past two decades? Has it developed viable, accountable institutions or continued to support dogs? Is aid effective in supporting privatization?
- (8) Has aid helped develop private sector institutions, including the legal and regulatory framework for competitive private sectors? Have attempts to replicate developed country legal environments in developing countries worked or failed?

June 22nd, 1993

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THE WORLD BANK  
INTERNATIONAL FINANCE CORPORATION  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

- ① strategic point of departure - when is a  
hedging in the next 10 years
- ① If we don't lead ~~the~~ it,  
others will
- ② Main message to be explained -  
And is effective way that give to  
those that help themselves <sup>with</sup> the  
"right" dose of money + ideas (and give  
that will do)

Concerns on

Start from same well defined topics to

be analyzed -

Mode - IEE managed working gp with outside  
consultants

- identify topics + paper writers
- tax conference with outsiders
- identify additional topics, etc.

Workshop

2/26/94

M.W.: Wojtyla

① Objective study of Bennett's gain  
aid + funding - distinct stream  
within that - high aid cost

② Implications of aid on aid below and 1/26/94  
less clear what can be done.

<sup>2nd</sup> Plan a strategy - PR job.

why go with bank, also dealing with state's issue -  
theory critiques - new aid g's, human rights....

Re DEC's role - go to steering committee -

DEC will do ① main work

Bank will handle other stuff - DEC will collect

criticisms

Mark. Social aspect



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DIVISION


♪...a note...♪  
*from the desk of Lyn Squire*

January 25, 1994

Mr. Michael Bruno  
DECVP

Michael:

The attached has my suggestions on aid effectiveness work.

  
*Lyn Squire*

Enc.

cc: Ahmed, Baird, Walton

## ***EFFECTIVENESS OF AID***

What questions should and can be researched? This note identifies two sets of questions -- one set has to do with the **determinants** of aid and the other with its **consequences**.

**DETERMINANTS OF AID.** Under this heading, one can imagine a minimum package that would essentially entail the marshalling of information on trends in aid flows. This could be by donor and recipient country, degree of concessionality, extent of tying, multilateral versus bilateral, project versus BOP support, sectoral composition, etc. This is relatively easy to do (DAC probably has most of the information).

A more ambitious exercise would try to identify the determinants of aid flows. This could have several components: What determines the flows from major donors? What determines the allocations for specific recipients? What determines the sectoral composition of aid, etc. Determining factors might include: donor budget deficits, colonial histories, political factors (Egypt/Israel), shocks (oil price increase, end of the Cold War), aid "fads" (governance?), measures of need (GDP per capita), measures of effectiveness (quality of policy stance), etc. The approach could be both econometric (i.e., as a convenient means of marshalling what will be a lot of material) and country case studies (both donors and recipients).

The objective of this effort would be to motivate subsequent analysis. In particular, the objective would be to test the propositions that:

- i) the volume and quality (concessionality) of aid is deteriorating relative to some measure of need (e.g., population of low-income countries); and
- ii) there is substantial room for improvement in the delivery of aid because past allocations have often been politically motivated or at least not driven by obvious measures of recipient country need or potential benefit from aid; so that therefore
- iii) there is both the need and the scope to use aid more effectively.

**CONSEQUENCES OF AID.** This, the more important and more difficult part of the exercise, would attempt to learn from past experience what has been successful and why, in order to draw lessons for a better use of foreign assistance in the future. The basic hypothesis to be examined is that:

- Aid works well when domestic resources are used well.

Posing the issue this way makes it clear that we should not expect any simple relationship between aid and growth. Work could be organized around three questions:

1. *Does aid lead to increased domestic investment?* This would seem to be a minimal test but says nothing about growth -- increases in investment can have positive or negative effects.
2. *Is aid-financed investment productive?* This is a tougher test but still does not say much about growth if aid-financed investment is simply displacing equally productive domestically financed investment.
3. *Does the presence of aid improve the productivity of domestic investment in general?* This is the toughest test but again only points to the possibility of improvements in growth and not necessarily to rapid growth.

If these are the right questions, the next issue to address is whether they are amenable to empirical analysis.

Question 1 can be approached by means of cross-country, time series, regression analysis. There are many econometric difficulties here but as White points out this particular relationship has not been extensively explored in the empirical literature. This would amount to looking at some kind of reduced-form relationship. To understand the particular transmission mechanisms at play, it would also be desirable to undertake individual country case studies. Besides answering the question regarding aid's impact on investment, an important objective would be to identify those factors (e.g. the overall policy stance) that tend to encourage a larger impact on investment.

Question 2 could best be addressed at the project level. Analysis of the rate-of-return to aid-financed projects would be an appropriate starting point. Again, besides examining the return to aid financed projects, it would also be useful to identify those factors that are associated with high returns. This could be approached econometrically at the project level. Ideally, one would want to include domestically-financed projects. This would speak to the issue of the non-financial contribution (technical assistance) of aid but it would also open up serious questions of selectivity bias and of diversion of scarce administrative resources from domestic projects to donor projects. It is also unclear whether data exist on the returns to domestic projects. This would have to be examined. Even if such data are not available, it would still be useful to identify the determinants of successful aid-financed projects. These could include project-specific variables, country-specific variables, and external effects. The broad results of the econometric work could also be traced in country studies or even within-sector, cross-country studies.

Question 3 could be approached by identifying measures of the policy stance (as in the Africa Adjustment Study) and exploring the extent to which flows of aid are associated with improvements in that stance. There are arguments on both sides. Additional assistance may be forthcoming in support of policy reform and may even precipitate it through conditionality. Or, more foreign exchange may delay reform efforts. Country studies would also be useful to examine how the results of the econometric analysis actually play out in particular instances. One would also want to identify those factors which seem to be associated with successful (or least damaging) outcomes as far as the policy stance is concerned. This is difficult but one could explore a few variables such as existence of a crisis or strength of the government. Selected case studies might be a more useful avenue for shedding light on this issue.

How should the answers to these questions be used? By focussing the analysis not just on the relationship between aid and a particular outcome variable but also on the factors that lead to a more or less successful outcome, we should be in a position to offer suggestions on how to improve aid's impact. To take one example, if indeed we found that the current policy stance was an important determinant of both aid's impact on investment and the productivity of that investment, then aid should be allocated to countries according to their current policy stance (e.g., sustainable budget deficit, appropriate trade regime, etc.). This could lead to the identification of more objective criteria for the allocation of aid.

January 25, 1994

Note to Mr. Bruno

Michael,

Attached please find my note on Aid Effectiveness.

Masood 

CC: Messrs. Lyn Squire, Mark Baird, Mike Walton and Ron Johannes

## Aid Effectiveness: Where Do We Go Next

The current initiative to study aid effectiveness was started last summer because of a growing belief that there was a need to shape a new international consensus for aid in the post cold war era, and that the Bank as the leading international aid agency should play a key role in this regard. That premise is still valid. If anything, I would argue that the erosion of the traditional aid consensus is even deeper than we had imagined and that the risks of inaction to stem this erosion are a fragmentation of the development agenda as single issue lobbies capture an increasing fraction of a shrinking business and the progressive marginalization of the World Bank. If this sounds alarmist, bear in mind that a significant trend in aid flows has been a shift from multilateral to bilateral and NGO channels. A "more objective" reason to focus on aid effectiveness now is because aid resources will be even more scarce in the future: we know that claimants on aid are growing much faster than are aid budgets, heightening the issue of how donors can best assemble a package of assistance to promote development cooperation. Given these focuses, we should revisit the Bank's traditional reluctance to engage in a public dialogue about the successes and failures of development cooperation and to take a more active stance in campaigning for the removal of obvious and existing anomalies in the aid business at the risk of giving a little offense to some of our sister agencies.

On the specifics of the work in hand, where we are today is that we have completed a set of literature surveys of aid effectiveness and generally been disappointed by the paucity of hard analysis or clear conclusions. The literature reviews have shown that aid effectiveness varies greatly across countries and across types of interventions, and that our own understanding of the relationship between aid and development is also more or less deep across the various areas. The one generalization we feel more confident about is that aid works best in a framework where domestic resources are also used effectively. This is a powerful theme, but the literature also shows that aid is only one of the factors that determine the effectiveness of governments, and that aid is sometimes part of the problem rather than the cure. These findings, along with the issue of generating unreasonable expectations for a large Bank study, lead the working group to recommend against a comprehensive overarching study as the next step. I have no difficulty with accepting this conclusion. So the question becomes what is the sensible alternative way to proceed.

I would subdivide this question into two areas. First, are there a set of issues or questions that we need to analyze or research to be able to generate better answers than we can provide today? Paragraphs 6 and 9-11 of the Walton et al note and Lyn and Mark's notes, set out some of these questions. We can refine the agenda future, but there is clearly a set of questions to which we need to have better answers and for which additional research (country specific or cross country) holds the potential for

generating those answers. Additionally, there are topics that have been largely ignored by research: for example, aid coordination, technical assistance, and NGOs. Finally, as Stan's note points out, a useful starting point would be to systematically assemble the various criticisms of aid and see if we have the basis to refute or accept them.

The second question is how this work can best be carried out. Here I would like to see a higher profile effort whereby the Bank would set up a working group on "Analyzing Aid Effectiveness" which would define an 18 to 24-month work program to be carried out using both in-house and outside experts. The results of this work would be made available to the development community in a much more open way, even in their preliminary stages, and some of the critics of the Bank would be invited to participate in the reviews of the work as it went along. We would also invite the other aid agencies to participate as they saw fit and to suggest issues/papers that they would like explored or on which they would like to make a contribution. The working group could be linked to the 50th anniversary exercises, and if we market it right, the very setting up of such a group would help to address some of the criticism of the institution.

What are the conditions which would make such an effort more than a simple public relations exercise? First, there would be a clear and public understanding that the terms of reference of the group were to carry out the best objective analysis of issues in aid effectiveness, recognizing that the evidence was not always clear-cut. Second, the group would involve some eminent outside people either as part of the team or as members of a steering committee. Third, all the papers commissioned or produced by the team would be circulated for comments to outside reviewers and other interested institutions. Fourth, within the Bank, there would be a commitment to allocate adequate resources (and the right staff members) to carry out this work. Fifth, the work would need to draw upon the work of OED (on the evaluation of the Bank's own experience) and on FRM (on the linkage to IDA and resource mobilization more generally) but should be carried out in DEC as the most neutral of units in the Bank on a subject where the Bank will inevitably be seen by some as being self serving. And finally, the credibility of this work would depend greatly on the willingness of the Bank itself to modify some of our own intuitively held views (and policies) if the analysis showed that these were no longer supported by the evidence.

There are at least two types of objections that will be raised to such a proposal. First, some will say that there really isn't an awful lot of new light that this type of research and analysis can be expected to throw on the complicated subject of aid effectiveness. We know broadly speaking what works and what doesn't and for the rest we have to use good sense on a case by case basis. I believe that this approach no

longer convinces all our outside critics, and as the literature survey has shown, there are still quite a few important questions to which we don't have clear and well substantiated answers. A second objection is that it would be very complicated and expensive to mount such a program of work, especially with the participation of other agencies and outside experts/critics. Far simpler to do a good study and let the analysis in the finished product speak for itself. One answer to this is that involving outsiders -- including critics -- in the production is essential to the credibility of the exercise; another is that this may actually add to the relevance/quality of the output. As to the cost, it would be hard to explain why the World Bank is unable to allocate the resources to analyze a set of issues that are so central to its mission and its business.

I appreciate that this approach may not get support from all the members of the Steering Group and will need to be blessed by the President's Office. But if we in DEC reach the conclusion that this is the sensible way to proceed, then I would recommend that we take it to the next meeting of the Steering Committee.



821  
January 24, 1994

Michael Bruno

Aid Effectiveness

Michael:

I was disappointed in the literature review. I accept that this may be more a comment on the literature than on the review. The cross-country analysis on the economic effects of aid is largely inconclusive and many topical issues (eg NGOs, human rights) have not as yet been analyzed in any detail. But I also suspect that there is a lot more out there, especially within aid agencies (eg USAID) and developing countries (eg India). I know, for example, of a lot more evaluation work on the measurement and determinants of project performance. At times I felt that the authors were pushing their own views on topics with which they were familiar, rather than presenting an objective overview of the literature.

That said, I am still keen to see more done in this area. However, I would be reluctant to get into an open-ended commitment to produce an omnibus report on aid effectiveness. As you will quickly find out, there are widely divergent views on what aid effectiveness means and what such a study should do (even within the Steering Committee). If we involve other donors -- or DAC -- it will quickly degenerate into a political exercise. That's why I would prefer to focus on a few well-specified issues: where there is broad agreement that they are important and we are comfortable that useful analysis can in fact be done. Given the links to the 50th Anniversary and the IDA Replenishment, there may well be advantages in limiting the review to the World Bank.

At the advocacy end of the spectrum, we could do a lot to counter common misperceptions about what aid does or at least better inform the debate. Here we could make much better use of our own research findings: not simply summarizing the results of a research project, but pulling together results from a number of sources to answer a specific question (eg does adjustment hurt the poor?). Some new work, to fill gaps in what we know, might also be justified. However, the primary focus of a DEC-managed exercise should be objective analysis, including what hasn't worked well in the past and how we could do things better. This is important, first and foremost, to improve our effectiveness as an institution. Indirectly, it may also help our advocacy efforts, by showing our critics that we can be self-critical and responsive.

Some of the most persuasive evidence on aid effectiveness is at the project level. OED's expanded program of impact evaluations and PRDPH's proposed research on human resource projects (using the "quasi-experimental" approach) will be very helpful in this regard. But these efforts will cover only a very small proportion of World Bank projects and cannot capture the non-lending contribution of development assistance. Any review of aid effectiveness -- and the

related research agenda -- will have to focus on broader issues. My suggestions are as follows:

- (1) The economic/social analysis of projects. How good are we, ex ante, at analyzing the expected impact of aid-financed projects? The Wapenhans Report suggests that project objectives are poorly defined, the quality of economic analysis has declined, and there is very little analysis of non-economic objectives. But, without this, how can we defend the selection and design of our projects? What can we offer developing countries to help them determine public expenditure priorities?
- (2) The determinants of project performance. To what extent is project performance influenced by project-level, country and global factors?. OED has done some work in this area, which suggests that country-level factors (eg human resources, economic policies, political stability) are indeed important. But the analysis is not very robust. Dudley Wallace (Duke) is preparing a research proposal on this topic (sponsored by OED).
- (3) The contribution of non-lending instruments: research, ESW, policy dialogue and aid coordination. How can we measure the effort and impact of these instruments? Is their effectiveness dependent upon continued lending? We have been asked to participate in a review of ESW as part of the follow-up to the Wapenhans Report, and to prepare a note on "policy advice and policy formulation" for the 50th Anniversary.
- (4) The role of culture, political economy and institutions in translating good intentions into action and positive outcomes. There is little doubt that this is a key issue (a simple reading of the East Asia and Africa studies brings it out clearly). But is it analytically tractable? Williamson argues it is (at least for institutions). Operationally, can we change any of these factors or, at least, identify conditions which will improve the chances of project success?

For issue (1), I see a real need for someone (probably DEC) to take the lead in rebuilding and extending the Bank's capital stock on the economic/social analysis of projects. The new draft OP 10.04 on "Economic Evaluation of Investment Operations" provides little reassurance that project analysis is taken seriously in the Bank. Less than half of all Bank projects are now subjected to some form of economic test. At least two Chief Economists are concerned that the quality of project analysis is getting very little attention in Regional reviews and there is no Central review for investment projects. Within DEC, EDI held a roundtable on project analysis last year and is now giving courses in project analysis for FSU countries. Project analysis is also being looked at in the context of public expenditure reviews (PRDPE) and environmental issues (PRDEI). I would like to see this developed into a coherent and concerted research effort. What do the gurus (Lyn, Anando) think?

I see country case studies, within a consistent analytical framework, as the most effective approach to issues (2), (3) and (4). OED has just launched a new series of country assistance reviews (CARs) which are designed to evaluate "the appropriateness of the Bank's country assistance strategy and the effectiveness of the instruments selected for delivering Bank assistance". These are like project evaluations at the country level. However, unlike project evaluations, they will be able to get at: (1) country-wide factors which affect project performance; (2) the coherence of the overall lending program; and (3) the role of non-lending instruments. The first CAR is now underway on Ghana and the program will build up to five per annum by FY96. There may also be value in supporting the type of cross-country analysis being proposed by Dudley Wallace. More work is needed on finding reliable data sources and defining operational hypotheses. However, together with the country-level work, this may lead to some interesting conclusions.

In my view, these two directions -- better economic/social analysis for project selection and design, and better understanding of the country conditions for project success -- offer the most productive avenues for improving aid effectiveness.



Mark Baird

cc: Messrs. Squire, Ahmed, Walton.

## Aid effectiveness: what should the World Bank do?

1. The value of aid has always been questioned. The questioning appears to have intensified in the 1990s. At the same time new demands are being placed on aid to deal with issues ranging from governance to human rights. The World Bank is very much part of the aid business and frequently faces questions on the effectiveness of its own aid, and on aid in general, notably in the context of IDA replenishments and SPA discussions. Yet despite the vast amount of country and cross-country information and analysis, the Bank is hard put to it to have convincing answers to such seemingly simple questions as: Does aid work? Does aid reduce poverty? How can aid be made more effective?

2. It was decided, earlier in 1993, to explore whether there is a need for further work on the question of aid effectiveness. A working group was formed (chaired by DEC) with a mandate to undertake a review of the existing literature on aid effectiveness and form recommendations on where to go next. The group developed an issues paper (attached) and commissioned a set of reviews:

- a core review (by the Overseas Development Institute), that covers the literature in four areas: the changing rationale for aid; the economy-wide effects of aid; the performance of aid-supported projects; and institutional development and aid;
- a review of the technical literature on the consequences of aid (by Howard White), with a particular focus on attempts to disentangle effects using econometric techniques;
- a review of the literature in French (by Philippe Messeant and Patrick Guillamont)
- a review of the literature in Japanese (by Hideo Hashimoto)

3. Drafts of all but the Japanese study (that could only be started later and is due in the near future) have been submitted and reviewed by the working committee. The main messages that come from the survey are as follows:

- There is very little in the analytical or empirical literature on the new aid issues, e.g. on aid in the post cold war era; aid and human rights; aid and democratization.
- The literature fails to answer the question, Does aid work? in a way that is useful from either an operational or a public relations angle. In particular, despite a considerable body of work on economy-wide effects, there are few robust conclusions. Indeed the bulk of studies are conceptually flawed, especially in failing to effectively handle counterfactuals.
- The literature on project effects (that corresponds roughly with the evaluation literature) is more satisfying in finding a quite high degree of project success--around two-thirds on average (about 70 percent for Bank projects). There is no clear evidence of a trend in project success--for the Bank it has been constant by year of project approval. Information on the portfolios of other agencies, e.g. private or NGO, is sparse, but suggests that the performance of portfolios of aid agencies is at least as good. However, the literature is generally unhelpful in explaining the sources of success and failure of projects and links with economy-wide factors.
- There is very little that can be said about the effects of aid on institutional development, and the evidence is especially weak on the attempts to improve institutional functioning at a broad level, (as opposed to narrow technical assistance) that have become much more common in the past 15 years.

4. We have given this stark assessment as background to recommendations on where to go next. There is also a wealth of interesting material surveyed in the consultant reviews, as well as valuable

sets of recommendations as to how to make aid more effective, especially in the ODI study. These should probably be made publicly available to the aid community.

### Recommendations

5. The working group concluded that a new overarching study of aid effectiveness would not make sense, but that there is a strong case for two kinds of follow up action: study work in selected areas; and action with existing material or positions in the international arena. These two areas are complementary, of course, since action of the World Bank will draw on existing and planned study work. A third area of action is on the effectiveness of the World Bank's own portfolio. This, of course, is ongoing in the range of follow up to the Wapenhans report. It is not discussed further here, though some of the areas proposed for work are of direct relevance.

6. It is recommended that there not be an overarching study on the grounds that this is unlikely to take the debate forward, while it would certainly raise expectations that the Bank (or whoever undertook it) would come out with a definitive result. It would be hard for such a study not to have as a core question, Does aid work? The literature survey confirms that this is not a useful question to try and answer: such a study would find out that aid sometimes works and sometimes doesn't. The reason is simple. In general, aid is used effectively when a country uses its own resources effectively. However, aid is only one amongst a large number of factors influencing the effectiveness of governments. While aid can sometimes cause governments to improve their functioning, it is highly unpredictable when and how this happens. As noted above, the least advanced part of the literature lies in the relationship between aid and institutional performance. Aid can in some cases become part of the problem.

7. Before outlining the work we do recommend, it is worth clarifying one problem in the public debate on aid. It is frequently asked, for example, whether aid helps poverty (or some other objective, such as growth, human rights, the environment, democracy). However, aid generally only works indirectly, with a few exceptions (such as direct relief or provision of services, and even these raise issues of fungibility). It is more useful to ask two linked questions. First, do certain policies, such as the set of policies associated with adjustment, help poverty? On this there is more and more information and analysis available, much of it showing important gains to the poor from sensible adjustment policy, some of it showing at least transitional losses for some of the poor. However, the Bank clearly has a public relations problem getting this information out. More study work is needed and more work on the Bank's communication strategy, but this is not really a question about the effectiveness of aid. Second, does aid change government behavior? This is in the tough area of conditionality and institutional development and is indeed about aid.

### **Study work**

8. It is recommended that there be follow up work of a study character in three areas (the first and third of which are in part different cuts on the same set of issues). It would be useful to have a general discussion in the steering committee and elsewhere (both in the Bank and outside) before launching these and drawing up detailed terms of reference.

### *1. Ownership, institutions and political economy.*

9. There are a set of areas to do with government performance and behavior. These are tough areas. The Bank has little absolute advantage in them, but it is not clear who has comparative advantage. Past attempts to work via a political economy approach (including Bank research on the political economy of development and adjustment) has been interesting but not very helpful for operational purposes. It may be useful to divide this into two areas:

- Understanding the circumstances under which governments change policies (with adjustment as one example) or sustain sound policies. This is sometimes framed in terms of when conditionality is effective, and sometimes in terms of ownership (both emphasized in the RALs and the OED study of adjustment). DECVP is currently looking at the ownership issue in the context of performance indicators for adjustment; this could be a good place to start reviewing this issue.

- Analysis of how aid influences the performance of public sector institutions--and how it could be better designed to avoid the all-too-familiar symptoms of aid dependency. This would probably require in-depth country studies. It is an area that would be high risk in terms of operational output, but is important; it should at a minimum aim to develop do's and don'ts for Bank and other donor action in the institutional domain.

### *2. Project performance and evaluation.*

10. Issues on project performance are somewhat better defined. They can also be usefully be subdivided into two areas:

- More systematic work is needed on the determinants of project performance, that seriously controls for the influence of project interventions. It is likely that some headway can be made through work with the existing large data bases on project outcomes kept by evaluation agencies; a research project is planned on the determinants of project performance. It is also valuable to supplement this with better information coming from projects through incorporating controls in the project design stage; this is being done under a couple of research projects working with Bank-financed projects in the human resource area.

- More work is needed on project appraisal techniques in defining both effective ways of dealing with economic questions, including the management of risk, and the limits of economic analysis with respect to other project objectives. This is becoming an increasingly important question for the Bank as non-economic factors are given higher priority (e.g. effects on the environment, displacement of people) and as a rising share of new projects are in areas that are not subject to traditional rate of return analysis.

### *3. Aid in high aid countries.*

11. A large number of countries have a level of aid that is large in relation to domestic resources. Most display the symptoms of aid dependency. They roughly correspond to the low income group (except India, China and a few others) with SubSaharan Africa of especial importance. It is probable that really pervasive (and adverse) effects of aid come in when aid is large relative to domestic factors, whether this be savings, the budget, the skilled labor market, the capital market, the activities of top personnel, or the functioning of public and private sector

institutions. There are two possible approaches. First, work could be organized around the characteristic of aid being large relative to an economy, but looking systematically across a number of dimensions in country studies. Second, the issues could be broken down into more tractable questions, e.g. the links between aid and domestic savings or the effects of aid on the skilled labor market. This area could be a useful (perhaps essential) input to a WDR on low income countries, if this is undertaken in future years.

### **Action in the international arena.**

12. In some areas new study work is not the priority, either because the problem does not lie in lack of information or because the issues are not conducive to analytical and empirical study. There is a case for action in three areas.

#### *1. Using existing results to debunk myths/raise the level of dialogue.*

13. There is often a mismatch between information and the perceptions of outside critics of aid. The recent Hunger conference gave examples of this. This is primarily an issue for the World Bank's communication strategy (and is also relevant to the leadup to the 50th anniversary). A potentially useful complement to action in this area could be gathering of material on perceptions on aid. A systematic examination of the relationship between perceptions of aid activists or critics and the facts would provide the basis for participating in a considered fashion in the debate, as well as in helping define the areas where we do not have answers and do need more study work. More information is also needed on attitudes to aid within developing countries.

#### *2. Campaigning hard where problems are clear.*

14. Many lessons of aid are well-known: e.g. the costs of tying aid; the disadvantages of projectization of the development budget; the problem of donors taking the cream of local staff and distorting local skilled labor markets; the hopelessness of lending into awful policy environments; the low correlation between country aid allocations and country incomes and poverty. The Bank could contribute to both the debate and its image by developing an agenda of such issues and being more forthright in campaigning on them.

#### *3. International review of aid modalities.*

15. Some of the instruments of aid, e.g. consultative groups, have been around for decades, while the world has changed both with respect to the level and pattern of capital flows and the role of aid. There may be case for the Bank participating in an international group to review modalities of transferring and coordinating aid. It would probably be appropriate to do this under DAC auspices. This would also be a forum for campaigning for specific reforms (in 2 above).

December 16, 1993

A L L - I N - 1   N O T E

DATE: 21-Dec-1993 01:02am

TO: Michael Walton ( MICHAEL WALTON )

FROM: Stanley Fischer, NBO ( STANLEY FISCHER )

EXT.: 33774

SUBJECT: Aid study

Herewith a few comments.

1. I thought the ODI study was good and useful; the White study less so. I did not receive the French study. The concluding section of each chapter of the ODI study was especially helpful. Your summary in your December 17 (?) note was also on the money.
2. You dismiss the notion of an overarching study, essentially because it would cause people to expect too much of the Bank, and to ask the wrong questions about aid. That may be right, but in paras 6 and 7 you make important points about the determinants of the success or failure of aid. Those points need to become accepted by the official community and the general public. It would be useful for the working group to consider how they are going to go about shaping a new aid consensus. I don't think you can leave that to the Bank's public relations department or wave it off as you do in para 7.
3. How should this be done? One way is a WDR, but that would be a long way down the road. Another is a conference at which you have papers presented on the more important aspects of aid that are reviewed in the ODI study. You would have the press there, and that would help in getting to the public. You would be able to gain credibility by inviting critics of aid. Another possibility is the mini-WDR format that Larry began developing. In any case, you have to think about how to get the message out.
4. I'm not sure that the literature reviews have dealt adequately with the critics of aid. You should have someone sit down for a day or two and go through all the criticisms, worthy or not, that appear not only in the economic literature, but even more on the political scene. e.g. It's pouring money down a rathole, and other vast generalizations that affect the public debate, however difficult they are to deal with. You need to be sure the studies provide answers to these criticisms.
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7. It is not quite clear what you are proposing for the three topics under the heading of "Action in the international arena". Topics 1 and 2 seems quite similar. In either case, the Bank would have to develop the arguments carefully, and not assume things are self-evident. The Bank has not only to develop an agenda, but also to offer concrete suggestions on how to deal with even the clear problems. Topic 3 is very important.

8. You may want somewhere also to discuss the way the Bank should interact with NGOs, and the role of NGOs in the aid process. One of my own peeves is the relatively small amount of attention technical assistance receives. Can you do anything about that area, which has its share of scandals?

9. I'll be at home from about 10.30 a.m. on Tuesday if you want to chat.

Good luck with the meeting, and best wishes.

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3  
To: Michael Bruno, Lyn Squire, Masood Ahmed (with attachments)  
Mark Baird, Luis Serven, Ron Johannes (without attachments) v. 1/21

Aid Effectiveness 1/21

I attach the following material on aid effectiveness for the meeting that Kate Oram is setting up for next week:

- the ODI study (that was the core study for the project)
- the note we prepared on follow up in the working group
- a comment on the reports and our note from Stan Fischer

I'm sending later the paper by Howard White and an english summary of the paper on the French literature. The review of the Japanese literature will only be available end-January.

The purpose of the meeting will be to reach a view in DEC on where the Bank should go. We'll subsequently revise the follow up note (with the working group) and there will be a meeting with the steering committee.

Mike Walton

January 14, 1994

94 JAN 14 PM 2:06

A L L - I N - 1 N O T E

DATE: 24-Jan-1994 09:25am EST

TO: See Distribution Below

FROM: Kate Oram, DECVF

( KATE ORAM )

EXT.: 31107

SUBJECT: Aid Meeting

There will be another meeting with Michael Bruno on aid effectiveness on Wednesday, January 26th, at 4.00 pm in S9 035. Unless I hear to the contrary I'll assume the time is convenient. Thanks. Kate. (Mike, if I've omitted anyone could you please let them know. Thanks. K.)

DISTRIBUTION:

TO: Masood Ahmed

( MASOOD AHMED )

TO: Luis Serven

( LUIS SERVEN )

TO: Paulo Vieira Da Cunha

( PAULO VIEIRA DA CUNHA )

TO: Michael Walton

( MICHAEL WALTON )

*Sajwa*

*Paulo*

A L L - I N - 1 N O T E

DATE: 23-Jan-1994 02:17pm

TO: Kate Oram

( KATE ORAM )

FROM: Michael Walton, PRDPH

( MICHAEL WALTON )

EXT.: 38418

SUBJECT: Aid meeting

Kate: I'm afraid we need another meeting with the same group plus Paulo and Luis Serven. Michael asked for this early this week--Masood and Lyn are providing one-page notes on their views (they are advocates for a high profile follow up study) for this meeting. Thanks. Mike



## Overseas Development Institute

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### F A C S I M I L E

: Michael Walton  
 Room S-9041  
 Office of the Vice President  
 Development Economics  
 The World Bank

From : John Howell  
 Director

No: 010 1 202 477 0549

Date : 14 January 1994

Number of pages including cover: 2

*Dear Mike*

**Aid Effectiveness and the World Bank: 17 December Draft**

I thank you for a sight of your internal memo which I circulated (unhelpfully as it turned out) with a request for comments in the few days before Christmas. Nonetheless let me offer some late comments of my own.

I agree that a new overarching study is not likely to be helpful, for the reason you give in paragraph 6; there is not an useful research question. You identify some useful, specific, questions (paragraphs 9-11) but before coming to these you might want to describe the wider aid-effectiveness question that remain worth asking. I suggest three:

- (a) aid-effectiveness, in particular countries: what has been the role, if any, of external assistance as a whole in determining economic performance. This has been the stock-in-trade of aid-effectiveness studies since the 1960s and this remains a useful and realistic question for donors and governments in framing new aid priorities even where aid objectives and conditions have been broadened.
- (b) aid-effectiveness in particular agencies: there is still a need for agencies whether, say, the EDF or a small NGO to assess their strengths and weaknesses and come to a view on what sorts of initiatives they are best at, or worst, at. Because so few thorough agency-wide studies have been done, the issue of individual donor comparative advantage remains poorly-informed at best, and jingoistic and territorial at worst.
- (c) the relative effectiveness of different aid instruments particularly in categories of countries (so not quite as (a)). This is a particularly important question for

agencies to consider together because there has been some wobbling, over time, between project, different forms of TC, programme, sector-specific mixes, 'process' projects, balance-of-payments, institution-building mixes etc and it does not always seem that the lessons of one shift in priorities has been learnt before a further shift is made. In fact, I am not at all sure this approach to the study of aid-effectiveness has ever been adopted explicitly, but perhaps it is really only an extension of (b) in practice.

2. Otherwise, I think it is right to concentrate upon specific areas of concern (which do emerge from regular aid consultations) and which appear largely because there is uncertainty over whether or not particular approaches are "working" (eg stabilisation/adjustment lending in Africa) or because there is uncertainty over whether prior assumptions in a particular approach have been correctly understood or formulated (eg institution-building, environmental or other policy conditions etc).
3. Your own suggested areas of concern (and thus areas for research) seem spot-on. On 'ownership and/Institutions', there is a case for including in the study an examination of the process of donor involvement in reform and its impact on policy and institutional change: particularly for example, consultation, openness, and timescale aspects.

You might also want to see a new research proposal prepared by Tony Killick here on the nature and practice of conditionality. This should go some way beyond the rather quick survey prepared by Tony and Adrian Hewitt for the Development Committee last year.

On aid in 'high aid' countries I suspect your second approach is likely to be more useful and I could add the 'issue' of the role of aid in assisting (or hindering) the development of efficient budgetary systems in governments with low and unstable revenue systems and weak arrangements for expenditure control.

4. On international actions, all I wish to add is to remind you that the ODC-led African aid-effectiveness study will include (if ODI has anything to do with it) a number of surveys of public opinion towards external aid and other measures (content analysis of newspapers, parliamentary debates etc) of recipient attitudes.

Finally, on aid co-ordination mechanisms I have always wondered what the Tidewater Conferences are for, and what difference they make. William Clark, I understand, was a moving spirit so perhaps I should not delve too deeply.

Yours sincerely



Dr John Howell

Director

PdcS

A L L - I N - 1 N O T E

DATE: 14-Jan-1994 02:43pm

TO: See Distribution Below

FROM: Kate Oram, DECVF

( KATE ORAM )

EXT.: 31107

SUBJECT: Aid Effectiveness meeting

Mr. Bruno would like to meet on Aid Effectiveness on Friday 1/21 at 11.15 in S9 021. You should already have received from Mike Walton the relevant material. If anyone has a problem with the time please let me know otherwise I'll assume its OK. Thanks. Kate.

DISTRIBUTION:

TO: Masood Ahmed  
TO: Mark Baird  
TO: Ronald Johannes  
TO: Luis Serven  
TO: Michael Walton  
CC: Michael Bruno

( MASOOD AHMED )  
( MARK BAIRD )  
( RONALD JOHANNES )  
( LUIS SERVEN )  
( MICHAEL WALTON )  
( MICHAEL BRUNO )

A L L - I N - 1 N O T E

DATE: 13-Jan-1994 02:47pm

TO: Michael Walton

( MICHAEL WALTON )

FROM: Kate Oram, DECVF

( KATE ORAM )

EXT.: 31107

SUBJECT: Aid Effectiveness

Mike, suggest Wed. 19 January at 2.30. However, you do not say when the material will be ready. If we do it next week, Michael B will need to get the material cob tomorrow Friday. Is this a problem? Thanks. Kate.

11.15 Fri. 59 021 O.K.



A L L - I N - 1 N O T E

DATE: 13-Jan-1994 02:24pm

TO: Kate Oram

( KATE ORAM )

FROM: Michael Walton, PRDPH

( MICHAEL WALTON )

EXT.: 38418

SUBJECT: Two things

Kate,

1. Could you set up a meeting involving Michael, Lyn, Masood, Mark, Luis Serven, Ron Johannes and myself to discuss aid effectiveness? I will circulate the material, including sending teh papers to Michael. There will need to be a subsequent meeting with the other VPs, but we can set that up later.

2. I will get back to Michael tomorrow on Karnit Flug: I am looking at some material of hers, and Manny Jimenez is too.

Mike

Michael Bruno

Michael,

Aid effectiveness

Here are Stan's comments. He has one important difference in emphasis: he feels it will be important to have some kind of high-profile effort by the Bank that attempted to answer the question When does aid work? I've only discussed with Mark so far: our initial view would be to still structure the work on relatively focused pieces of work, but perhaps to find high profile fora for the Bank to for effectively enter the public debate. However, we should certainly table Stan's view for discussion. His other comments are useful and I'll be incorporating. I'd suggest we have a meeting on this when you're back, with Lyn, Masood, the DEC members of the working group (Mark, Luis Serven, Ron Johannes and me) and then send revised version to the steering committee (that you will be chairing) for a Bank-wide proposal.

Mike

December 21, 1993

A L L - I N - 1 N O T E

DATE: 21-Dec-1993 01:02am

TO: Michael Walton ( MICHAEL WALTON )

FROM: Stanley Fischer, NBO ( STANLEY FISCHER )

EXT.: 33774

SUBJECT: Aid study

Herewith a few comments.

1. I thought the ODI study was good and useful; the White study less so. I did not receive the French study. The concluding section of each chapter of the ODI study was especially helpful. Your summary in your December 17 (?) note was also on the money.

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9. I'll be at home from about 10.30 a.m. on Tuesday if you want to chat.

Good luck with the meeting, and best wishes.

M. Bruno

DEC Senior Managers

Aid Effectiveness

Here is a draft note on what the Bank may do next on aid effectiveness. A version of this will go out to the steering committee, but it could be useful to have a discussion within DEC on our position. We'll probably discuss it at next week's DEC Senior Managers' meeting. I have the terms of reference and the draft literature reviews, if you would like them.

Mike Walton

cc: Devarajan, Kiguel, Vieira da Cunha

93 DEC 17 AM 10:53  
RECEIVED  
DEC 17 1993

## Aid effectiveness: what should the World Bank do?

1. The value of aid has always been questioned. The questioning appears to have intensified in the 1990s. At the same time new demands are being placed on aid to deal with issues ranging from governance to human rights. The World Bank is very much part of the aid business and frequently faces questions on the effectiveness of its own aid, and on aid in general, notably in the context of IDA replenishments and SPA discussions. Yet despite the vast amount of country and cross-country information and analysis, the Bank is hard put to it to have convincing answers to such seemingly simple questions as: Does aid work? Does aid reduce poverty? How can aid be made more effective?

2. It was decided, earlier in 1993, to explore whether there is a need for further work on the question of aid effectiveness. A working group was formed (chaired by DEC) with a mandate to undertake a review of the existing literature on aid effectiveness and form recommendations on where to go next. The group developed an issues paper (attached) and commissioned a set of reviews:

- a core review (by the Overseas Development Institute), that covers the literature in four areas: the changing rationale for aid; the economy-wide effects of aid; the performance of aid-supported projects; and institutional development and aid;
- a review of the technical literature on the consequences of aid (by Howard White), with a particular focus on attempts to disentangle effects using econometric techniques;
- a review of the literature in French (by Philippe Messeant and Patrick Guillamont)
- a review of the literature in Japanese (by Hideo Hashimoto)

3. Drafts of all but the Japanese study (that could only be started later and is due in the near future) have been submitted and reviewed by the working committee. The main messages that come from the survey are as follows:

- There is very little in the analytical or empirical literature on the new aid issues, e.g. on aid in the post cold war era; aid and human rights; aid and democratization.
- The literature fails to answer the question, Does aid work? in a way that is useful from either an operational or a public relations angle. In particular, despite a considerable body of work on economy-wide effects, there are few robust conclusions. Indeed the bulk of studies are conceptually flawed, especially in failing to effectively handle counterfactuals.
- The literature on project effects (that corresponds roughly with the evaluation literature) is more satisfying in finding a quite high degree of project success--around two-thirds on average (about 70 percent for Bank projects). There is no clear evidence of a trend in project success--for the Bank it has been constant by year of project approval. Information on the portfolios of other agencies, e.g. private or NGO, is sparse, but suggests that the performance of portfolios of aid agencies is at least as good. However, the literature is generally unhelpful in explaining the sources of success and failure of projects and links with economy-wide factors.
- There is very little that can be said about the effects of aid on institutional development, and the evidence is especially weak on the attempts to improve institutional functioning at a broad level, (as opposed to narrow technical assistance) that have become much more common in the past 15 years.

4. We have given this stark assessment as background to recommendations on where to go next. There is also a wealth of interesting material surveyed in the consultant reviews, as well as valuable

sets of recommendations as to how to make aid more effective, especially in the ODI study. These should probably be made publicly available to the aid community.

### Recommendations

5. The working group concluded that a new overarching study of aid effectiveness would not make sense, but that there is a strong case for two kinds of follow up action: study work in selected areas; and action with existing material or positions in the international arena. These two areas are complementary, of course, since action of the World Bank will draw on existing and planned study work. A third area of action is on the effectiveness of the World Bank's own portfolio. This, of course, is ongoing in the range of follow up to the Wapenhans report. It is not discussed further here, though some of the areas proposed for work are of direct relevance.

6. It is recommended that there not be an overarching study on the grounds that this is unlikely to take the debate forward, while it would certainly raise expectations that the Bank (or whoever undertook it) would come out with a definitive result. It would be hard for such a study not to have as a core question, Does aid work? The literature survey confirms that this is not a useful question to try and answer: such a study would find out that aid sometimes works and sometimes doesn't. The reason is simple. In general, aid is used effectively when a country uses its own resources effectively. However, aid is only one amongst a large number of factors influencing the effectiveness of governments. While aid can sometimes cause governments to improve their functioning, it is highly unpredictable when and how this happens. As noted above, the least advanced part of the literature lies in the relationship between aid and institutional performance. Aid can in some cases become part of the problem.

7. Before outlining the work we do recommend, it is worth clarifying one problem in the public debate on aid. It is frequently asked, for example, whether aid helps poverty (or some other objective, such as growth, human rights, the environment, democracy). However, aid generally only works indirectly, with a few exceptions (such as direct relief or provision of services, and even these raise issues of fungibility). It is more useful to ask two linked questions. First, do certain policies, such as the set of policies associated with adjustment, help poverty? On this there is more and more information and analysis available, much of it showing important gains to the poor from sensible adjustment policy, some of it showing at least transitional losses for some of the poor. However, the Bank clearly has a public relations problem getting this information out. More study work is needed and more work on the Bank's communication strategy, but this is not really a question about the effectiveness of aid. Second, does aid change government behavior? This is in the tough area of conditionality and institutional development and is indeed about aid.

### **Study work**

8. It is recommended that there be follow up work of a study character in three areas (the first and third of which are in part different cuts on the same set of issues). It would be useful to have a general discussion in the steering committee and elsewhere (both in the Bank and outside) before launching these and drawing up detailed terms of reference.

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- Analysis of how aid influences the performance of public sector institutions--and how it could be better designed to avoid the all-too-familiar symptoms of aid dependency. This would probably require in-depth country studies. It is an area that would be high risk in terms of operational output, but is important; it should at a minimum aim to develop do's and don'ts for Bank and other donor action in the institutional domain.

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13. There is often a mismatch between information and the perceptions of outside critics of aid. The recent Hunger conference gave examples of this. This is primarily an issue for the World Bank's communication strategy (and is also relevant to the leadup to the 50th anniversary). A potentially useful complement to action in this area could be gathering of material on perceptions on aid. A systematic examination of the relationship between perceptions of aid activists or critics and the facts would provide the basis for participating in a considered fashion in the debate, as well as in helping define the areas where we do not have answers and do need more study work. More information is also needed on attitudes to aid within developing countries.

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14. Many lessons of aid are well-known: e.g. the costs of tying aid; the disadvantages of projectization of the development budget; the problem of donors taking the cream of local staff and distorting local skilled labor markets; the hopelessness of lending into awful policy environments; the low correlation between country aid allocations and country incomes and poverty. The Bank could contribute to both the debate and its image by developing an agenda of such issues and being more forthright in campaigning on them.

#### *3. International review of aid modalities.*

15. Some of the instruments of aid, e.g. consultative groups, have been around for decades, while the world has changed both with respect to the level and pattern of capital flows and the role of aid. There may be case for the Bank participating in an international group to review modalities of transferring and coordinating aid. It would probably be appropriate to do this under DAC auspices. This would also be a forum for campaigning for specific reforms (in 2 above).

December 16, 1993

Kate

DEC Senior Managers

Aid Effectiveness

Here is a draft note on what the Bank may do next on aid effectiveness. A version of this will go out to the steering committee, but it could be useful to have a discussion within DEC on our position. We'll probably discuss it at next week's DEC Senior Managers' meeting. I have the terms of reference and the draft literature reviews, if you would like them.

Mike Walton

cc: Devarajan, Kiguel, Vieira da Cunha

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## Aid effectiveness: what should the World Bank do?

1. The value of aid has always been questioned. The questioning appears to have intensified in the 1990s. At the same time new demands are being placed on aid to deal with issues ranging from governance to human rights. The World Bank is very much part of the aid business and frequently faces questions on the effectiveness of its own aid, and on aid in general, notably in the context of IDA replenishments and SPA discussions. Yet despite the vast amount of country and cross-country information and analysis, the Bank is hard put to it to have convincing answers to such seemingly simple questions as: Does aid work? Does aid reduce poverty? How can aid be made more effective?

2. It was decided, earlier in 1993, to explore whether there is a need for further work on the question of aid effectiveness. A working group was formed (chaired by DEC) with a mandate to undertake a review of the existing literature on aid effectiveness and form recommendations on where to go next. The group developed an issues paper (attached) and commissioned a set of reviews:

- a core review (by the Overseas Development Institute), that covers the literature in four areas: the changing rationale for aid; the economy-wide effects of aid; the performance of aid-supported projects; and institutional development and aid;
- a review of the technical literature on the consequences of aid (by Howard White), with a particular focus on attempts to disentangle effects using econometric techniques;
- a review of the literature in French (by Philippe Messeant and Patrick Guillamont)
- a review of the literature in Japanese (by Hideo Hashimoto)

3. Drafts of all but the Japanese study (that could only be started later and is due in the near future) have been submitted and reviewed by the working committee. The main messages that come from the survey are as follows:

- There is very little in the analytical or empirical literature on the new aid issues, e.g. on aid in the post cold war era; aid and human rights; aid and democratization.
- The literature fails to answer the question, Does aid work? in a way that is useful from either an operational or a public relations angle. In particular, despite a considerable body of work on economy-wide effects, there are few robust conclusions. Indeed the bulk of studies are conceptually flawed, especially in failing to effectively handle counterfactuals.
- The literature on project effects (that corresponds roughly with the evaluation literature) is more satisfying in finding a quite high degree of project success--around two-thirds on average (about 70 percent for Bank projects). There is no clear evidence of a trend in project success--for the Bank it has been constant by year of project approval. Information on the portfolios of other agencies, e.g. private or NGO, is sparse, but suggests that the performance of portfolios of aid agencies is at least as good. However, the literature is generally unhelpful in explaining the sources of success and failure of projects and links with economy-wide factors.
- There is very little that can be said about the effects of aid on institutional development, and the evidence is especially weak on the attempts to improve institutional functioning at a broad level, (as opposed to narrow technical assistance) that have become much more common in the past 15 years.

4. We have given this stark assessment as background to recommendations on where to go next. There is also a wealth of interesting material surveyed in the consultant reviews, as well as valuable

sets of recommendations as to how to make aid more effective, especially in the ODI study. These should probably be made publicly available to the aid community.

### Recommendations

5. The working group concluded that a new overarching study of aid effectiveness would not make sense, but that there is a strong case for two kinds of follow up action: study work in selected areas; and action with existing material or positions in the international arena. These two areas are complementary, of course, since action of the World Bank will draw on existing and planned study work. A third area of action is on the effectiveness of the World Bank's own portfolio. This, of course, is ongoing in the range of follow up to the Wapenhans report. It is not discussed further here, though some of the areas proposed for work are of direct relevance.

6. It is recommended that there not be an overarching study on the grounds that this is unlikely to take the debate forward, while it would certainly raise expectations that the Bank (or whoever undertook it) would come out with a definitive result. It would be hard for such a study not to have as a core question, Does aid work? The literature survey confirms that this is not a useful question to try and answer: such a study would find out that aid sometimes works and sometimes doesn't. The reason is simple. In general, aid is used effectively when a country uses its own resources effectively. However, aid is only one amongst a large number of factors influencing the effectiveness of governments. While aid can sometimes cause governments to improve their functioning, it is highly unpredictable when and how this happens. As noted above, the least advanced part of the literature lies in the relationship between aid and institutional performance. Aid can in some cases become part of the problem.

7. Before outlining the work we do recommend, it is worth clarifying one problem in the public debate on aid. It is frequently asked, for example, whether aid helps poverty (or some other objective, such as growth, human rights, the environment, democracy). However, aid generally only works indirectly, with a few exceptions (such as direct relief or provision of services, and even these raise issues of fungibility). It is more useful to ask two linked questions. First, do certain policies, such as the set of policies associated with adjustment, help poverty? On this there is more and more information and analysis available, much of it showing important gains to the poor from sensible adjustment policy, some of it showing at least transitional losses for some of the poor. However, the Bank clearly has a public relations problem getting this information out. More study work is needed and more work on the Bank's communication strategy, but this is not really a question about the effectiveness of aid. Second, does aid change government behavior? This is in the tough area of conditionality and institutional development and is indeed about aid.

### **Study work**

8. It is recommended that there be follow up work of a study character in three areas (the first and third of which are in part different cuts on the same set of issues). It would be useful to have a general discussion in the steering committee and elsewhere (both in the Bank and outside) before launching these and drawing up detailed terms of reference.

### *1. Ownership, institutions and political economy.*

9. There are a set of areas to do with government performance and behavior. These are tough areas. The Bank has little absolute advantage in them, but it is not clear who has comparative advantage. Past attempts to work via a political economy approach (including Bank research on the political economy of development and adjustment) has been interesting but not very helpful for operational purposes. It may be useful to divide this into two areas:

- Understanding the circumstances under which governments change policies (with adjustment as one example) or sustain sound policies. This is sometimes framed in terms of when conditionality is effective, and sometimes in terms of ownership (both emphasized in the RALs and the OED study of adjustment). DECVP is currently looking at the ownership issue in the context of performance indicators for adjustment; this could be a good place to start reviewing this issue.

- Analysis of how aid influences the performance of public sector institutions--and how it could be better designed to avoid the all-too-familiar symptoms of aid dependency. This would probably require in-depth country studies. It is an area that would be high risk in terms of operational output, but is important; it should at a minimum aim to develop do's and don'ts for Bank and other donor action in the institutional domain.

### *2. Project performance and evaluation.*

10. Issues on project performance are somewhat better defined. They can also be usefully be subdivided into two areas:

- More systematic work is needed on the determinants of project performance, that seriously controls for the influence of project interventions. It is likely that some headway can be made through work with the existing large data bases on project outcomes kept by evaluation agencies; a research project is planned on the determinants of project performance. It is also valuable to supplement this with better information coming from projects through incorporating controls in the project design stage; this is being done under a couple of research projects working with Bank-financed projects in the human resource area.

- More work is needed on project appraisal techniques in defining both effective ways of dealing with economic questions, including the management of risk, and the limits of economic analysis with respect to other project objectives. This is becoming an increasingly important question for the Bank as non-economic factors are given higher priority (e.g. effects on the environment, displacement of people) and as a rising share of new projects are in areas that are not subject to traditional rate of return analysis.

### *3. Aid in high aid countries.*

11. A large number of countries have a level of aid that is large in relation to domestic resources. Most display the symptoms of aid dependency. They roughly correspond to the low income group (except India, China and a few others) with SubSaharan Africa of especial importance. It is probable that really pervasive (and adverse) effects of aid come in when aid is large relative to domestic factors, whether this be savings, the budget, the skilled labor market, the capital market, the activities of top personnel, or the functioning of public and private sector

institutions. There are two possible approaches. First, work could be organized around the characteristic of aid being large relative to an economy, but looking systematically across a number of dimensions in country studies. Second, the issues could be broken down into more tractable questions, e.g. the links between aid and domestic savings or the effects of aid on the skilled labor market. This area could be a useful (perhaps essential) input to a WDR on low income countries, if this is undertaken in future years.

### **Action in the international arena.**

12. In some areas new study work is not the priority, either because the problem does not lie in lack of information or because the issues are not conducive to analytical and empirical study. There is a case for action in three areas.

#### *1. Using existing results to debunk myths/raise the level of dialogue.*

13. There is often a mismatch between information and the perceptions of outside critics of aid. The recent Hunger conference gave examples of this. This is primarily an issue for the World Bank's communication strategy (and is also relevant to the leadup to the 50th anniversary). A potentially useful complement to action in this area could be gathering of material on perceptions on aid. A systematic examination of the relationship between perceptions of aid activists or critics and the facts would provide the basis for participating in a considered fashion in the debate, as well as in helping define the areas where we do not have answers and do need more study work. More information is also needed on attitudes to aid within developing countries.

#### *2. Campaigning hard where problems are clear.*

14. Many lessons of aid are well-known: e.g. the costs of tying aid; the disadvantages of projectization of the development budget; the problem of donors taking the cream of local staff and distorting local skilled labor markets; the hopelessness of lending into awful policy environments; the low correlation between country aid allocations and country incomes and poverty. The Bank could contribute to both the debate and its image by developing an agenda of such issues and being more forthright in campaigning on them.

#### *3. International review of aid modalities.*

15. Some of the instruments of aid, e.g. consultative groups, have been around for decades, while the world has changed both with respect to the level and pattern of capital flows and the role of aid. There may be case for the Bank participating in an international group to review modalities of transferring and coordinating aid. It would probably be appropriate to do this under DAC auspices. This would also be a forum for campaigning for specific reforms (in 2 above).

December 16, 1993

WDR - Board

Michael Bruno

Michael,

Aid Effectiveness

There is a small chance the Board may use the WDR discussion to raise the question of what we are doing on aid effectiveness. It may be wise not to say a lot at this juncture, but here is a note I prepared that gives you a flavor of where we may come out. This is based on discussions with the working group, but still has to be discussed and revised at multiple levels (with the working group, the steering committee, that you will chair at some point, etc etc.)

Mike

December 13, 1993

## Aid effectiveness: what should the World Bank do?

The value of aid has always been questioned. It appears to be under increasing questioning in the 1990s. The World Bank is very much part of the aid business and frequently faces questions on the effectiveness of its own aid, and on aid in general, notably in the context of IDA replenishments and SPA discussions. Yet despite the vast amount of country and cross-country information and analysis, the Bank is hard put to it to have ready answers to such seemingly simple questions as: Does aid work? Does aid reduce poverty? How can aid be made more effective?

It was decided, earlier in 1993, to explore whether there is a need for further work on the question of aid effectiveness. A working group was formed with representatives from a range of vice-presidencies with a mandate to undertake a review of the existing literature on aid effectiveness and form recommendations on where to go next. The group developed an issues paper [to be attached when this is sent out] and commissioned a set of reviews:

- a core review (by the Overseas Development Institute), that covers the literature in four areas: the changing rationale for aid; the economy-wide effects of aid; the performance of aid-supported projects; and institutional development and aid;
- a review of the technical literature on the consequences of aid (by Howard White), especially attempts to disentangle effects using econometric techniques;
- a review of the literature in French (by Philippe Messeant and Patrick Guillamont)
- a review of the literature in Japanese (by Hideo Hashimoto)

Drafts of all but the Japanese study (that is due in the next few weeks) have been submitted and reviewed. The main messages that come from the survey are as follows:

- There is very little in the analytical or empirical literature on the new aid issues, e.g. on aid in the post cold war era; aid and human rights; aid and democratization.
- The literature fails to answer the question, Does aid work? in any meaningful way. In particular, despite a considerable body of work on economy-wide effects there are few robust conclusions. Indeed the bulk of studies are conceptually flawed, especially in failing to effectively handle counterfactuals.
- The literature on project effects (that corresponds roughly with the evaluation literature) is more satisfying in finding a quite high degree of project success (around two-thirds on average.) Information on the portfolios of other agencies, e.g. private or NGO, is sparse, but suggests that the performance of portfolios of aid agencies is at least as good. The World Bank has, of course, been experiencing declines in this ratio over time. However, much of this literature is also flawed in inadequately taking account of economy-wide and final impact effects under anything like controlled experiments.
- There is very little that can be said about the effects of aid on institutional development, especially the attempts to improve institutional functioning at a broad level, that have become much more common in the past 15 years.

We have given this stark assessment as background to recommendations on where to go next. There is also a wealth of interesting material surveyed in the consultant reviews, as well as valuable sets of recommendations as to how to make aid more effective, especially in the ODI study. These should probably be made publicly available to the aid community.



## Recommendations

The working group concluded that a new overarching study of aid effectiveness would not make sense, but that there is a strong case for two kinds of follow up action: study work in selected areas; and action with existing material or positions in the international arena. A third area of action is on the effectiveness of the World Bank's own portfolio. This, of course, is ongoing in the range of follow up to the Wapenhans report.

The reason for no big study is that it is judged that this would have a high risk of failure (and at high cost). It would be hard for such a study not to be expected to have as a core question Does aid work? The literature survey confirms that this is not a useful question to answer: such a study would find out that aid sometimes works and sometimes doesn't. The reason is simple. In general aid is used effectively when a country uses its own resources effectively. However, aid is only one amongst a large number of factors influencing the effectiveness of governments. While aid can sometimes cause governments to improve their functioning, it is highly unpredictable when and how this happens. As noted above, the least advanced part of the literature lies in the relationship between aid and institutional performance. Aid can in some cases become part of the problem.

Before outlining the work we do recommend, it is worth clarifying one problem in the public debate on aid. It is frequently asked, for example, whether aid helps poverty. However, aid generally only works indirectly, with a few exceptions (such as direct relief or provision of services, and even these raise issues of fungibility). It is more useful to ask two linked questions. First, do certain policies, such as the set of policies associated with adjustment, help poverty? On this there is more and more information and analysis available, but the Bank clearly has a public relations problem getting this information out. More study work is needed and more work on the Bank's communication strategy, but this is not part of the aid question. Second, does aid change government behavior? This is in the tough area of conditionality and institutional development and is indeed about aid.

### Study work

It is recommended that there be follow up work of a study character in four areas (the first and third of which are in part different cuts on the same set of issues). It would be useful to have a general discussion in the steering committee and elsewhere (both in the Bank and outside) before launching these and drawing up detailed terms of reference.

#### *1. Ownership, institutions and political economy.*

This encompasses issues of when governments change strategies (with adjustment as one example) and the links between aid and institutional development (does aid support or corrupt domestic institutions?). These are tough areas. The Bank has little absolute advantage in them, but it is not clear who has comparative advantage. Past attempts to work via a political economy approach (including Bank research on the political economy of development and adjustment) has been interesting but not very helpful. It may make sense to divide this into two: work on ownership

(from DECVP, linked with the review process??) and country based studies of how aid influences public sector performance--and how it could be better designed to avoid adverse effects.

## *2. Project performance and evaluation.*

There are a set of better defined issues on project performance. These can be subdivided into two areas. First, more systematic work is needed on the determinants of project performance, that seriously controls for the influence of project interventions. It is likely that some headway can be made through work with the existing large data bases on project outcomes kept by evaluation agencies; a research project is planned on the determinants of project performance. It is important to supplement this with better information coming from projects through incorporating controls in the project design stage; this is being done in a couple of research projects working with Bank-financed projects in the human resource area. Second, more work is needed on project evaluation techniques: both in defining how to apply economic issues, and in defining the limits of economic analysis with respect to other objectives of projects.

## *3. Aid in high aid countries.*

A large number of countries have large volumes of aid. These roughly correspond to the low income group (except India, China and a few others) with SubSaharan Africa of especial importance. It is probable that really pervasive effects of aid come in when aid is large relative to domestic factors, whether with respect to savings, the budget, the skilled labor market, the incentives of top personnel, the capital market or the functioning of public and private sector institutions. It may be valuable to organize work around the characteristic of aid being large, but look at a number of dimensions. An alternative is to pick individual, and perhaps more tractable issues, (e.g. the links between aid and domestic savings; the effects of aid on skilled labor) and organize work in this fashion. This area could be a useful input if it is decided to have a WDR on low income countries.

## *4. Perceptions of aid.*

Empirical work could be useful in two areas on perceptions on aid. First, systematic examination of the relationship between perceptions of aid activists or critics and the facts. Second, use of public opinion polls on attitudes within developing countries.

## **Action in the international arena.**

In some areas study work is not relevant, either because the problem does not lie in lack of information or the issues are not conducive to analytical and empirical study. There is a case for action in three areas.

*1. Using established results to debunk myths.*

Poverty was given as one example where there is a mismatch between the availability of information and the perceptions of at least some groups outside. This is an issue for the World Bank's communication strategy. One area of relevance is the leadup to the 50th anniversary review.

*2. Campaigning hard where problems are clear.*

Many lessons of aid are well-known: e.g. the costs of tying aid; the projectization of the development budget; the problem of donors taking the cream of local staff; the hopelessness of lending into awful policy environments; the low correlation between country aid allocations and country incomes. The Bank could contribute to both the debate and its image by developing an agenda of such issues and being more forthright in campaigning on them.

*3. International review of aid modalities.*

Some of the instruments of aid, e.g. consultative groups, have been around for decades, while the world has changed both with respect to the level and pattern of capital flows and the role of aid. There may be case for the Bank participating in an international group (possibly under DAC auspices) to review modalities of transferring and coordinating aid.

December 13, 1993

# OFFICE MEMORANDUM

DATE: May 25, 1993  
TO: Distribution Below  
FROM: D. C. Rao, Acting Vice President, DEC *DCR*  
EXTENSION: 33800  
SUBJECT: Aid Effectiveness

Following the meeting of a month ago, we formed a working group led by DEC to undertake the first phase of work on aid effectiveness. As agreed, this will be a structured literature review. The attached note was prepared by the group to lay out the issues. It has been proposed that a steering committee be formed to oversee the work. You, or your designate, are invited to be members and to attend a meeting to discuss the note on June 2 at 4:00 in S 9021.

## Distribution

Messrs. Johannes Linn (FPRVP), Robert Picciotto (DGO), Ismail Serageldin (ESDVP), Armeane Choksi (HROVP)

cc: Messrs./Mss. R. Ayres (OPRIE), M. Baird (OEDD2), R. Johannes (IECDI), L. Serven (PRDTM), M. Stevens (OPRPG), N. Birdsall, R. Cassen (PRDDR), P. Donovan (EC1IV)

## The Development Effectiveness of Aid and other Official Flows Issues for a Literature Review

### Introduction

1. Aid is under pressure from many sides: that it is not working, that it needs to do more, or that it cannot be afforded. The Bank is considering undertaking or commissioning a major review of the effectiveness of aid. This would both be a hardheaded assessment of the good, bad or indifferent effects of aid on the development process, and of how the design of aid can be changed to improve its effectiveness. Such a study would involve substantial interaction with other members of the aid community. Some of the sources of attack on aid may, of course, have nothing to do with its development effectiveness, but from the Bank's viewpoint this is the fundamental question.

2. Before launching any study, it has been decided to undertake a review of the current state of thinking and empirical work. This will be managed by a working group led by DEC. It will be conducted as a structured literature review, in which a set of questions are defined on aid effectiveness, and the literature surveyed to see what answers it has, or does not have, to these questions. This note lays out the questions. It will form the terms of reference for the review. In view of the range of areas to be covered it is anticipated that the review will be conducted by a mix of consultants with different disciplines.

### Overall approach

3. The review would be confined to the development effectiveness of aid, that is:

(a) it will only assess the *developmental* consequences of aid, though the multiple objectives of donors will be reviewed;

(b) it will be limited to the effects of *aid*, though it is again recognized that this will be a function of broader development effectiveness issues, such as the overall behavior of governments.

4. The core of what is included in development will be traditional: effects on aggregate economic performance and household welfare, with reduction of poverty as the central objective of development. This will include intermediate effects, such as the impact of aid on government capabilities to support development. Evidence on environmental consequences will also be explicitly reviewed, as will literature on political factors, both of the relationship aid-recipient political conditions and effectiveness, and the consequences of donor objectives to affect governance and human rights.

5. A broad definition of aid will be used, to cover all official flows in cash and in kind, including non-DAC concessional flows (such as Arab or CMEA aid), non-concessional multilateral and export credit agency aid. It would be possible to confine the scope to ODA,

but that would exclude IBRD and other non-concessional official lending that is clearly relevant. Once we broaden this far, there is no rationale for excluding other official flows when examining country-wide development consequences. Similarly, while the effects of humanitarian aid on short-run relief will not be reviewed, the economy-wide consequences will be examined, including the impact of food aid on food and labor markets.

6. Four broad areas would be surveyed:

(a) *The role of aid*: the analytic of provision of official and/or subsidized capital flows; the variety of donor objectives for aid; the nature and sources of the various critiques of aid; and the consequences of the end of the Cold War for donor objectives and practices.

(b) *The country-wide consequences of aid*: the effects of aid on growth, macroeconomic aggregates and poverty; consequences for the functioning of capital, labor (especially skilled labor) and food markets; effects on intermediate variables, such as economy-wide policy choices.

(c) *The performance of projects*: the effects of aid on project outcomes with respect to physical, financial, economic, social and environmental objectives; comparison of aid-supported projects with other projects undertaken by governments, NGOs and the private sector.

(d) *The performance of public and private institutions*: the effects of aid, both capital aid and technical cooperation, on the functioning of governments, other public sector institutions and the environment for the private sector. Aid coordination will be reviewed as a special aspect of institutional and management questions.

7. In all of the empirical areas (b-d) there is an overarching problem: it is generally extremely difficult to assess the counterfactual of less or different types of aid. Few projects have properly designed control groups, and country conditions are generally too diverse to provide convincing controls. Some progress was made on this in the Reports on Adjustment Lending, but this was only partially convincing, and clearly not convincing to critics of this form of aid. This is likely to be an important issue for any full study; this preliminary stage of the work would review how this has been handled in the past, and will assess the validity of alternative methodological approaches.

8. In addition to literature review organized in the above categories, the survey would review country studies (such as the OED country reviews) that examine all aspects of aid in a particular country, for additional insights in the four areas.

9. It is planned that this first stage will end in a short report from the working group on the results of the literature review, along with the reports of the consultants in the four areas. Consultants are being identified. Stan Fischer has agreed to advise on the work as it proceeds.

10. The proposed questions in each of the four areas follow. It should be emphasized that the task of the consultants is not, necessarily, to answer these questions (though that would be welcome), but to document what the literature, including documents of aid agencies, has to say about them.

11. *Data on aid and aid-related flows. New data analysis will not be undertaken in this first phase. However, it is recommended that work start now on setting up a data base on aid to countries, disaggregated by the various categories of aid and other official flows. This is desirable in its own right; it would be essential to any larger study.*

### A. The Case for Aid: Is There One? Is it Changing?

This component of the work would be a survey of the thinking about and analytic of aid, donor objectives and views of various participants in the aid arena. It would include documentation of new and old critiques of aid.

#### Traditional rationales for aid

- (1) What is the developmental rationale for providing official and/or subsidized aid to developing countries, in terms of its effects on macroeconomic conditions, investment design (i.e. the choice and quality of projects) and institutional capability? How has this evolved (e.g. from the Marshall Plan, to project finance and structural adjustment)?
- (2) What are the critiques of aid from within an economic welfare paradigm? e.g. aid substitutes for domestic savings, distorts markets, builds up excessively large and inefficient public sectors, and is a soft alternative to taking hard choices.
- (3) What other motives do donor have? How are these likely to affect developmental outcomes?
  - (a) Furtherance of geopolitical interests.
  - (b) Furtherance of commercial and related objectives (links to export promotion, etc.).
  - (c) The humanitarian case for aid to relieve short-run distress.
- (4) How do "global management" concerns affect aid? (e.g., war-ravaged economies, migration, refugees, environment, narcotics trafficking, AIDS - in short, aid's contributions to problems that manifestly transcend national boundaries).
- (5) What are the consequences of the changing set of donor objectives for the international allocation of aid and other official flows?
- (6) How do recipients of aid see its role? How is this influenced by recipient political conditions?

#### New aid issues, especially in the Post-Cold War Era

- (7) What is the experience in use of aid for the promotion of democracy, popular participation, and human rights; of both military aid and of aid aimed at cutting military (and other non-developmental) expenditures? What is the rationale for political conditionality? Have past attempts led to success (e.g. U.S. efforts to promote these things in Latin America)?



(8) How does donor concern with the environment influence the composition and direction of aid?

(9) How is the emphasis on the private sector changing thinking on the design of aid?

(10) Is there new thinking about aid modalities:

(a) what role for NGOs in aid provision; or scope for creative partnership between public and private providers of aid?

(b) what are the respective roles of bilateral and multilateral institutions: need for redefinition? Is there a perceived need to sort out comparative advantage and improve coordination?

(c) How does aid relate to other external resource flows: does aid catalyze private flows or facilitate debt relief (or only pay off other debtors)?

(d) is less tying of aid becoming acceptable?

## B. Country-wide Effects of Aid

This part of the survey would examine what is said on economy-wide effects, including bottom-line studies of effects on growth and macroeconomic aggregates, influences on the functioning of various markets, and on intermediate policy variables.

### Effects on growth

- (1) What has been the contribution of aid flows to long-term growth in recipient countries? Is there evidence that countries receiving large volumes of aid have achieved faster per capita growth than other countries, other things being equal? Alternatively, do individual country experiences (i.e., time series information) provide such evidence?
- (2) Do macroeconomic outcomes vary by the source and type of aid finance (e.g. tied and untied, conditional and unconditional), time period and country group (e.g. low and middle income; region). Does bilateral tied aid (e.g., in-kind or military aid) help or harm growth ?
- (3) Does aid support consumption and investment, i.e. how far does it substitute for domestic savings? Is there a difference between adjustment-type and investment lending on these effects?

### Economic policies and market functioning

- (4) Do greater initial distortions (high inflation, extensive trade distortions, real overvaluation, relative price misalignment) render aid, especially aid not conditioned on policy change, less effective? If this is so, what should be the scope for unconditional (especially debt-creating) aid?
- (5) Does aid have perverse effects on economy-wide policies and markets:
  - (a) at a macroeconomic level, through "Dutch Disease", supporting overvaluation and excessive budget deficits?
  - (b) through supporting a large public sector?
  - (c) through distorting the functioning of various markets: for foreign exchange (e.g. through tied aid); the financial market (e.g. through large channelling of donor funds); the food market (with large volumes of food aid); and the skilled labor market (through creaming skilled personnel to work in local aid agencies and project implementation units and pushing up salaries)?
- (5) Does aid, and especially policy-conditioned aid, improve policies (in the direction sought by donors) in macro-indicators, efficiency-enhancing market reforms, sectoral policies?
- (6) When aid has supported fiscal adjustment, to what extent has the quality of such adjustment supported developmental objectives? Is there a difference between the late 1980s and earlier?

**Poverty**

(7) Poverty changes will be a function of the level and pattern of growth, policies and market functioning. This will be brought together as a separate topic. Did the impact of aid on long-run macroeconomic performance lead to poverty reduction? More specifically, what has been the effect on different groups amongst the poor of policy reforms supported by aid (e.g., real depreciations, increases in agricultural prices), and were the poor adequately protected during episodes of reform? Do aid-intensive countries show a better record in the area of social expenditures and social safety nets (as in 2-(iv) above)?

**Environment**

(8) Much of the review of environmental effects will be at the project level (section C), but some sets of economy-wide policies (such as increasing incentives for logging) and investment activity (such as opening up relatively unexploited areas) can have large effects on the environment. Do aid-supported reforms lead to environmental degradation, through excessive land exploitation, deforestation, etc? Do they lead to more energy efficiency, better use of water?

### C. The Development Effectiveness of Aid-Financed Projects

The objective of this section of the literature review is to look at aid effectiveness at the project level. The major questions to be addressed are:

#### Methodology

- (1) What methodologies are available to evaluate project performance (eg. ex-post rate of return analysis, survey-based impact evaluations, contingent valuation methods)?
- (2) How useful are they for evaluating non-physical objectives, such as institutional development and policy reform?
- (3) How useful are they for evaluating incomes of affected households, and non-economic effects, such as social and environmental impacts?
- (4) How are these methodologies applied by donors, recipient countries and others (e.g. aid critics, academics)?

#### Outcomes

- (5) What is the evidence on project performance and sustainability (physical, financial, economic, social, environmental)?
- (6) Are there significant differences in project performance by source and type of financing, time period, sector and recipient country?
- (7) What are the major determinants of project performance?
  - (a) Exogenous factors: global (e.g., commodity prices) and country (e.g., drought).
  - (b) Government factors: policies (e.g., exchange rate) and budgets (e.g., counterpart funds); staffing and procurement; governance/political conditions.
  - (c) Donor factors: objectives (developmental and other) and processes (e.g., identification, preparation, appraisal, supervision, evaluation).
  - (d) Project factors: institutional capacity for project selection, design, implementation and operation.

(8) Based on the above, what can we say about aid effectiveness?

(a) Do aid projects provide enough benefits to justify the costs?

(b) How do aid-financed projects compare to other projects (e.g., by NGOs, governments and the private sector)? And how does the portfolio performance of donor agencies compare with comparable private sector financial institutions.

(c) What is the value added of aid (e.g., financing, project design and selection, policy and institutional advice)?

### D. The Consequences of Aid for Institutional Development

This section of the literature review would survey the relationship between aid and institutional performance: including issues of whether aid helps or distorts the functioning of public sector institutions (central and sectoral) and whether it helps foster effective private sector institutions.

- (1) How effective has both capital and technical cooperation aid been in the creation and sustaining of institutions, in the public (core government and sector agencies) and the private sector?
- (2) What has been the impact of aid on government financial management? This includes the capacity at both central and local government level, to make and implement budgets, procure goods and services, render accounts, and undertake audits. What are the consequences of the multiple procurement, reporting and accounting requirements? Has aid improved accountability?
- (3) How has aid affected the capacity of governments to set economic development goals, formulate policies, set realistic expenditure targets, prepare public investment programs, evaluate spending proposals, and make trade-offs and choices? Are donors becoming increasingly intrusive on country policies, undermining domestic sovereignty?
- (4) Has aid genuinely built capacity in public administration? What role has aid played in the creation, expansion, current problems, and reform of civil services, and how effective have these interventions been? What has been the impact of donor-financed salary supplementation?
- (5) What has been the role of aid in the public enterprise sector in the past two decades? Has it developed viable, accountable institutions or continued to support dogs? Is aid effective in supporting privatization?
- (6) Has aid helped support the institutional framework for private sector development, notably through supporting a sound legal and regulatory framework?
- (7) How effectively has aid been coordinated? What is the experience of formal attempts at aid coordination, through consultative groups etc?

May 24rd, 1993

ALL - I N - 1 N O T E

DATE: 23-May-1993 09:42pm

TO: Beth Lundquist ( BETH LUNDQUIST )

FROM: Michael Walton, DECVP ( MICHAEL WALTON )

EXT.: 38418

SUBJECT: Aid effectiveness etc

Beth--I copied you an em to the various people that will give you background and will leave the diskette tonight--this will save transferring off A1. Please get to DC for approval with two notes attached:

memo to: Johannes Linn, Picciotto, Serageldin, Choksi cc. aid group, robert cassen and paula donovan and nancy birdsall

Re: Aid effectiveness

Following the meeting of a month ago, we formed a working group led by DEC to undertake the first phase of work on aid effectiveness. As agreed, this will be a structured literature review. The attached note was prepared by the group to lay out the issues. It has been proposed that a steering committee be formed to oversee the work. You, or your designate, are invited to be members and to attend a meeting to discuss the note on .... [Komola pencilled on DC's diary for June 2nd I think]

And also draft a note from me to the regional chief economists.

Re: Aid effectiveness

In view of the extensive interest in whether aid is effective, the Bank is planning to undertake or commission a study of the area. It has been decided to start by undertaking a structured literature review. This stage will be led by DEC, and a small working group has been formed to oversee it. The attached note describes how we plan to proceed. We will keep you informed as the work gets going, and would welcome comments on the proposed approach (if possible by June 1st).

cc DC and aid group

And thirdly send the note to Stan Fischer: Here's how we plan to proceed. We'll set up a contract for up to three days work over the next 3-4 mths. Any comments on the outline?

All of these should be on the version that incorporates any comments from DC--chase him; it should go out about Tuesday..

My phone in LA is 310 559 3652 (at least for messages--this is my



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<b>Document Date</b> May 12, 1993	<b>Document Type</b> Memorandum			
<b>Correspondents / Participants</b> To: Mr. Ibrahim F.I. Shihata, LEGVP From: Gregory Ingram, Acting Vice President, DEC				
<b>Subject / Title</b> Effectiveness of Development Cooperation				
<b>Exception(s)</b> Attorney-Client Privilege				
<b>Additional Comments</b>		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.		
		<table border="1"><tr><td><b>Withdrawn by</b> Shiri Alon</td><td><b>Date</b> May 25, 2017</td></tr></table>	<b>Withdrawn by</b> Shiri Alon	<b>Date</b> May 25, 2017
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