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May 5, 1995

To: Members of the Executive Board

From: The Secretary

Subject: Bilateral and Multilateral Aid Flows and Fund-Supported Programs - Background Paper

This paper provides background information to the report on bilateral and multilateral aid flows and Fund-supported programs (SM/95/73, Sup. 1, 4/25/95), which is now proposed to be brought to the agenda for discussion on Friday, May 19, 1995.

Ms. Christensen (ext. 38397) or Mr. R. Brooks (ext. 38315) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

It is intended, at the conclusion of the Executive Board discussion, to seek the Board's approval to transmit this document, together with the main paper, to the European Commission (EC) and the Development Assistance Committee (DAC) of the OECD.

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INTERNATIONAL MONETARY FUND

Bilateral and Multilateral Aid Flows and Fund-Supported Programs

Background Paper

Prepared by the Policy Development and Review Department

(In consultation with other departments)

Approved by Jack Boorman

May 3, 1995

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I. Aid Flows to Countries in Transition

1. Introduction

Following the end of the Cold War, new claimants on aid have emerged in the countries in transition. 1/ At the same time, aid budgets in donor countries have come under increasing pressure. As a result, questions have been raised about the extent to which aid flows may be diverted from traditional to non-traditional recipients. The purpose of this section is to examine recent trends.

Prior to the breakup of the former Soviet Union (FSU), some FSU countries received explicit budgetary transfers from Russia. In addition, most countries in transition, particularly those in the FSU, received sizable transfers from Russia in the form of implicit price subsidies on trade. 2/ 3/ This was because intra-U.S.S.R. prices for energy and raw materials that were relatively low compared with world market prices, with Russia acting as a major exporter of these products to most other republics. 4/ In 1992, Russia began raising raw material export prices toward world market levels, but partially alleviated the terms of trade shock through substantial, albeit nonconcessional, financial transfers. 5/

The financing received from Russia by other republics (excluding the Baltic states) in 1992 was equivalent to around 20 percent of these countries' combined GDP, and in some cases (Georgia, Tajikistan, Turkmenistan, and Uzbekistan) it amounted to one-third or more of estimated GDP. In addition to these flows, some portion of the cash emission to the other states of the FSU in 1992--equal to 3 percent of Russia's GDP--should

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1/ According to the definition of the OECD's Development Assistance Committee (DAC), these countries comprise: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovak Republic, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. This differs from the WEO definition by excluding Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Mongolia, Slovenia, and Yugoslavia (Federal Republic of).

2/ Price subsidies are not considered official development assistance according to the DAC.

3/ For more information see: Financial Relations Among Countries of the Former Soviet Union, IMF Economic Reviews (1/94).

4/ For example, using the official exchange rate of the ruble prevailing in 1987, which was likely overvalued, this subsidy has been estimated by the Fund staff at around 5 percent of Russian GDP. From the perspective of the smaller recipient republics, the implicit subsidy they received from Russia was substantially more significant in relation to GDP.

5/ Available data suggest that Russian financing of the other states of the former Soviet Union amounted to around 9.5 percent of Russian GDP in 1992.

probably also be considered balance of payments financing. In 1993, however, the flow of official financing from Russia to the other republics of the FSU was virtually eliminated, with the exception of some debt rescheduling.

New donor relationships have been established with the countries in transition. In the case of low-income countries in transition, the list of countries eligible for Official Development Assistance (ODA) has been gradually expanded, as summarized in the table below. Subsequently, the DAC agreed to record concessional assistance to the rest of the countries in transition in a separate "Part II" list and to regard concessional assistance to these countries as "Official Aid" rather than ODA. 1/

ODA Eligibility of Countries in Transition (CIT) *

ODA-eligible CIT Countries	Non-ODA-eligible CIT Countries ("Official Aid" Part II Recipients)
Albania	Belarus
Armenia	Bulgaria
Azerbaijan	Czech Republic
Georgia	Estonia
Kazakhstan	Hungary
Kyrgyz Republic	Latvia
Tajikistan	Lithuania
Turkmenistan	Moldova
Uzbekistan	Poland
	Romania
	Russia
	Slovak Republic
	Ukraine

Source: OECD.

* OECD definition of countries in transition.

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1/ In this context, "official aid" is defined by the DAC to mean flows which meet the conditions of eligibility for inclusion in ODA except that the recipients are on Part II of the DAC list of aid recipients, i.e., flows which are undertaken by the official sector with promotion of economic development and welfare as the main objective and with a grant element of at least 25 percent.

2. Volume of concessional flows to countries in transition

ODA from DAC donors to countries in transition has been significantly smaller than "official aid" to non-ODA-eligible countries in transition (WEO definition). 1/ ODA to countries in transition increased from US$0.1 billion in 1990 to US$2.6 billion in 1993, reaching 4.6 percent of total ODA in 1993. 2/ For a comparison, "official aid" to countries in transition rose from US$1.7 billion in 1990 to US$6.4 billion in 1993. Russia was the recipient of a large share of these flows. "Official aid" and ODA to the FSU states (excluding Russia) in 1993 was equivalent to less than 1 percent of these countries' combined GNP. This implies that assistance from DAC donors to FSU states (excluding Russia) substituted for only a small proportion of the support from Russia in earlier years.

1/ Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Mongolia, Slovenia, and Yugoslavia (Federal Republic of) are ODA-eligible and classified as countries in transition in the WEO, but are not classified by the DAC as countries in transition. Total net ODA to these countries increased significantly from 1990 to 1993 and was equivalent to almost 4 percent of total ODA from DAC countries in 1993. (Total net ODA to these countries was US$0.1 billion in 1990; US$0.2 billion in 1991; US$1.6 billion in 1992; and US$2.2 billion in 1993).

2/ ODA to Asian countries in transition (Cambodia, Lao P.D.R., and Viet Nam) is included in the DAC list of ODA-eligible countries but is excluded from both the DAC and WEO definitions of countries in transition. ODA to these countries (including aid from Arab donors) increased from US$0.4 billion in 1990 to US$0.8 billion in 1993, equivalent to an increase from 0.7 percent of DAC ODA to 1.5 percent of DAC ODA over the same period.

Disbursements by DAC Donors to Countries in Transition (CIT) *

	1990	1991	1992	1993
	(In billions of U.S. dollars)			
Total "official aid" and ODA to CIT	1.8	7.9	9.1	9.0
Of which:				
"Official aid" to CIT	(1.7)	(7.3)	(7.1)	(6.4)
ODA to CIT	(0.1)	(0.6)	(2.1)	(2.6)
Total ODA for DAC donors	53.0	56.7	60.9	56.0
	(In percent)			
"Official aid" to CIT (in percent of the sum of "Official aid" and total ODA)	3.1	11.4	10.4	10.3
ODA to CIT (in percent of total ODA)	0.2	1.1	3.5	4.6

Source: OECD.

* Based on WEO definition, which includes Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Mongolia, Slovenia, and Yugoslavia (Federal Republic of), as countries in transition. ODA to these countries from Arab donors is also included. Disbursements to countries in transition includes bilateral "official aid" and ODA, and contributions to multilaterals, mainly the European Union, which has channeled aid to the CIT.

* * * * *

As a share of the aggregate GNP of DAC donors, ODA and "official aid" disbursements to countries in transition increased from 0.01 percent to 0.05 percent, while total ODA flows decreased from 0.33 percent to 0.30 percent. Disbursements of ODA and "official aid" to countries in transition were equivalent to about 15 percent of overall ODA and "official aid" flows in 1993.

The largest donors to countries in transition were Germany and the United States (Table 2). 1/ During 1990-93, Germany increased its "official aid" and ODA to countries in transition from US$0.5 billion to US$2.4 billion; over the same period, Germany's total ODA declined from 0.42 percent of GNP in 1990 to 0.37 of GNP in 1993, primarily due to budgetary pressures. Similarly, the United States increased bilateral "official aid" and ODA from US$0.3 million to US$1.3 billion over the same period, while total ODA fell from 0.21 percent to 0.15 percent of GNP. As a percentage of GNP, Austria's aid program recorded the largest increase from 0.05 percent in 1990 (US$0.1 billion) to 0.21 percent in 1993 (US$0.4 billion); notwithstanding the large increase in "official aid," Austria was able to increase its total volume of ODA from 0.25 percent of GNP in 1990 to 0.30 percent of GNP in 1993. For many donors, however, increases in aid budgets only partially offset the disbursement of concessional flows to countries in transition. The increased demands from new recipients were the primary factor behind increases in some aid budgets in the context of tighter government spending constraints in all areas.

Part of the programs adopted by donor countries were temporary in nature, such as in the case of Germany, where substantial flows were linked to housing and other expenditures in FSU states associated with the withdrawal of Russian troops from the Eastern part of the country. In the case of the United States, a significant portion of the increase in "official aid" was accounted for by debt forgiveness granted in 1991, mostly to Poland.

3. Composition of concessional flows

During 1991-93, a total of US$22 billion in ODA and "official aid" from DAC countries was disbursed to the countries in transition (OECD definition). Of this, almost three-quarters (US$15.5 billion) was in the form of bilateral aid, with the remainder in the form of multilateral aid, mainly through the European Union. With respect to bilateral "official aid" to non-ODA-eligible countries, this was predominantly in the form of grants (US$12.7 billion or 89 percent), directed mainly toward: program and project assistance (31 percent); debt forgiveness (23 percent); and technical cooperation (19 percent).

4. Conclusion

In spite of large increases in "official aid" and ODA to the countries in transition, the size of these programs remains relatively small compared with overall ODA levels (about 13 percent in the period 1991-93), particularly in the case of ODA-eligible countries in transition. Nevertheless, some diversion of aid from traditional ODA recipients toward

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1/ The country breakdown is based on the OECD's definition of countries in transition, which excludes certain countries in Eastern Europe and Asia (see footnote 1 on page 1).

countries in transition appears to have taken place, particularly toward the middle-income countries in transition, most of which are not ODA-eligible. However, it is also possible that, as a result of the increased demand for aid, overall aid budgets were larger than otherwise. In the view of some donors, there will be scope for curtailing "official aid" to the non-ODA-eligible countries in transition in a few years and replacing them by flows relating to trade and investment because of the natural resource endowments, well-educated work forces, and established infrastructure in most countries in transition.

Table 1. Bilateral Official Aid and ODA to Countries in Transition (CIT) and Total Bilateral ODA 1/ 2/

(In millions of U.S. dollars)

	1990			1991			1992			1993		
	CIT		Total	CIT		Total	CIT		Total	CIT		Total
	Official Aid	ODA	ODA	Official Aid	ODA	ODA	Official Aid	ODA	ODA	Official Aid	ODA	ODA
Australia	--	--	753	--	--	724	2	--	739	2	--	715
Austria	--	1	299	270	7	433	395	7	420	373	3	411
Belgium	--	--	548	193	--	495	76	--	549	20	--	477
Canada	11	--	1,690	121	--	1,789	236	--	1,706	3	--	1,596
Denmark	7	--	695	28	--	686	56	1	756	111	--	755
Finland	17	--	498	107	1	586	32	--	421	23	--	242
France	2	--	5,612	102	1	5,772	113	3	6,302	371	6	6,154
Germany	374	2	4,479	2,133	135	4,575	2,994	19	5,242	2,103	36	4,517
Ireland	1	--	23	--	--	30	--	--	28	--	--	41
Italy	74	5	2,112	82	290	2,245	108	134	2,430	44	48	1,930
Japan	153	--	6,786	38	--	8,860	154	4	8,385	123	3	8,044
Luxemburg	--	--	15	--	--	26	2	--	22	2	1	31
Netherlands	22	--	1,833	33	1	1,756	58	7	1,880	137	12	1,776
New Zealand	--	--	81	--	--	81	--	--	74	--	--	74
Norway	21	--	756	13	2	734	64	--	811	56	2	659
Portugal	--	--	109	--	--	166	--	--	242	--	--	191
Spain	--	--	633	23	--	761	1	1	1,100	--	--	846
Sweden	2	--	1,379	75	--	1,476	314	4	1,777	35	2	1,332
Switzerland	8	--	551	106	1	727	108	2	677	218	8	636
United Kingdom	123	--	1,474	45	--	1,818	100	1	1,699	83	7	1,511
United States	338	--	8,367	1,762	--	9,396	553	62	7,859	1,217	72	7,005
Total DAC (bilateral)	1,154	--	37,200	5,130	436	41,300	5,365	243	41,300	4,920	200	38,940
(Percent of GNP)	0.01	--	0.23	0.03	--	0.24	0.03	--	0.23	0.03	--	0.21

Source: OECD.

1/ On a net disbursements basis. Countries of Central and Eastern Europe and the former Soviet Union. Official aid to CIT countries comprises primarily grants to the non-ODA-eligible countries in transition: Belarus, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovak Republic, and Ukraine. For 1990, does not include aid to the former Soviet Union; based on data from recipient countries, these flows were small. The ODA-eligible countries in transition are: Albania, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Excludes ODA to Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Mongolia, Slovenia, and Yugoslavia (Federal Republic of).

2/ ODA from DAC countries to developing countries and multilateral organizations. Includes debt forgiveness of non-ODA claims (including military debt) of US$1.5 billion in 1990, US$1.9 billion in 1991, and US$1.9 billion in 1992, except for total ODA for all DAC donors (following the OECD convention). The treatment of non-ODA debt relief has varied in recent years. From 1990 to 1992, it was reportable as ODA but was excluded from the DAC total. From 1993, forgiveness of debt originally intended for military purposes is excluded from ODA, whereas forgiveness of other non-ODA loans is recorded as ODA.

Table 2. Bilateral and Multilateral Official Aid and ODA to Countries in Transition and Total ODA 1/ 2/

(In millions of U.S. dollars)

	1990		1991		1992		1993	
	CIT Disbursements	Total ODA	CIT Disbursements	Total ODA	CIT Disbursements	Total ODA	CIT Disbursements	Total ODA
Australia	6	955	9	1,050	5	1,015	6	953
Austria	85	394	297	547	412	556	393	544
Belgium	21	889	274	831	135	870	81	808
Canada	11	2,470	145	2,604	261	2,515	27	2,373
Denmark	15	1,171	65	1,200	83	1,392	176	1,340
Finland	17	846	119	930	50	644	39	355
France	76	7,163	458	7,386	366	8,270	612	7,915
Germany	473	6,320	2,772	6,890	3,365	7,583	2,452	6,954
Ireland	5	57	15	72	10	70	9	81
Italy	133	3,395	672	3,347	467	4,122	290	3,043
Japan	153	9,069	110	10,952	243	11,151	533	11,259
Luxemburg	1	25	5	42	6	38	8	50
Netherlands	62	2,538	153	2,517	163	2,753	284	2,525
New Zealand	--	95	1	100	1	97	1	98
Norway	21	1,205	27	1,178	80	1,273	79	1,014
Portugal	4	148	22	213	18	302	13	248
Spain	24	965	162	1,262	102	1,518	87	1,213
Sweden	2	2,007	108	2,116	354	2,460	62	1,769
Switzerland	9	750	125	863	128	1,139	245	793
United Kingdom	259	2,638	327	3,201	339	3,243	293	2,908
United States	338	11,394	1,832	11,262	744	11,709	1,289	9,721
Total, including Multilateral Organizations 2/	1,714	52,961	7,696	56,678	7,330	60,850	6,976	55,965
(Percent of GNP)	0.01	0.33	0.04	0.33	0.04	0.33	0.04	0.30
Memorandum Item:								
Multilateral Institutions	477	15,802	2,566	15,425	1,965	19,601	1,968	17,025

Source: OECD.

1/ On a net disbursement basis. Includes bilateral aid and contributions to multilaterals, mainly the European Union and the EBRD, which channeled aid to the Countries of Central and Eastern Europe and the former Soviet Union (CIT). Disbursements to CIT countries include ODA to ODA-elibible countries: Albania, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan; and non-ODA aid, primarily grants, to non-ODA-eligible countries in transition: Belarus, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovak Republic and Ukraine. For 1990, does not include aid to the former Soviet Union, based on data from recipient countries, these flows were small. Excludes ODA to Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Mongolia, Slovenia, and Yugoslavia (Federal Republic of).

2/ ODA from DAC countries to developing countries and multilateral organizations. Includes debt forgiveness of non-ODA claims (including military debt) of US$1.5 billion in 1990, US$1.9 billion in 1991, and US$1.9 billion in 1992, except for total ODA for all DAC donors (following the OECD convention). The treatment of non-ODA debt relief has varied in recent years. From 1990 to 1992, it was reportable as ODA but was excluded from the DAC total. From 1993, forgiveness of debt originally intended for military purposes is excluded from ODA, whereas forgiveness of other non-ODA loans is recorded as ODA.

II. Rethinking Aid Policies

The end of the Cold War has partly changed the objectives of aid from strategic concerns towards a more narrow focus on alleviating poverty and promoting sustainable development. This has led the aid agencies of many countries to begin a process of rethinking their priorities and mechanisms for implementing their aid policies, which is in a state of flux in many countries. The purpose of this section is to summarize trends in rethinking aid in selected donor countries (Canada, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United States), which have recently undertaken a review of their aid policies or are in the process of doing so. These countries were among those visited by a small staff team during 1994-95. The broad trends of aid policies of the eight individual countries are described in Appendix III.

Aid effectiveness is an important issue in most donor countries. Some donors reported that, for the most part, this is linked to the poor public image of aid. To some extent, the rethinking of aid can be viewed as an attempt to redress the "image problem" by devising a clearer rationale for aid in the post Cold War context. In turn, in some donor countries, this trend is likely to imply that aid will increasingly be allocated to fewer countries, which donors view as more ambitious in pursuing their development objectives.

To an important extent, the narrower focus among donors on poverty reduction and good governance, both on political and economic fronts, combined with the pressure on aid budgets, is likely to lead to an overall contraction of available assistance and to decreased tolerance of countries with poor performance in these areas. In turn, those recipient countries that are perceived to be performing badly in donor priority areas will tend to have limited access to balance of payments support as donors shift toward humanitarian and non-governmental support administered through NGOs. Furthermore, some donor countries do not perceive themselves as having a comparative advantage in balance of payments support.

Although the process of rethinking aid varies widely across countries, a number of common themes seem to have emerged in the objectives and policies of donor countries:

First, the recipient country should be pursuing market-oriented policies, including efforts to facilitate the growth of the private sector. This stems from the almost universal recognition of the key role of private sector-led growth in creating jobs and reducing poverty on a sustained basis.

Second, the recipient should practice good governance. In economic matters, this has tended to focus on: market rules and regulations; transparency and accountability; and key institutional aspects including implementation capacity. In political matters, this includes: the rule of law; democracy and security; human rights; participatory political process;

freedom of the press and freedom of expression; and security. These concerns stem from the importance of sound economic management and a commitment to economic and social development for achieving poverty reduction.

Third, and related to good governance, more emphasis is put on participatory development because active participation of all groups within the recipient country is considered a crucial element in broad-based development. At the same time, there is a growing appreciation of the importance of economic activities that enable people to help themselves in the long run and the importance of local ownership of aid processes. Also, the refocussing of aid has also led to an increase in the number and participation of both donor- and recipient-country non-governmental organizations (NGOs) in development-related activities (Box 1) and an increase in direct financing of the private sector (Box 2).

Fourth, donors increasingly seek to participate in projects and programs that directly focus on poverty reduction and address basic humanitarian needs including: education and training, particularly primary education; 1/ population programs; health; environment; and women in development. Aid agencies have different definitions of poverty reduction. For some agencies, it is linked to economic growth in the economy, while for others it is connected with more micro-aspects of selected poverty intervention for specific sectors, groups in the society, or geographical areas.

Finally, in some donor countries (e.g., Canada and the Netherlands) *there is increasing recognition that aid cannot be considered in isolation* from foreign policy and defense considerations, and there are attempts to formulate aid policy in a broader context to take into account interlinkages and promote coherence in policies of the individual donors.

1/ The World Bank's World Development Report in 1991 discussed the role in development of investment in human capital. Also, the World Bank notes in The East Asian Miracle (1993) that rapidly growing human capital, along with private domestic investment, were the principal engines of growth.

Box 1. Aid Channelled Through Non-Governmental Organizations

Several donors place a strong emphasis on channelling aid through non-governmental organizations (NGOs). For example, government support for NGOs was around 7-9 percent of total ODA in 1992/93 in Canada, the Netherlands, and Sweden and exceeded 18 percent of total ODA in Switzerland in 1992/93. In addition, many NGOs were active as implementing agents for government aid programs and projects. Donor support for NGOs is based on the strength of NGOs in terms of their grass-root approach to aid-delivery, which can be an effective means of reducing poverty. Some donors also see support for NGOs as an important means to encourage public participation in aid policy discussion and improve public support for aid. However, some studies by donors of the effectiveness of NGOs show mixed results. The studies show that NGOs functioned well in the areas of their relative strength, such as delivery of health and education services. However, controls on expenditure and evaluation of projects were occasionally weak and the implementation of policies was not necessarily in line with donor government's aid policy priorities. Also, in some cases, difficulties have arisen in coordination of NGO activities with other donors and NGOs. Generally, NGOs appeared to be subject to less public scrutiny on the use of the aid than official agencies.

Support for NGOs is likely to remain strong in the immediate future, and in some cases increase over the medium term. The implications for the macroeconomic framework in Fund-supported programs of an increasing share of aid being channelled through NGOs, rather than through the public accounts, will need to be taken into account. This, coupled with direct financing of the private sector by donors (see Box 2), may reduce the availability of aid flows to the government and require tighter fiscal programs. Also, in some cases, NGOs may provide a significant portion of some services normally expected to be provided by the public sector (e.g., basic education and health services). The extent to which these services are provided outside the public sector need to be considered by the government in deciding on expenditure priorities. Furthermore, the growing presence of NGOs may raise coordination problems that will need to be addressed by donors and recipient countries.

Box 2. Direct Financing of the Private Sector

Donors are increasingly focussing on private sector-led growth to create jobs and improve the position of the poor. This includes: financial support for structural adjustment programs that put in place an environment conducive to growth of the private sector; technical assistance to develop the legal framework and institutions needed for a vibrant private sector; and direct financial assistance to the private sector. Several donors provide direct assistance to the private sector in line with the DAC Orientations for Development Cooperation in Support of Private Sector Development published in 1994. In most cases, donors provide assistance to small- and medium-scale enterprises, either through a local development bank or directly, as is the case with some of the multilateral development banks. The loans are generally on non- or slightly-concessional terms, and many donors do not finance projects that are regarded as commercially viable and could attract alternative private financing (in line with the DAC orientations).

The private sector financing of economic infrastructure is also a feature of some donor policies. For instance, International Development Association (IDA) lending and policy advice fosters the development of core policy, regulatory, and legal frameworks to facilitate commercial principles of operation and private sector involvement in infrastructure. However, most donors are moving away from supporting large infrastructure projects, partly because of the attendant difficulties in dealing with environmental and relocation issues. Although most donors, including IDA, still effectively require a government guarantee, some donors are lending directly to the private sector without a government guarantee or are taking equity positions. For example, in 1990 the African Development Bank (AfDB) began lending directly to the private sector without a government guarantee and took some equity positions. The AfDB disbursed around US$70 million directly to the private sector in the period 1991-1993, mainly in the form of non-concessional loans.

The growing trend toward direct financing of the private sector, rather than through the public accounts, will need to be taken into account in the design of Fund-supported programs. It may drive a wedge between capital inflows in the balance of payments and donor support recorded in the budget to a greater extent than in the past. Direct financing of the private sector by donors will impact on the macroeconomic framework in a similar manner to other private capital inflows. However, given that flows from donors are longer term in nature and, as such, are less likely to be reversed than private sector short-term capital inflows and portfolio investment, it should not lead to problems of instability sometimes associated with private capital flows. Also, the size of direct financing of the private sector by donors is likely to remain modest for some time.

III. Use of Policy Framework Papers

At the discussion on the evolving role of the Fund on July 19, 1994, several Directors requested that consideration be given to the issue of broadening the use of policy framework papers (PFPs) to cases other than countries with programs supported by the SAF and ESAF, and particularly programs supported by the EFF and STF. 1/ Similarly, several Directors urged consideration of using PFPs for SBA and EFF cases at the Board seminar on Conditionality Review--Distilling the Main Messages and Direction for Further Work on November 9, 1994. 2/ This note first presents the background and the criteria for preparing PFPs, discusses possible use of PFPs under various Fund facilities, and closes with some tentative conclusions.

1. Background

PFPs are documents of governments developed in close collaboration with the staffs of the Fund and the Bank. They are intended to be comprehensive statements of policies in the context of a medium-term framework. They typically describe the major economic problems and challenges facing a country; the objectives of a three-year adjustment program; the priorities of macroeconomic and structural policies; and the related requirements and sources of financing.

PFPs were introduced in 1986 as a requirement for SAF arrangements and were later extended to ESAF arrangements. The rationale was the need for ensuring close collaboration and consistency in advice between the Bank and the Fund and for mobilizing financial assistance. 3/ At present, PFPs are normally prepared in conjunction with ESAF arrangements. Recently though, they have also been prepared in conjunction with programs under enhanced surveillance procedures (Ghana and The Gambia), a precautionary SBA (Lesotho), and one arrears case (Somalia). PFPs have also been prepared in conjunction with rights accumulation programs for ESAF-eligible countries. In principle, they could also support structural adjustment operations of the Bank for the poorer countries in the absence of an ESAF arrangement.

In 1988, the Boards of the Fund and the Bank considered a UK proposal to extend the PFP process to middle-income countries requesting use of Fund

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1/ The Evolving Role of the Fund on the Occasion of the Fiftieth Anniversary of the Bretton Woods Conference (July 25, 1994, Buff/94/73).

2/ A number of Directors noted that policy framework-like papers would be a suitable vehicle for considering the medium-term context of programs and for ensuring intensified collaboration with the World Bank in the case of stand-by and extended arrangements. Other Directors were of the view that less formal instruments would be suitable, especially in cases in which an external crisis required urgent action (SUR/94/129, 11/17/94).

3/ EBS/85/283, 12/17/85.

resources under the EFF. 1/ At the time, the Bank's Board expressed reservations about the usefulness of PFPs (citing what was perceived as an emphasis on macroeconomic adjustment and financing rather than on structural/sectoral issues and growth strategy). 2/ Different views were also expressed by some members of the Fund Board, which suggested that the issue be discussed further. 3/

Ongoing interest in the subject was reflected in the March 1989 revised guidelines on Bank-Fund collaboration, and in a G-10 Deputies report issued shortly thereafter. 4/ The revised guidelines emphasized the joint nature of PFP missions and discussions with the authorities. The guidelines also noted that proposals to extend the use of PFPs would be considered again by the respective Executive Boards after further consultations between the staffs and managements of the Fund and the Bank. A June 1989 G-10 Deputies' report favored similar proposals to extend the PFP process to middle-income countries, as well as to increase the role of PFPs in the Bank's lending operations.

The issue was revisited in the 1990 review of progress on Bank-Fund collaboration. This joint Bank-Fund progress report noted that PFPs had not been proposed for use in the small number of EFFs approved up to that time because, for many of the countries in question, the policy dialogue with the Bank and the Fund had already been quite advanced and, at least for some of them, official financial assistance had not been central in their financing situation. 5/ While some Directors again endorsed the concept of PFPs for middle-income countries, the proposal was not generally endorsed by the Fund Board. At the same time, nonetheless, several Directors emphasized the usefulness of a PFP approach for centrally planned economies in transition or for economies undergoing major macroeconomic and structural transformation. The importance of ownership by the member country concerned was stressed. 6/ In the Bank Board, the proposal to consider extending the PFP process to middle-income countries again received considerably less support than in the Fund Board. Following the 1990 review, medium-term framework papers were prepared in the case of two EFFs in 1990-91. In addition, they were prepared for two countries that had EFFs together with ESAFs (i.e., Pakistan and Zimbabwe). As a result, 4 of the 11 EFFs approved following the 1990 review of progress on Bank-Fund collaboration were accompanied by PFPs or PFP-like documents. Among the reasons for not preparing a PFP in other cases were the lack of need for mobilizing

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1/ "Proposals for Extending the Policy Framework Paper (PFP) Process to Middle-Income Debtors" (EBD/88/144, 5/31/88).

2/ EBS/88/65, Sup. 1, 3/23/88.

3/ Buff/88/92, 5/13/88.

4/ SM/89/54, Revision 1, 4/30/89; and, G-10 Deputies' report, "The Role of the IMF and the World Bank in the context of the Debt Strategy," June 1989.

5/ "Progress Report on Bank-Fund Collaboration" (EBS/90/131, 7/12/90).

6/ Buff/90/161, 8/17/90.

concerted official financing as well as the considerable demand on staff resources of a PFP. It was considered sufficient for the letters of intent for EFFs to include a detailed description of structural measures.

In 1992, the addendum to the Bank-Fund collaboration guidelines dealing with the cases of the FSU states noted that consideration would be given to the preparation of comprehensive tripartite documents which describe the reform programs and their associated financing requirements in a medium-term macroeconomic framework as structural reform programs were elaborated and prior to supporting the authorities' programs with extended Fund arrangements. 1/ 2/ So far, with one exception (the Kyrgyz Republic in the context of an ESAF arrangement), such medium-term framework papers have not been prepared in FSU states reflecting: (i) the tendency for these countries to move from STF arrangements to SBAs rather than EFFs (for non-ESAF-eligible countries); and (ii) the inherent difficulties in formulating a meaningful medium-term macroeconomic strategy in the face of the wide-ranging systemic upheaval and attendant economic uncertainty in these cases. In the only EFF case for FSU states, Lithuania, there was no need for concerted official financing, and collaboration on structural issues was very close without a joint medium-term framework paper. Bank staff joined in the negotiating missions and provided valuable input in the design of structural reforms.

The role of PFPs as instruments to help mobilize public support for adjustment programs led the Bank and the Fund staffs to agree to encourage wide circulation of PFPs by member countries. As early as 1987, specific procedures were developed for broadening the circulation of PFPs to international organizations and agencies that provide financing. 3/ In June 1994, the Fund Board discussed a proposal to encourage members to give wider circulation to PFPs, 4/ as initially envisaged but rarely used. The reason for this initiative was that while PFPs are currently released on a selective basis with the consent of the authorities (mainly to donors and consultative groups), publication of PFPs by the authorities might in some cases promote greater public understanding of, and support for, adjustment programs. In doing so, release of PFPs would also promote greater

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1/ See EBD/92/97, 4/29/92.

2/ Shortly after the April 1992 Addendum to the Bank-Fund collaboration procedures, the Bank's Board adopted the recommendations of an Ad Hoc (Bank) Committee on Board procedures (see EBD/92/184, 8/27/92). PFPs would no longer be considered by the Bank's Committee of the Whole but discussed as background to the Bank Board discussion of Country Assistance Strategy papers, and that--except in the case of first time PFPs--a separate discussion and summing-up of the PFP would only be scheduled by the Bank's Board upon the request of an Executive Director, in which event the Fund Board would be informed of the Bank Board's conclusions.

3/ Structural Adjustment Facility (SAF)--Review of Experience (EBS/87/46, Sup. 1, 6/9/87).

4/ EBD/94/95, 7/14/94.

understanding of the role of the Fund and increased transparency of the Fund's operations in member countries. While the Bank and the Fund staffs encourage such release, it remains a decision of the government concerned.

Member countries have generally been reluctant to agree to a wider circulation of the PFP, either domestically or to the outside world, including NGOs, partly because they may have been concerned that circulation to the general public could "politicize" the negotiation of a PFP, as the text would need to cater to various sensitivities. However, there are notable exceptions, including Albania (a similar document was approved by Parliament and the PFP was made available to interested foreigners), Nicaragua and Zambia (the PFPs were published), Guyana (the PFP was presented to Parliament), and the Solomon Islands.

2. Criteria for use of PFPs

Several lessons can be drawn from the experience with PFPs over the period since 1986. In general, there may be considerable merit in the preparation of a PFP in cases with the following characteristics:

(i) heavy structural/transformation content and need for elaborating on the medium-term context of a program;

(ii) need for close collaboration between the Bank and the Fund in the design of a medium-term economic program; substantial financial and technical assistance from both the Bank and the Fund; and

(iii) need to mobilize concerted or substantial official financing.

If all of these criteria are present, there appears to be substantial advantage in having a formal vehicle for collaboration with the Bank. This would help to ensure the coherence of the overall macroeconomic and structural reform strategy, the specificity of the structural measures, and the coordination of technical and financial assistance. These criteria are generally met for ESAF cases and there is therefore merit in preparing a PFP and allowing for the extra cost the PFP entails for the staffs of the Bank and the Fund and the authorities.

However, while there have been non-ESAF cases which met these criteria, most have met them only in part, and the case for a PFP was less clear-cut. For instance, in certain cases, mobilizing concerted official financing may not be top priority although there is close policy involvement of both the Bank and the Fund. In such cases, the benefits in terms of ensuring close Bank-Fund collaboration in a formal way needs to be weighed against the cost of preparing PFPs for the authorities concerned and the Bank and the Fund staffs. In other cases also, where Bank project or sector loans are likely to have limited immediate implications for the macro framework, an informal collaboration could be more cost-effective for the Bank and Fund staffs, and for the authorities.

The preparation of PFPs has had a number of advantages for the three parties involved as well as for the donor community. For the authorities, the PFP has helped the authorities formulate a medium-term adjustment program which was relatively specific on the targets, policies, and their timetable over the three-year period. In selected cases, it has also facilitated continuation of policy reforms in the wake of changes in governments. In the few cases (such as Albania, Nicaragua, and Zambia) where the PFP was released to the public, it was seen as useful for mobilizing parliamentary and public support for the adjustment program. While initially there were questions of whether the authorities fully owned this document rather than considered it a document of the Bretton Woods Institutions, over time it appears that the sense of ownership has strengthened.

For the Fund, one of the advantages of the PFP has been the elaboration of the concrete structural and transformation measures where the Bank has the main expertise.

A key issue in the consideration of the role of PFPs is the operational role of PFPs in the Bank. A fundamental difference between the role of PFPs in the Bank and the Fund is that they are not directly linked to the Bank's lending operations as in the Fund. 1/ Nevertheless, the PFP has served as important input to the Bank's Country Assistance Strategies (CAS) which are presented to the Bank Board. In addition, the PFP offers a formal vehicle for articulating a consistent macro-framework and financing scenarios in the Bank and the Fund. Finally, the PFP is a useful instrument for the Bank in its effort to mobilize external financing--in most cases, it is distributed to consultative group meetings. 2/

Indeed, most bilateral and multilateral aid agencies are making active use of the PFPs in their own internal planning of development assistance. They have welcomed involvement in the PFP process although several of them would have liked it to have been more active. By involving donors in the PFP process--not in the actual negotiation but in timely input in areas where they have special expertise--consistency in policy advice and in the financing of policy reforms, and increasingly the provision of technical assistance, has been promoted. In some cases, in their own bilateral aid agreements with recipient countries, donors are attaching the PFP or referring to it as providing the framework for their assistance program.

1/ While PFPs are part of the required documentation for ESAF arrangements in the Fund, there is no equivalent requirement in the Bank for a PFP to form part of the documentation supporting lending operations.

2/ The use of PFPs at consultative group or other donor meetings varies among regions. For regions of countries primarily with ESAF arrangements (e.g., Africa), the use is widespread and routine.

3. Potential role of PFPs under Fund facilities

The possibility of extending the requirement for use of PFPs to both EFF and SBA cases has been raised by the Board. In light of the overall positive experience with PFPs for ESAF cases, the question is whether the potential benefits of preparation of PFPs in EFF and SBA cases would outweigh the costs for both the Bank and the Fund staffs and the authorities concerned. Against the background of the experience and key features of PFPs outlined above, the following considerations are relevant to assessing the usefulness of extending the PFP process to these cases:

a. EFF arrangements

EFF arrangements are set in a medium-term context with emphasis on both macroeconomic policies and structural reforms. For many middle-income countries, however, the need for concerted official financing and sometimes for formal Bank-Fund collaboration is not obvious. There would clearly be merit in considering the use of PFPs as a vehicle for Bank-Fund collaboration in EFF cases where there is extensive involvement of both the Bank and the Fund in the design and support of complex structural adjustment as well as technical assistance programs. This would typically be cases where the Bank operations are likely to have major implications for the macroeconomic framework. Looking ahead, it appears that several FSU states might be candidates for EFF support. In the case of these countries, the 1992 addendum to the Bank-Fund collaboration guidelines already provides for the possibility of preparing medium-term framework papers in appropriate cases. The PFP might be particularly useful in these cases, where both the Bank and the Fund are expected to be heavily involved in structural adjustment policies and where there might also be a need for concerted official financing. In addition, the PFP process would also assist in the coordination of policy and technical advice among donors to prevent inconsistencies of such advice. In other EFF cases, the need for concerted official financing might be less clear. Also, in these latter cases, there could be a need for specificity on the macroeconomic and structural policies over the three-year program period, although the link between the "micro" structural problems and macroeconomic policies are not always as clear as in ESAF cases.

While EFFs could be strengthened by the use of PFPs, it should also be recognized that PFPs are costly in terms of staff time and that close Bank-Fund collaboration could be achieved in other ways, including mission participation and commenting on briefs and staff reports. One alternative would be for staff to prepare a Country Strategy Paper (CSP) before an EFF arrangement, which could be coordinated with the Bank's CAS papers. CSPs are internal staff documents that have the purpose of: (i) examining the origins of a country's current problems, its past adjustment efforts, and the Fund's role therein; (ii) setting out the country's adjustment needs and possible strategies in an analytical framework with a medium-term perspective, including a reasonably specific plan for the Fund's preferred strategy in the country's circumstances; and (iii) deriving the administrative implications of future Fund involvement. CSPs, if closely coordinated with the Bank's CAS, could achieve much the same purpose as PFPs in relation to Bank-Fund collaboration, and in a more cost-effective way since there would not need to be agreement on one single document, which would be the outcome of negotiations with the recipient government. Of course, the paper would not be a document of the member government concerned and thereby could not play the role of a PFP in helping member governments take ownership of the program. Furthermore, CSPs would not fulfill the role of PFPs in helping mobilize donors' support. The CSPs, which outline alternative adjustment strategies as a basis for negotiations with country authorities, would have to remain internal staff papers to serve their main purpose. However, having developed and discussed the adjustment program with the authorities, the strategy would be fully described in the letter of intent as well as in Board documents.

b. SBA cases

The possibility of PFP-type documents have also been mentioned for SBA cases. There is a need for formulating programs under SBAs in a medium-term context. But such medium-term policies could be less specific than in programs supported by the EFF or ESAF. There might be cases where a clearly spelled out medium-term framework might be appropriate. For instance, a PFP was recently prepared for a precautionary SBA for Lesotho, partly because the country is ESAF-eligible and has had a number of PFPs in the past, which had been useful for mobilization of external assistance. In addition, there are recent cases of stand-by arrangements, including in Eastern European countries, where the letters of intent have included substantial detail on structural reform reflecting close Bank-Fund collaboration. The preparation of a PFP would tend to reduce the speed with which a SBA could be prepared. In general, it would not seem appropriate to make a PFP a general requirement for SBAs. However, this would not preclude PFPs being prepared for SBAs in the few cases of ESAF-eligible countries in which PFPs had earlier been prepared in conjunction with SAF/ESAF-supported programs and had become an important tool for mobilization of external assistance. 1/

4. Conclusions

PFPs are already a requirement for Fund support for the 79 member countries eligible for ESAF assistance. Extending the PFP approach to cover a broader spectrum of Fund members might be beneficial in circumstances where the key features that contribute to the successful use of PFPs are present and relevant: (i) heavy structural/transformation content and need for elaborating on the medium-term content of a program, (ii) the need for close Bank-Fund collaboration in the design of a medium-term economic

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1/ As noted earlier, a PFP was prepared recently in conjunction with a precautionary standby arrangement for Lesotho and enhanced surveillance procedures for Ghana and The Gambia, which were put in place after the expiration of the ESAF arrangements.

program, supported by substantial financial and technical assistance from both the Bank and the Fund; and (iii) the need to mobilize substantial official financing. These conditions are generally present in ESAF cases. While PFPs might be useful in selected SBA cases, it would not seem appropriate to make PFPs a requirement for all SBAs. A PFP approach might have merits in EFF cases where the elements central to PFPs are present and relevant. If PFPs are extended to these cases, it should be recalled that it would have cost implications for the staffs of the Bank and the Fund and for the authorities. One possibility might be to proceed on a case-by-case basis with the presumption that a PFP would be prepared when all three of the above criteria are judged to be met. Alternatively, the staff could prepare an internal CSP which in substance and timing would be closely coordinated with the Bank's CAS, which might be a cost-effective method of achieving close Bank-Fund collaboration.

IV. Review of External Financing Experience in Selected Fund-Supported Programs with Low-Income Countries

1. Introduction

This section reviews the experience with mobilizing external financing of 17 low-income countries with Fund-supported programs from 1991 to 1993. 1/ Many of these countries experienced significant shortfalls in external financing during Fund-supported programs that in some cases proved disruptive to program implementation. Of the 40 annual programs in these countries from 1991 to 1993, shortfalls in external financing of more than 10 percent of the program target occurred in 17 cases. The primary aims of the review are to explore the causes of the shortfalls, including factors on the side of recipient countries, donors, or program forecasting; to assess the impact of shortfalls on economic programs; and to draw some lessons for future Fund-supported programs.

2. Nature and extent of shortfalls in external financing

Significant financing shortfalls recurred with some frequency in Fund-supported programs for low-income countries in recent years. The shortfall in official external loans and grants, relative to the program target, for the aggregate of the 17 countries included in the review, was around

1/ Countries with active ESAF-supported programs for the bulk of 1992 and 1993 were included in the review (if at least one-third of the disbursements under the ESAF was made by end-1993). The Kyrgyz Republic, which did not have an ESAF-supported program until July 1994, but had an STF/SBA in 1993, was included to capture some experience with an FSU country. In addition, Zambia was included to capture the experience with a rights accumulation program. The countries included comprise: Bangladesh, Bolivia, Burundi, Guyana, Honduras, Kyrgyz Republic, Lesotho, Malawi, Mauritania, Mozambique, Nepal, Sri Lanka, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

11 percent in both 1992 and 1993, or almost US$1 billion in both years (Table 1). The aggregate shortfall was lower in 1991 at around 7 percent of the target, but was over US$400 million for 10 countries included in the review in 1991. For those countries that experienced shortfalls in official loans and grants, the shortfalls averaged around 14 percent in 1991-93 on an <u>aggregate</u> basis (on an <u>average</u> basis for each year, the shortfalls for these countries were higher, at between 16 and 20 percent in 1991-93).

The deviation from targets for official loans and grants does not follow a normal distribution, with a skew towards large shortfalls (as shown in Chart 1). Shortfalls were more than 10 percent of the target in 17 of the 40 program years, while excesses were more than 10 percent of the target in only 4 cases. All countries in the survey (except <u>Bolivia, Burundi, Honduras, and Mauritania</u>) experienced at least one program year in which shortfalls exceeded 10 percent of the target, while 8 countries had at least one program year where shortfalls exceeded 20 percent of the target (<u>Guyana, Kyrgyz Republic, Lesotho, Nepal, Togo, Uganda, Zambia, and Zimbabwe</u>). Conversely, only two countries experienced program years where the outcome exceeded the target by more than 20 percent (<u>Bolivia and Uganda</u>).

Grants were closer to the target than loans (Tables 2 and 5). The aggregate shortfall in grants in 1992 and 1993 was 2-3 percent (with an excess of 6 percent in 1991) compared with shortfalls in loans of around 14 percent on average for 1991-93. Also, there was a wider dispersion of deviations from target for loans than for grants, as shown in Charts 2 and 3. Grants (which include technical assistance) and project loans, by their very nature, are less sensitive to disruption from interruptions in program implementation. Also, the lumpy nature of non-project loans would result in greater variability. Although the lack of availability of data for all countries on the breakdown of project and non-project loans makes the comparison difficult, there is some evidence of greater shortfalls for non-project loans. For countries that experienced shortfalls, the shortfall for <u>non-project loans</u> averaged 34 percent on aggregate for 1991-93, while the shortfalls for project loans averaged 29 percent for 1991-93 (Tables 3 and 4).

Total official external financing of the balance of payments (including debt relief) and external financing of the budget show a pattern of shortfalls that is similar to that for total loans and grants (Tables 6 and 7). Total official external financing of the balance of payments (including debt relief) fell short of the targets in 1991-93 by around 9 percent on average (for the aggregate); while for those countries that experienced shortfalls, the shortfall averaged around 16 percent on aggregate for the same period. The difference between the shortfall of 7 percent in 1993 for total external financing of the balance of payments and the shortfall in grants and loans in the same year of 11 percent was due to higher-than-expected debt relief.

The simple average shortfall in external financing of the budget averaged around 1.4 percent of GDP in 1991-93. For those countries experiencing shortfalls, the shortfall averaged around 3 percent of GDP in 1991-1993. In some cases, there were significant differences between the shortfalls in official external financing of the balance of payments and the budget (e.g., Mozambique and Zimbabwe). In part, this arose because of lags between receipt of funds in the balance of payments and receipts of budget funds, stemming from problems with mobilizing counterpart funds and disbursement of financing to accounts not included in the budget.

Shortfalls in external financing were a recurring problem in six countries: Bangladesh, Guyana, Mozambique, Sri Lanka, Zambia, and Zimbabwe. In these cases, shortfalls averaged around 14 percent of the target for official loans and grants for all program years.

Of the countries included in the review, Zimbabwe experienced the largest single shortfall in U.S. dollar terms, with a shortfall of US$295 million in 1993. This was marginally greater than the US$287 million shortfall experienced by Zambia in 1991. Guyana experienced the largest shortfalls in percentage terms (42 and 48 percent of target in 1991 and 1992).

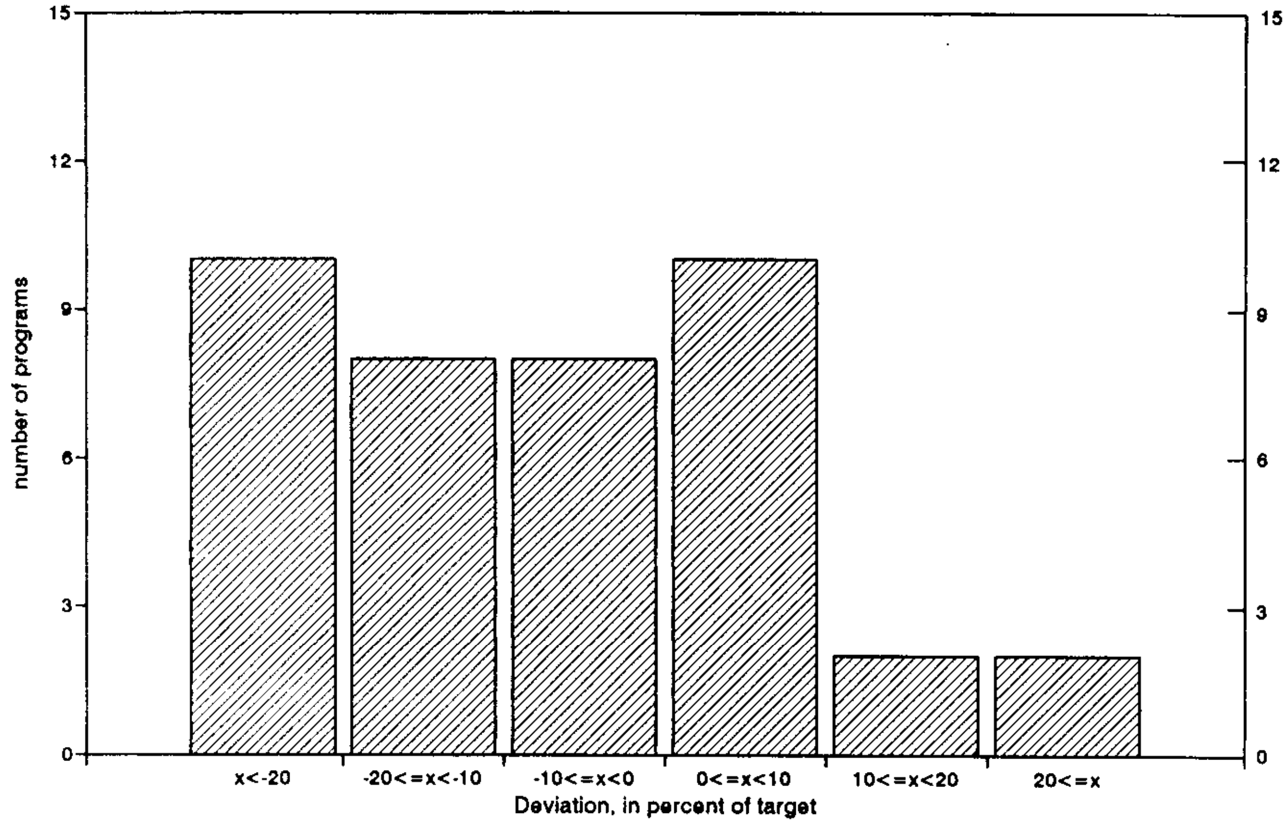
3. Factors behind the shortfalls in external financing

It is difficult to disentangle the various factors contributing to shortfalls in external financing as they are complex and interconnected. However, they can be broadly categorized under three headings: administrative weaknesses, economic policy slippages, and political factors.

Weaknesses in administrative capacity appeared to be a major factor behind shortfalls in 11 countries (Bangladesh, Guyana, the Kyrgyz Republic, Malawi, Mozambique, Nepal, Sri Lanka, Tanzania, Uganda, Zambia, and Zimbabwe). Administrative weaknesses gave rise to problems with project implementation and disbursement procedures for import support. Also, databases for external financing were often inadequate, which resulted in optimistic projections of disbursements and poor monitoring of financing. As a result, problem areas often were not identified at an early stage. There were similarities in the difficulties experienced by Guyana, Nepal, and Sri Lanka, which stemmed from lack of administrative capacity to implement projects. The difficulties experienced in the Kyrgyz Republic, Uganda, and Zimbabwe related to problems encountered with disbursement of import support funds as well as with implementation of projects. In the case of Zambia, the shortfalls related primarily to problems with disbursement of import support funds, although economic policy slippages were also a factor. The shortfalls in Malawi, Mozambique, and Tanzania arose for a range of reasons, including administrative weaknesses, economic policy slippages and, in the case of Malawi, donor concerns about good governance. The shortfalls in Bangladesh stemmed from problem weaknesses in administrative capacity to implement projects, particularly in 1992, and lower-than-expected food and commodity aid disbursements because of increases in domestic rice production.

Chart 1

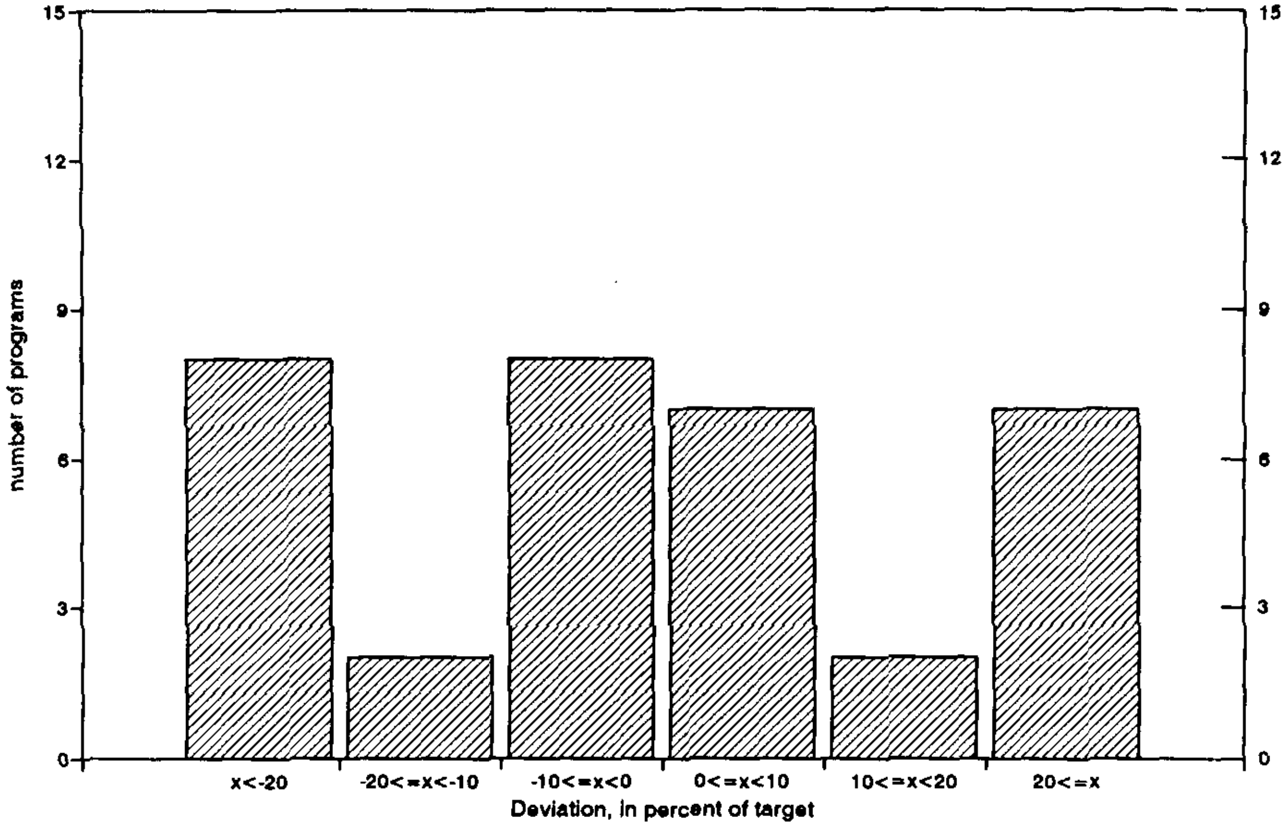
Balance of Payments External Financing
Official Loans and Official Grants 1/



Source: Table 1.

1/ Deviation of official loans and official grants for 41 programs with 17 countires during 1991-93.

Chart 2
Balance of Payments External Financing
Official Grants 1/

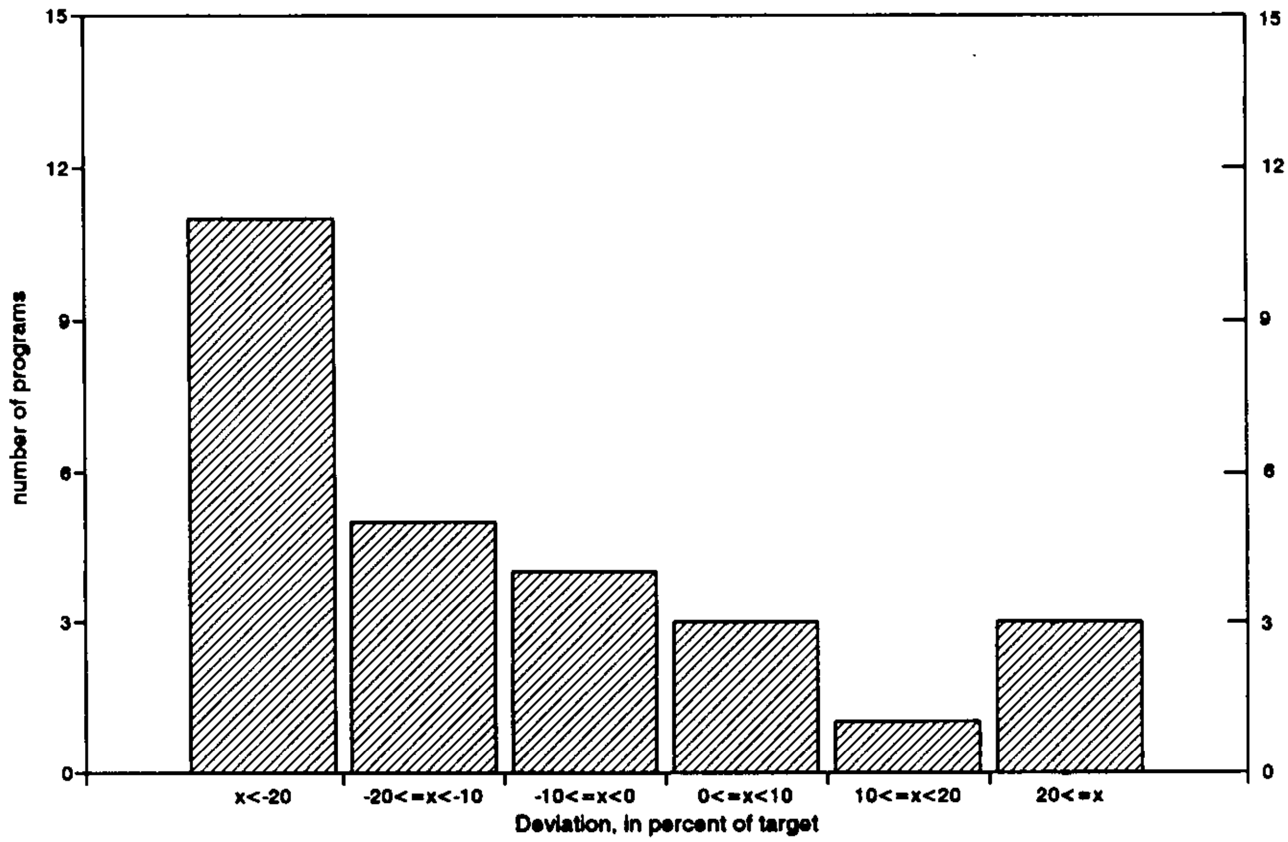


Source: Table 5.

1/ Deviation in official grants for 34 programs with 15 countries during 1991-93.

Chart 3

Balance of Payments External Financing
Official Loans 1/



Source: Table 2.

1/ Deviation in official loans for 34 programs with 15 countries during 1991-93.

Economic policy slippages were a major contributor to shortfalls in at least one year in eight countries. In four of these cases (Mauritania, Sri Lanka, Tanzania, and Togo), failure to meet sectoral specific conditionality of World Bank non-project loans was an important factor. In four other cases (Lesotho, Malawi, Mozambique, and Zambia), macroeconomic policy or structural reform slippages not directly related to World Bank financing contributed to delays or suspension of financing.

Political factors were prominent reasons for shortfalls in Malawi, Mauritania, and Togo. In Malawi, donors withheld support in 1991 to encourage democratization and good governance. Donors resumed support in 1993 as progress towards democracy was made with elections held in late 1993. In Mauritania, the Gulf War contributed to the withholding of disbursements in 1992. In Togo, donor concerns about lack of good governance led to a suspension of donor support in 1992.

4. Positive record in external assistance

Countries that had a better record of achieving the target for external financing, such as Bolivia, Burundi, Honduras, and Mauritania, tended to have better developed systems of monitoring and forecasting external financing. For example, Bolivia closely monitored its external financing and had a good record of timely disbursement of loans and grants, with only a minor shortfall in one of three program years--0.4 percent in 1993. In Burundi, close tracking of disbursements by the authorities and maintenance of a sound database were regarded by Fund staff as very important in maintaining a good disbursement record. In Honduras, improvements in the external financing database in 1993 contributed to a small excess in external financing in that year. In Mauritania, the close monitoring of disbursements by the authorities was a factor behind the good performance in 1993, which more than made up for the shortfall in 1992.

5. The authorities' and donors' response to shortfalls

The recurring nature of shortfalls in six countries (Bangladesh, Guyana, Mozambique, Sri Lanka, Zambia, and Zimbabwe) suggests that either inadequate action was taken to address the problem at an early stage, or that in setting the targets for programs following a shortfall in earlier years there was optimism with regard to the impact of corrective actions. In several cases, it appears that shortfalls were often regarded as temporary and would be caught up in the following year. However, the reasons for the delays often persisted and contributed to further delays in the following years. In many cases, the authorities attempted to address the factors behind the shortfalls, either by strengthening administrative capacity or improving policy performance, with varying degrees of success. For example, the authorities in Bangladesh took some action in 1992/93 to improve the management of projects which may have been a factor in improved performance on project related disbursements in that year. However, the problems with administrative capacity in many countries were not easy to resolve, and often reflected deep-seated weaknesses in the civil service that require fundamental reforms.

Generally, the restrictions applied by donors on sourcing, procurement, financing, and use of counterpart funds, compounded the problems many recipient countries faced with weak administrative capacity. Although there was some progress with simplifying import support documentation procedures, particularly in the context of the Special Program of Assistance to sub-Saharan Africa, there is still considerable room for improvement. 1/

6. The economic effects of shortfalls in external financing

Identifying a clear link between shortfalls in financing and economic performance is not easy given the range of factors behind shortfalls, and that these factors may have themselves directly affected economic performance. For example, the political difficulties experienced in Togo in 1992 had a direct negative impact on real economic activity and also led to problems with disbursement of external financing. Similarly, delays or lack of implementation of structural reforms which were part of Fund or Bank conditionality may have directly slowed economic growth and also resulted in shortfalls in external assistance.

A priori, financing shortfalls would be expected to give rise to inflationary pressures, lower-than-programmed levels of international reserves, and possibly lower real economic growth than might have taken place in the presence of programmed external financing, depending on the policy reaction to shortfalls. Inflationary pressures would likely stem from higher-than-programmed domestic financing of the fiscal deficit in the absence of compensating fiscal measures, particularly if the monetary authorities provided the higher domestic financing. However, this would not be the case if shortfalls in project assistance were accompanied by commensurate declines in investment expenditure or shortfalls resulted from slow implementation of projects which did not result in higher domestic financing. To the extent that investment projects have a high import content, the impact on economic growth of shortfalls in project assistance is unlikely to be felt in the short term; however, to the extent that shortfalls result in shortages of essential inputs for production, this would likely have an immediate impact on growth. Lower economic growth in the medium term would come from the negative impact on private sector activity from higher inflation and/or interest rates stemming from possible higher domestic financing of the fiscal deficit, as well as the effect of a lower capital stock stemming from the slow implementation of projects.

1/ Donors took some action to ease restrictions on disbursements in Lesotho, Uganda, and Zimbabwe. In Lesotho and Zimbabwe, some donors allowed imports originating in South Africa to be eligible for import support, while in Tanzania and Uganda, donors simplified the procedures for disbursing funds.

The analysis is also complicated by exogenous factors that may affect external financing and economic performance, e.g., if a drought occurs after the program is put in place, it would adversely affect economic performance but could increase external financing as donors respond to emergency needs. The small number of data observations (with only 40 annual programs covered in the review) precludes a formal analysis of the many factors affecting economic performance and external financing. Therefore, the discussion below is based on a simple bivariate analysis.

Inflation. There appears to be some evidence that shortfalls in external financing were associated with higher-than-expected inflation rates (see Table 8 and Chart 4). The inflation rate was 6 percent higher on average than targeted in 1991-1993 for those countries that experienced shortfalls in excess of 10 percent of the target (Table 9). Furthermore, in 22 program years, there was a negative relationship between deviations from targets for external financing and deviations from targets for the inflation rate (i.e., a shortfall in external financing was associated with higher than targeted inflation, or an excess in external financing was associated with lower-than-targeted inflation, as shown in Chart 4). In 14 annual program years, there was a positive relationship between external financing and inflation rate deviations from targets, while in four program years, there was no discernable relationship.

International reserves. The expectation that a shortfall in external financing would be associated with a shortfall in international reserves targeted under Fund-supported programs is not borne out by the evidence because of other mitigating factors. For countries that experienced shortfalls in external grants and loans in excess of 10 percent of the target, gross reserves exceeded the target by over 32 percent on average in 1991-93 (Table 9). In 26 program years, there was a negative relationship between external financing deviations from target and international reserve deviations from target, while in 12 program years there was a positive relationship (Chart 5). In the remaining two program years, there was no relationship. In many cases, it appears that improvements in the balance of payments position of countries pursuing Fund-supported programs outweighed the impact of shortfalls in foreign financing that arose because of administrative difficulties.

Real GDP growth. For the countries that experienced shortfalls in excess of 10 percent of the target, real GDP growth was lower than expected by 0.4 percent in 1991-93 (Table 9, Chart 6). However, care must be taken in interpreting the relationship between shortfalls in financing and deviations of real GDP growth from target, given the many factors that impact external financing and real GDP growth. Evidence of short-term linkages, therefore, is likely to be spurious. For example, in the case of Mozambique, the shortfall in external loans and grants of 9 percent in 1992 coincided with lower-than-expected real GDP growth of 3.8 percentage points in the same year. However, any impact of the shortfall on real GDP growth was likely dwarfed by the impact of the devastating drought in that year.

The impact of shortfalls in external financing on real GDP growth is likely to be felt primarily over the medium term, to the extent that they result in lower investment in import intensive projects. While a full treatment of this issue is beyond the scope of this paper, it is an important reason in some low-income countries why it has proven difficult to raise economic growth to a higher sustainable level.

In summary, there appears to be some association between shortfalls in external financing and higher inflation but, surprisingly, not with lower international reserves. As expected, little can be said about the impact on economic growth in the short term. No causal link can be implied from this simple bivariate analysis. Also, exogenous events, such as droughts, complicate the analysis.

7. Policy lessons

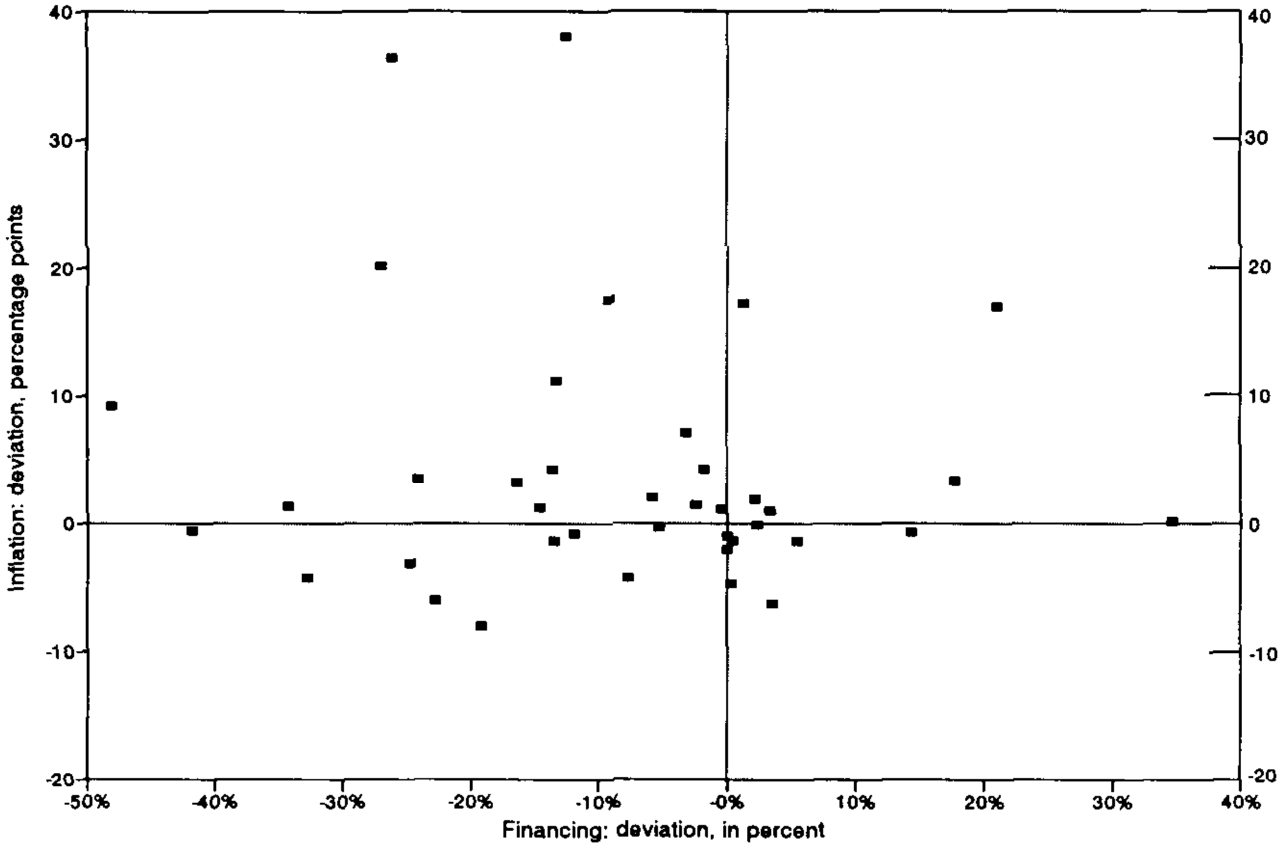
Several important lessons can be drawn from the recent experience with external financing. First, there is a need for more emphasis on improving the system of disbursement of import support funds and monitoring of external official financing, as well as improving project implementation. Importantly, the countries that were more successful at mobilizing external financing in line with program targets had better developed systems of forecasting and monitoring financing (e.g., Bolivia, Burundi, Honduras, and Mauritania). Second, in four cases, external financing was disrupted by failure to meet World Bank conditionality. This suggests that the discussion of financing packages in staff reports should highlight financing which is conditioned on the implementation of difficult sectoral policies, and thereby indicate areas in which projections of external financing are particularly vulnerable to policy slippages. Third, though the political factors that contributed to financing shortfalls could be regarded as difficult to predict (e.g., Malawi in 1991, and Mauritania and Togo in 1992), it does point to the need for awareness of donor policies with regard to governance issues in programming external financing.

The problems encountered in several countries with disbursement procedures for import-support funds and monitoring external official financing suggest that the capacity of the authorities in this area needs to be carefully considered in projecting foreign financing. In the past, it does not appear that Fund-supported programs have placed a priority on a review by the World Bank of administrative capacity in this area before the program commenced. Future programs could usefully include an assessment by the World Bank of the system for processing the disbursement of import- and budget-support funds. 1/ In cases where a deficiency is identified,

1/ Given the shift from import-support financing to budget-support financing being contemplated by many donors (as discussed in Section III of the main paper), the need for an assessment of the administrative capacity of the authorities to mobilize budget-support is important as it will involve new procedures to meet donor requirements.

CHART 4

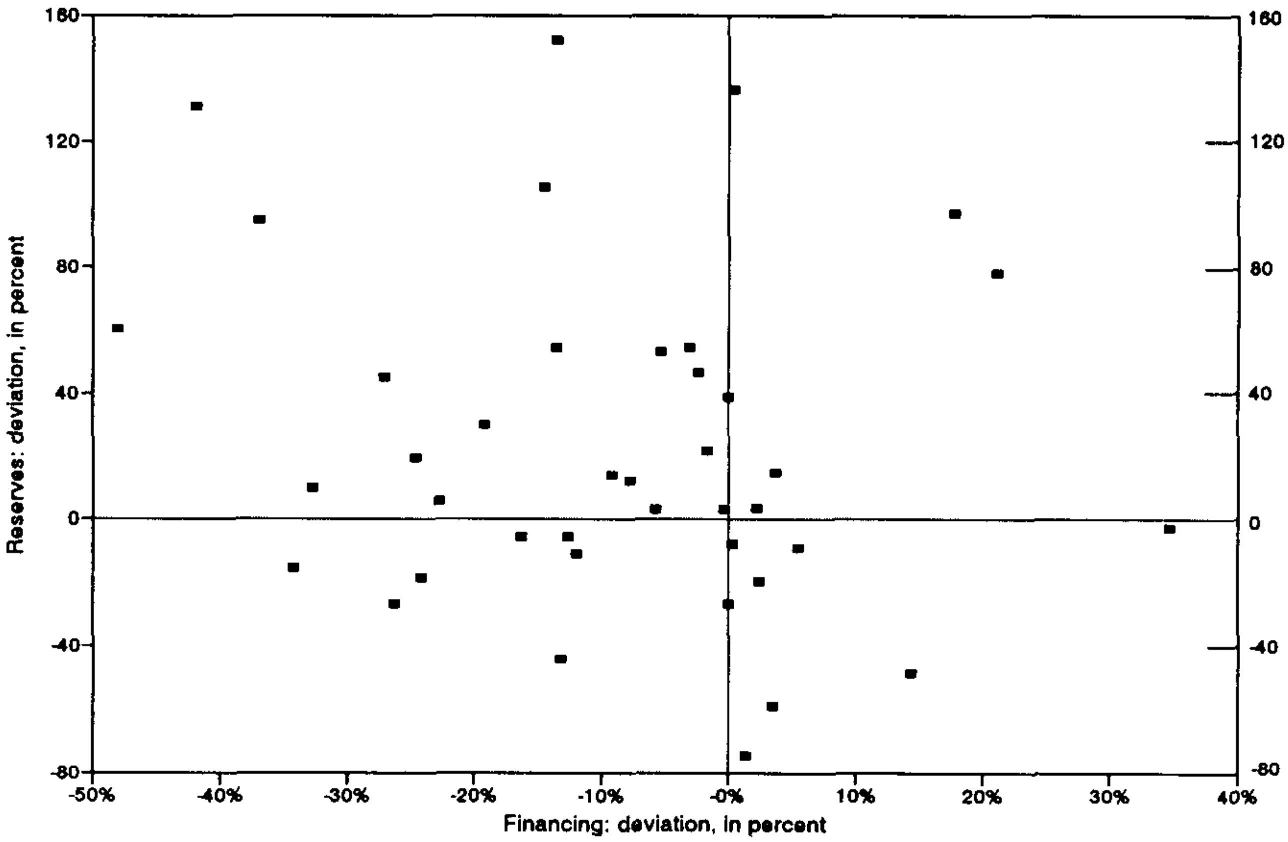
External Financing (Official Grants and Loans) and Inflation
Deviations From Targets



Source: Table 9, excluding Kyrgyz Republic.

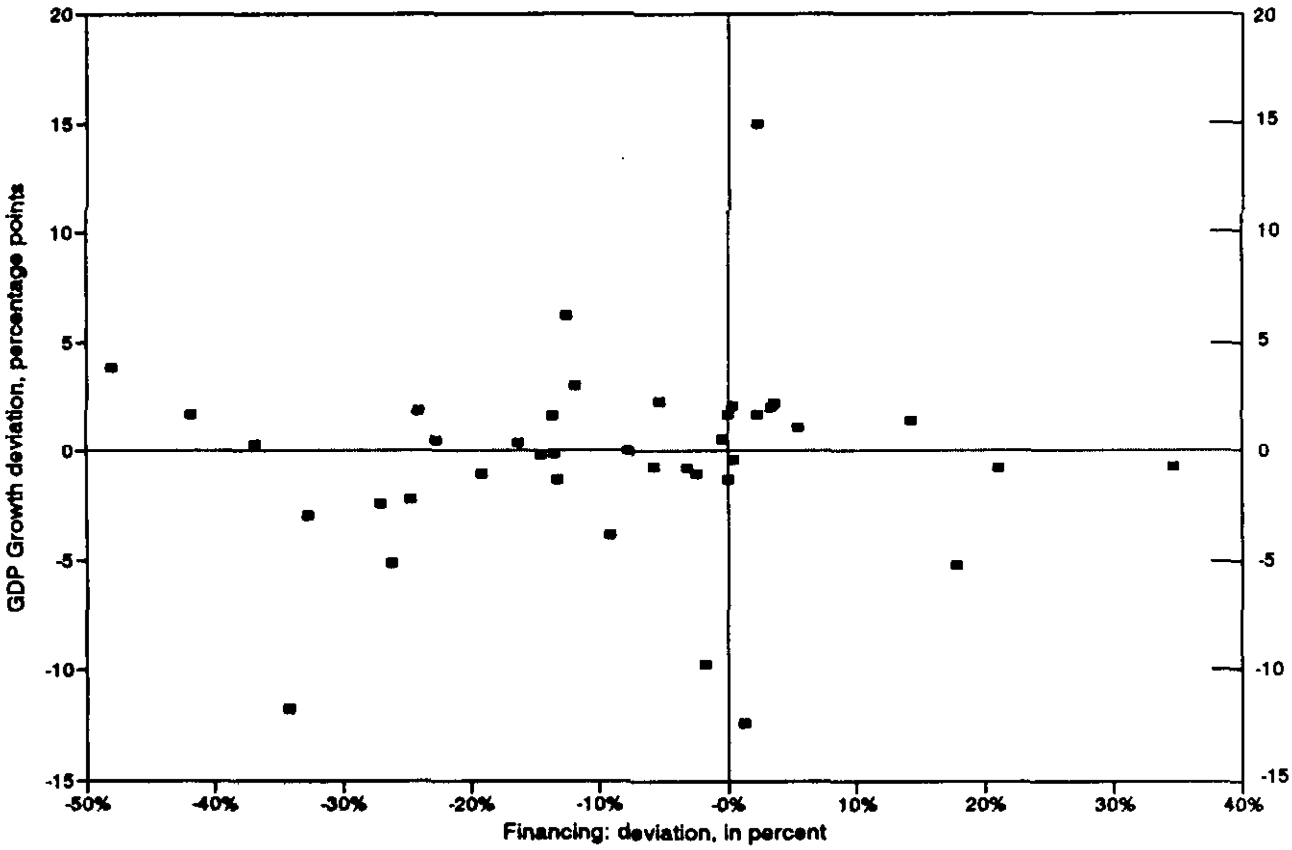
CHART 5

External Financing (Official Grants and Loans) and Gross Reserves
Deviations From Targets



Source: Table 9.

CHART 6
External Financing (Official Grants and Loans) and Real GDP Growth
Deviations From Targets



Source: Table 9.

action should be taken at an early stage to remedy the problems, and projections of utilization of import support should be scaled down in the cases where the system is considered weak. Such an approach is especially important in countries that have only limited experience in dealing with import support funds, including countries which are emerging from international isolation or are in a post-conflict stage and therefore are building up their donor relations.

Given the problems encountered with limited capacity to implement projects in many countries, a similar approach to that outlined above for mobilizing non-project financing could be taken. Future programs could usefully include a careful review of the authorities' capacity to implement projects in collaboration with the World Bank. Such a review would enable any deficiencies identified in project implementation capacity to be factored into the macroeconomic framework. Also, the program could usefully attempt to address any deficiencies found in implementation capacity, including through technical assistance where appropriate from the World Bank and other donors. It is clear from the experience with several countries, including Bangladesh, Nepal, and Zimbabwe, that the problems with poor project implementation are deep-rooted and may require comprehensive reform of the civil service.

The assessments of implementation capacity and disbursement procedures could also ascertain whether an adequate system of monitoring of the financing commitments and disbursements is in place. Ideally, the system should include an up-to-date database on commitments and disbursements with information on conditionality linked to disbursements and the status of observance of the conditions. 1/ Generally, a central unit should be responsible for monitoring developments in external financing and take a pro-active approach to facilitate timely disbursement of external financing.

8. Conclusion

Shortfalls in external financing recurred with some frequency in Fund-supported programs in recent years. The shortfalls arose from a combination of factors. In many cases, the assumptions underlying the program with regard to policy implementation and the political environment failed to hold--policy slippages occurred and donor concerns about good governance arose. However, administrative weaknesses in processing of import support documentation and monitoring of external financing, as well as in project implementation, appear to have been the major factors behind the shortfalls.

Countries that experienced shortfalls attempted corrective action with varying degrees of success and varying degrees of assistance from donors. Those countries with more developed systems of monitoring and forecasting

1/ Computer-based systems are available to meet many of these requirements. Technical assistance in this area has been provided by donors in some countries.

external financing, in close collaboration with donors, tended to avoid significant shortfalls in programmed financing.

Financing shortfalls appear to have been weakly correlated with higher-than-targeted rates of inflation and, surprisingly, not with lower levels of gross reserves because of other mitigating factors. However, given that the factors behind the shortfalls in external financing may have directly contributed to the macroeconomic slippages, the direction of causality between external financing slippages and deviations from target for inflation is not clear. It could not be expected that there would be a close relationship between economic growth and shortfalls in external financing in the short term. In the medium term, however, it is quite likely that lower levels of investment linked to a shortfall in external financing could be associated with lower economic growth.

To minimize the recurrence of financing shortfalls, the lessons from the review are that programs could usefully include a review by the World Bank of the authorities' capacity to mobilize import- and budget-support funds and implement projects. If shortcomings are identified in these areas, the authorities should place a strong emphasis on improving administrative capacity, in collaboration with the Fund, World Bank, and other donors, where appropriate. Donors could also help reduce shortfalls by avoiding undue complexity in procedures for documentation and disbursement. Furthermore, programs need to take account of donor concerns with regard to governance issues and conditionality linked to external financing. Also, more caution is required with regard to the authorities' ability to meet difficult sectoral conditionality.

Table 1. Official Loans and Official Grants
In Selected Low-Income Countries
With Fund-Supported Programs 1/

(In millions of U.S. dollars)

	1991			1992			1993		
	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)
Bangladesh	1,760	1,718	-2.4	1,956	1,691	-13.5	1,869	1,724	-7.8
Bolivia	436	460	5.5	453	610	34.7	538	536	-0.4
Burundi	261	267	2.4	278	278	0.0	238	234	-1.7
Guyana	148	86	-41.9	104	54	-48.1	94	89	-5.3
Honduras	...	...	...	451	453	0.3	436	451	3.4
Kyrgyz Republic	...	...	...	...	...	...	282	178	-36.9
Lesotho 2/	152	179	17.8	161	161	0.0	189	146	-22.8
Malawi	202	178	-12.0	240	244	1.3	...	...	...
Mauritania	...	...	...	225	213	-5.7	198	226	14.3
Mozambique	772	646	-16.4	737	669	-9.2	746	763	2.2
Nepal	...	...	...	...	...	...	303	228	-24.8
Sri Lanka	835	838	0.5	727	621	-14.6	778	672	-13.6
Tanzania	...	...	...	885	858	-3.1	890	772	-13.3
Togo	...	...	...	186	122	-34.3	...	...	...
Uganda	393	476	21.1	507	370	-27.1	473	490	3.7
Zambia	1,092	805	-26.3	1,024	895	-12.6	759	613	-19.2
Zimbabwe	...	...	...	1,101	835	-24.2	901	606	-32.7
Total	6,051	5,653	-6.6	9,036	8,072	-10.7	8,693	7,727	-11.1
of which countries with:									
shortfalls	3,974	3,432	-13.6	7,693	6,571	-14.6	6,840	5,797	-15.2
excesses	2,077	2,221	6.9	1,343	1,501	11.8	1,852	1,930	4.2
Simple Average			-5.2			-10.4			-10.3
of which countries with:									
shortfalls			-19.8			-19.2			-16.2 3/
excesses			9.5			7.3			5.9

Sources: Staff reports and staff estimates.

Note: Non-calender program years are shown in the calender year in which the program year ends except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included.

2/ Excludes Lesotho Highlands Water Project (LHWP) and SAC non-duty receipts.

3/ Excludes Kyrgyz Republic.

Table 2. Official Loans
In Selected Low-Income Countries
With Fund-Supported Programs 1/

(In millions of U.S. dollars)

	1991			1992			1993		
	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)
Bangladesh	...	...	...	...	...	...	...	...	...
Bolivia	276	300	8.7	287	385	34.1	340	319	-6.2
Burundi	106	82	-22.5	92	113	22.8	64	70	10.0
Guyana	132	78	-40.9	101	48	-52.5	90	86	-4.4
Honduras	...	...	...	336	298	-11.4	286	348	21.9
Kyrgyz Republic	...	...	...	...	...	...	232	73	-68.5
Lesotho 2/	70	54	-22.8	82	74	-10.4	91	56	-38.1
Malawi	108	115	6.7	146	93	-36.2	...	...	...
Mauritania	...	...	...	135	120	-11.4	96	122	26.9
Mozambique	247	144	-41.7	206	170	-17.5	211	185	-12.6
Nepal	...	...	...	...	...	...	228	155	-32.0
Sri Lanka	640	635	-0.9	548	438	-20.1	587	512	-12.8
Tanzania	...	...	...	314	289	-8.2	304	189	-37.7
Togo	...	...	...	49	41	-16.2	...	...	...
Uganda	196	214	9.2	247	163	-33.8	212	231	9.2
Zambia	...	...	...	...	...	...	...	...	...
Zimbabwe	...	...	...	794	593	-25.3	673	432	-35.8
Total	1,775	1,622	-8.6	3,339	2,825	-15.4	3,413	2,779	-18.6
of which countries with:									
shortfalls	1,303	1,108	-15.0	2,960	2,327	-21.4	2,756	2,007	-27.2
excesses	472	514	8.9	379	498	31.4	658	772	17.4
Simple Average			-13.0			-14.3			-12.9
of which countries with:									
shortfalls			-25.7			-22.1			-27.6
excesses			8.2			28.5			17.0

Sources: Staff reports and staff estimates.

Note: Non-calender program years are shown in the calender year in which the program year ends except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included.

2/ Excludes Lesotho Highlands Water Project (LHWP) and SAC non-duty receipts.

Table 3. Official Project Loans
In Selected Low-Income Countries
With Fund-Supported Programs 1/

(In millions of U.S. dollars)

	1991			1992			1993		
	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)
Bangladesh	...	...	...	...	...	...	...	...	...
Bolivia	...	...	...	...	...	...	...	...	...
Burundi	59	56	-5.1	52	82	57.7	...	...	...
Guyana	51	22	-56.9	57	26	-54.4	49	50	2.0
Honduras	...	...	...	201	195	-3.4	189	257	36.0
Kyrgyz Republic	...	...	...	...	...	...	78	50	-35.9
Lesotho 2/	...	...	...	...	...	...	...	...	...
Malawi	72	71	-0.8	76	71	-6.5	...	...	...
Mauritania	...	...	...	113	107	-5.0	73	76	3.6
Mozambique	247	107	-56.9	...	...	...	95	69	-27.4
Nepal	...	...	...	...	...	...	218	131	-39.9
Sri Lanka	371	301	-18.8	380	308	-18.9	405	264	-34.8
Tanzania	...	...	...	...	...	...	113	79	-29.9
Togo	...	...	...	19	36	95.9	...	...	...
Uganda	107	115	7.9	136	94	-30.7	134	148	10.1
Zambia	...	...	...	...	...	...	...	...	...
Zimbabwe	...	...	...	371	269	-27.5	327	198	-39.4
Total	906	672	-25.9	1,405	1,189	-15.4	1,681	1,322	-21.4
of which countries with:									
shortfalls	799	557	-30.4	1,334	1,070	-19.8	1,236	791	-36.0
excesses	107	115	7.9	71	118	67.7	445	531	19.1
Simple Average			-21.8			0.8			-15.6
of which countries with:									
shortfalls			-27.7			-20.9			-34.6
excesses			7.9			76.8			12.9

Sources: Staff reports and staff estimates.

Note: Non-calender program years are shown in the calender year in which the program year ends except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included.

2/ Excludes Lesotho Highlands Water Project (LHWP) and SAC non-duty receipts.

Table 4. Official Non-Project Loans
In Selected Low-Income Countries
With Fund-Supported Programs 1/

(In millions of U.S. dollars)

	1991			1992			1993		
	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)
Bangladesh	...	...	...	...	...	...	...	...	...
Bolivia	...	...	...	...	...	...	...	...	...
Burundi	47	26	-44.3	40	31	-22.9	...	...	...
Guyana 2/	81	56	-30.9	44	22	-50.0	41	36	-12.2
Honduras	...	...	...	135	103	-23.5	97	91	-5.6
Kyrgyz Republic	...	...	...	...	...	...	154	23	-85.1
Lesotho 3/	...	...	...	...	...	...	...	...	...
Malawi 4/	36	44	21.8	70	22	-68.3	...	...	...
Mauritania	...	...	...	23	13	-43.2	23	46	102.5
Mozambique	...	...	...	...	...	...	126	116	-8.3
Nepal	...	...	...	...	...	...	10	24	140.0
Sri Lanka	270	334	23.8	168	130	-22.8	182	248	36.0
Tanzania	...	...	...	...	...	...	191	111	-42.3
Togo	...	...	...	31	5	-84.0	...	...	...
Uganda	89	99	10.9	111	69	-37.7	78	84	7.6
Zambia	...	...	...	...	...	...	...	...	...
Zimbabwe 5/	...	...	...	423	324	-23.4	346	234	-32.4
Total	522	558	6.8	1,045	719	-31.2	1,248	1,012	-18.9
of which countries with:									
shortfalls	128	82	-35.8	1,045	719	-31.2	955	610	-36.1
excesses	394	476	20.7	0	0	...	293	401	37.1
Simple Average			-3.7			-41.7			10.0
of which countries with:									
shortfalls			-37.6			-41.7			-31.0
excesses			18.8			...			71.5

Sources: Staff reports and staff estimates.

Note: Non-calender program years are shown in the calender year in which the program year ends except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included.

2/ Includes non-project grants.

3/ Excludes Lesotho Highlands Water Project (LHWP) and SAC non-duty receipts.

4/ SAL related.

5/ ESAP and IDA Emergency Relief.

Table 5. Official Grants
In Selected Low-Income Countries
With Fund-Supported Programs 1/

(In millions of U.S. dollars)

	1991			1992			1993		
	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)
Bangladesh	...	...	...	...	...	...	...	...	...
Bolivia	160	160	0.0	166	226	36.1	198	217	9.6
Burundi	155	185	19.4	186	165	-11.3	174	164	-6.0
Guyana 2/	16	9	-43.8	3	6	100.0	4	3	-25.0
Honduras	...	...	...	115	155	34.8	148	103	-30.7
Kyrgyz Republic	...	...	...	...	...	...	50	105	110.0
Lesotho 3/	82	125	52.6	79	87	10.8	98	89	-8.6
Malawi	94	63	-33.3	94	150	59.8	...	...	...
Mauritania	...	...	...	90	93	2.8	102	104	2.5
Mozambique	525	502	-4.4	531	499	-6.0	535	578	8.1
Nepal	...	...	...	...	...	...	75	73	-2.7
Sri Lanka	194	204	4.9	179	183	2.4	191	161	-16.1
Tanzania	...	...	...	571	569	-0.3	586	582	-0.6
Togo	...	...	...	137	81	-40.8	...	...	...
Uganda	197	262	32.9	260	206	-20.7	261	259	-0.8
Zambia	...	...	...	...	...	...	...	...	...
Zimbabwe	...	...	...	307	242	-21.2	277	174	-37.2
Total	1,424	1,509	6.0	2,717	2,662	-2.0	2,698	2,611	-3.2
of which countries with:									
shortfalls	635	574	-9.7	1,992	1,762	-11.5	1,814	1,607	-11.4
excesses	788	936	18.7	725	900	24.0	884	1,004	13.5
Simple Average			3.5			11.3			0.2
of which countries with:									
shortfalls			-27.2			-16.7			-14.2
excesses			22.0			35.3			32.5

Sources: Staff reports and staff estimates.

Note: Non-calender program years are shown in the calender year in which the program year ends except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included.

2/ Project grants only; non-project grants included in loans.

3/ Excludes Lesotho Highlands Water Project (LHWP) and SAC non-duty receipts.

Table 6. Total Official External Financing (Including Debt Relief)
In Selected Low-Income Countries
With Fund-Supported Programs 1/

(In millions of U.S. dollars)

	1991			1992			1993		
	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)	Program	Outcome	Difference (in percent of program)
Bangladesh	1,760	1,718	−2.4	1,956	1,691	−13.5	1,869	1,724	−7.8
Bolivia	625	617	−1.3	594	783	31.8	787	765	−2.8
Burundi	261	267	2.4	278	278	0.0	238	234	−1.7
Guyana	201	135	−32.8	104	54	−48.1	130	130	0.0
Honduras	...	...	...	689	695	0.9	642	557	−13.2
Kyrgyz Republic	...	...	...	...	...	...	282	178	−36.9
Lesotho 2/	156	179	14.6	161	161	0.0	189	146	−22.8
Malawi	202	178	−12.0	240	244	1.3	...	...	...
Mauritania	...	...	...	448	218	−51.5	400	496	23.9
Mozambique	1,508	1,067	−29.2	737	669	−9.2	1,165	1,645	41.2
Nepal	...	...	...	...	...	...	303	228	−24.8
Sri Lanka	835	838	0.5	727	621	−14.6	778	672	−13.6
Tanzania	...	...	...	1,117	1,070	−4.2	1,267	1,197	−5.5
Togo	...	...	...	186	184	−1.4	...	...	...
Uganda	452	541	19.7	821	497	−39.5	1,116	854	−23.5
Zambia	...	...	...	...	...	...	...	...	...
Zimbabwe	...	...	...	1,101	835	−24.2	950	606	−36.2
Total	5,999	5,541	−7.6	9,160	7,998	−12.7	10,116	9,432	−6.8
of which countries with:									
shortfalls	4,295	3,715	−13.5	7,438	6,081	−18.2	8,420	7,161	−15.0
excesses	1,704	1,826	7.2	1,721	1,917	11.3	1,695	2,271	33.9
Simple Average			−4.5			−12.3			−8.8
of which countries with:									
shortfalls			−15.5			−22.9			−17.2
excesses			9.3			6.8			21.7

Sources: Staff reports and staff estimates.

Note: Non-calender program years are shown in the calender year in which the program year ends except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included. Balance of payments financing includes debt relief.

2/ Excludes Lesotho Highlands Water Project (LHWP) and SAC non-duty receipts.

Table 7. Total Official External Financing of the Fiscal Deficit
In Selected Low-Income Countries
With Fund-Supported Programs 1/

(In percent of GDP)

	1991			1992			1993		
	Program	Outcome	Difference	Program	Outcome	Difference	Program	Outcome	Difference
Bangladesh (net)	6.0	5.9	-0.1	6.4	4.6	-1.8	6.4	5.2	-1.2
Bolivia	3.5	3.5	0.0	4.9	4.6	-0.3	4.3	5.4	1.1
Burundi	17.4	15.6	-1.8	16.6	17.9	1.3	14.8	16.2	1.4
Guyana 2/	67.1	11.2	-55.9	53.3	6.1	-47.2	28.9	12.9	-16.0
Honduras (net)	...	...	...	6.3	4.7	-1.6	4.4	8.7	4.3
Kyrgyz Republic	...	...	...	...	...	...	2.9	3.8	0.9
Lesotho	3.5	4.1	0.6	3.2	4.0	0.8	4.5	4.0	-0.5
Malawi 3/	9.9	13.3	3.4	9.4	10.2	0.8	...	...	...
Mauritania	...	...	...	...	...	...	...	...	...
Mozambique	32.1	26.1	-6.0	34.0	26.0	-8.0	35.9	22.3	-13.6
Nepal (net)	...	...	...	...	...	...	7.7	7.7	0.0
Sri Lanka	7.1	7.6	0.5	5.4	3.7	-1.7	5.6	3.6	-2.0
Tanzania (net)	...	...	...	9.3	7.5	-1.8	18.4	9.3	-9.1
Togo (net)	...	...	...	7.1	2.2	-4.9	...	...	...
Uganda	8.7	7.8	-0.9	15.1	13.2	-1.9	13.8	14.1	0.3
Zambia	7.4	1.6	-5.8	0.2	-0.5	-0.7	2.9	2.9	0.0
Zimbabwe 4/	...	...	...	9.0	6.5	-2.5	3.6	3.1	-0.5
Simple Average 5/			-1.1			-1.7			-1.5
of which countries with:									
shortfalls 5/			-2.9			-2.5			-4.5
excesses			1.1			1.0			1.1

Sources: Staff reports and staff estimates.

Note: *Non-calender program years are shown in the calender year in which the program year ends* except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included.

2/ The high ratios reflect the underestimation of GDP (noted in the footnote on page 2 of EBS/94/136, 6/30/94).

3/ Fiscal year beginning April 1 in year indicated.

4/ Fiscal year beginning June 1 in year indicated.

5/ Excluding Guyana.

Table 8. Economic Performance
Outcomes – Targets on Selected Indicators
In Selected Low–Income Countries
With Fund–Supported Programs 1/

(Outcome – Target)

	Loans and Grants 2/			CPI Inflation 3/			Real GDP 4/			Gross Reserves 5/		
	1991	1992	1993	1991	1992	1993	1991	1992	1993	1991	1992	1993
Bangladesh	–2.4	–13.5	–7.8	1.4	–1.4	–4.2	–1.0	–0.1	0.0	46.7	54.6	11.9
Bolivia	5.5	34.7	–0.4	–1.4	0.1	1.1	1.1	–0.7	0.6	–9.1	–2.6	3.1
Burundi	2.4	0.0	–1.7	–0.1	–2.0	4.2	1.7	–1.3	–9.7	–19.4	–26.4	21.4
Guyana	–41.9	–48.1	–5.3	–0.6	9.2	–0.3	1.7	3.8	2.3	131.2	60.5	53.4
Honduras	...	0.3	3.4	...	–4.7	1.0	...	2.1	2.0	...	–7.8	–58.6
Kyrgyz Republic	...	...	–36.9	...	...	1,006.0	...	...	0.3	...	...	94.9
Lesotho 6/	17.8	0.0	–22.8	3.3	–1.0	–6.0	–5.2	1.7	0.5	97.1	38.7	5.8
Malawi	–12.0	1.3	...	–0.8	17.2	...	3.0	–12.4	...	–10.6	–74.3	...
Mauritania	...	–5.7	14.3	...	2.0	–0.7	...	–0.7	1.4	...	3.1	–48.5
Mozambique	–16.4	–9.2	2.2	3.2	17.6	1.9	0.4	–3.8	15.0	–5.5	13.9	3.5
Nepal	...	...	–24.8	...	...	–3.1	...	...	–2.2	...	...	19.0
Sri Lanka	0.5	–14.6	–13.6	–1.4	1.2	4.2	–0.4	–0.2	1.6	136.4	105.6	152.1
Tanzania	...	–3.1	–13.3	...	7.1	11.2	...	–0.8	–1.3	...	54.6	–44.1
Togo	...	–34.3	...	...	1.3	...	...	–11.7	...	...	–15.1	...
Uganda	21.1	–27.1	3.7	17.0	20.2	–6.2	–0.8	–2.4	2.2	78.1	45.1	14.6
Zambia	–0.3	–0.1	–0.2	36.3	38.0	–8.0	–5.1	6.2	–1.0	–26.5	–5.5	29.7
Zimbabwe	...	–24.2	–32.7	...	3.4	–4.2	...	1.9	–2.9	...	–18.6	9.9
Countries with shortfalls in loans and grants												
Average	–19.8	–19.2	–16.2 7/	7.9	10.5	–0.5 7/	–0.2	–1.8	–1.1	27.1	20.3	26.2 7/
Median	–16.4	–0.1	–13.6	1.4	7.1	–1.7	0.4	–0.7	0.0	20.6	13.9	15.5

Sources: Staff reports and staff estimates.

Note: Non–calender program years are shown in the calender year in which the program year ends except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included.

2/ Difference shown as a percent of program target.

3/ Average annual inflation rate for consumer prices; difference shown as percentage points.

4/ Real GDP growth; difference shown as percentage points.

5/ Gross international reserves of the monetary authorities; shown as a percent of program target.

6/ Excludes Lesotho Highlands Water Project (LHWP) and SAC non–duty receipts.

7/ Excludes Kyrgyz Republic.

Table 9. Deviations From Targets In Selected Low-Income Countries With Fund-Supported Programs Grouped by Amount of Shortfalls or Excesses in Programmed Official Loans and Grants 1/

	Year	Amount of shortfall/excess (in percent) 3/	Deviation from target: CPI 2/	Deviation from target: Real GDP 2/	Deviation from target: Gross Reserves (in percent)
Programs with shortfalls greater than 10 percent					
Bangladesh	1992	-13.5	-1.4	-0.1	54.6
Guyana	1991	-41.9	-0.6	1.7	131.2
	1992	-48.1	9.2	3.8	60.5
Kyrgyz Republic	1993	-36.9	1,006.0	0.3	94.9
Lesotho 4/	1993	-22.8	-6.0	0.5	5.8
Malawi	1991	-12.0	-0.8	3.0	-10.6
Mozambique	1991	-16.4	3.2	0.4	-5.5
Nepal	1993	-24.8	-3.1	-2.2	19.0
Sri Lanka	1992	-14.6	1.2	-0.2	105.6
	1993	-13.6	4.2	1.6	152.1
Tanzania	1993	-13.3	11.2	-1.3	-44.1
Togo	1992	-34.3	1.3	-11.7	-15.1
Uganda	1992	-27.1	20.2	-2.4	45.1
Zambia	1991	-0.3	36.3	-5.1	-26.5
	1992	-0.1	38.0	6.2	-5.5
	1993	-0.2	-8.0	-1.0	29.7
Zimbabwe	1992	-24.2	3.4	1.9	-18.6
	1993	-32.7	-4.2	-2.9	9.9
Average		-20.9	6.1 5/	-0.4	32.4
Programs with shortfalls less than 10 percent					
Bangladesh	1991	-2.4	1.4	-1.0	46.7
	1993	-7.8	-4.2	0.0	11.9
Bolivia	1993	-0.4	1.1	0.6	3.1
Burundi	1993	-1.7	4.2	-9.7	21.4
Guyana	1993	-5.3	-0.3	2.3	53.4
Mauritania	1992	-5.7	2.0	-0.7	3.1
Mozambique	1992	-9.2	17.6	-3.8	13.9
Tanzania	1992	-3.1	7.1	-0.8	54.6
Average		-4.5	3.6	-1.6	26.0
Programs with excesses less than 10 percent					
Bolivia	1991	5.5	-1.4	1.1	-9.1
Burundi	1992	0.0	-2.0	-1.3	-26.4
Burundi	1991	2.4	-0.1	1.7	-19.4
Honduras	1992	0.3	-4.7	2.1	-7.8
	1993	3.4	1.0	2.0	-58.6
Lesotho 4/	1992	0.0	-1.0	1.7	38.7
Malawi	1992	1.3	17.2	-12.4	-74.3
Mozambique	1993	2.2	1.9	15.0	3.5
Sri Lanka	1991	0.5	-1.4	-0.4	136.4
Uganda	1993	3.7	-6.2	2.2	14.6
Average		1.9	0.3	1.2	-0.2
Programs with excesses greater than 10 percent					
Bolivia	1992	34.7	0.1	-0.7	-2.6
Lesotho 4/	1991	17.8	3.3	-5.2	97.1
Mauritania	1993	14.3	-0.7	1.4	-48.5
Uganda	1991	21.1	17.0	-0.8	78.1
Average		22.0	4.9	-1.3	31.0

Sources: Staff reports and staff estimates.

Note: Non-calender program years are shown in the calender year in which the program year ends except program years that end in March which are shown in the previous year. In some cases, program year data are not available and the calender year closest to the program year is shown or two calendar years are shown.

1/ Calendar years unless otherwise stated; if a program year straddles a significant part of two calendar years and only calendar year data is available, both calendar years are included.

2/ Difference shown as percentage points.

3/ Shortfalls or excesses in programmed loans and grants.

4/ Excludes loans or grants for Lesotho Highlands Water Project (LHWP) and excludes SAC non-duty receipts.

5/ Excluding Kyrgyz Republic

The Forms of Aid and Links with Fund-Supported Programs

Aid takes several forms, which are complementary in supporting economic reforms from the perspective of the recipient country. An appropriate blend of different forms of assistance has an important bearing on the pace and results of reforms. This appendix briefly explains why several forms of external assistance are important for Fund-supported programs, including balance of payments financing, project assistance, and technical assistance.

a. Balance of payments financing

The Fund places particular emphasis on the adequacy of balance of payments financing since such financing is a key element of the macroeconomic framework. Such assistance, in support of broad-based policy reforms, makes possible early restoration of macroeconomic stability; financing imports that are essential for domestic production; strengthens the external reserves position to cope with shocks; provides budgetary support; and lays the foundation for economic growth.

Balance of payments financing is defined as general purpose financing and includes cash assistance, commodity aid, and debt relief. Such assistance might be tied or untied to procurement of certain goods. In the case of financing of the government budget, it makes foreign exchange or domestic counterpart funds available, thereby reducing the need for domestic financing of the budget. In turn, this reduces inflationary pressures that may arise from domestic financing of the budget and helps to crowd-in the private sector.

Although official aid is normally channelled through the government sector (or the Central Bank) in the recipient country, this does not mean that such financing necessarily benefits the public sector. By reducing the government's need for domestic borrowing, or by increasing foreign exchange reserves available to the Central Bank, it allows greater expansion of credit to the private sector than otherwise. For instance, under several Fund-supported programs, governments are reducing their indebtedness to the banking system.

b. Project assistance

To the extent that donors link assistance to government expenditure, which would otherwise not have taken place under the program, such assistance cannot be considered balance of payments support but project assistance. Ceteris paribus, this would not allow an additional expansion of financing of the non-government sector in a program. It is therefore important that sufficient information is available about the links between assistance and conditionality to incorporate assistance in economic programs.

The quality and volume of project assistance have a strong bearing on the growth prospects of economic programs. Therefore, the Fund is concerned with the overall size of the investment program and its consistency with a sustainable fiscal position, including the recurrent costs flowing from the investment projects. The Fund relies on the World Bank for an evaluation of the composition and efficiency of the investment program and related financing, which is incorporated into a program.

c. Technical assistance

While technical assistance comprises a significant part of the overall aid flows to developing countries, the Fund does not focus on the balance of payments aspects of technical assistance apart from ensuring a proper recording of such transactions since data on such assistance is normally not disaggregated. Only the part of such assistance that is in support of key elements of economic reforms is of particular relevance to Fund-supported programs.

For individual countries, it is important to ensure an appropriate mix of the different forms of aid, given their complementarity. Balance of payments assistance in support of broad-based policy reforms and a stable macroeconomic framework is necessary to ensure private sector growth which is the basis for sustainable economic growth. Policy reforms also enhance the benefits from development projects by removing price and other market distortions and fostering successful project implementation in a low-inflation environment. Appropriate macroeconomic policies help ensure that sufficient local financing is available to supplement external financing. At the same time, well-designed development projects are essential for laying the foundation for long-term growth, through the development of human resources and economic infrastructure. Technical assistance is an essential component of development projects, and it also supports policy reform.

African Development Bank Group: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	*Economic Policy Conditionality and Relation to* Fund/Bank	Recipients
Import support				
Structural adjustment loans	ADF 1/	Financing for broad categories of merchandise imports, which may be defined with reference to either a positive or negative list. Procurement subject to international competitive bidding.	Provides support for programs of macroeconomic and structural adjustment, in the context of the ADB's policy dialogue with the borrower and as specified in the loan document. In close cooperation with the Fund and the World Bank; sometimes cofinances Bank adjustment loans.	Regional members of the African Development Bank.
Sectoral adjustment loans	ADF 1/	Financing for imports related to specific sectors; may in some cases be quite broad. Procurement subject to international competitive bidding.	Differs from above in that the program being supported typically focuses on sector-specific reforms.	(See above)

1/ All African Development Bank Group adjustment lending is derived either from African Development Bank (ADB) resources or from the resources of the African Development Fund (ADF). All regional members are eligible to use ADB resources, which are lent at market-related rates of interest that vary with the ADB's cost of borrowing. The maturity of ADB loans may be up to 20 years, with a grace period of 7 years. Up to now, access to ADF resources is restricted to low-income members (except to finance technical assistance). A service charge of 0.75 percent is levied on outstanding, disbursed balances; ADF loans are at a maturity of 50 years with a grace period of 10 years.

Asian Development Bank Group: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy and Relation to Fund/Bank	Recipients
Import support				
Program lending	ADF 1/	Financing for imports for specific sectors, which may entail either a broad positive list or a negative list. Use of local counterpart may be restricted to specific development projects. Usually disbursed on basis of ex-post reimbursement. Procurement restricted to member countries, subject to international competitive bidding.	Conditionality is sector-specific and described in a Development Policy letter; it is coordinated closely with the activities of the Fund and World Bank. Loans are usually disbursed in tranches.	Developing member countries.
Local cost financing	ADF 1/	Financing for specified local costs associated with particular development projects; timing of disbursements determined by pace of project implementation. Procurement follows standard recipient country government or commercial practices.	None.	(See above).

1/ All Asian Development Bank lending is derived either from the ordinary capital resources (OCR) of the Asian Development Bank, or from the Asian Development Fund (ADF). OCR are made available to a number of large or middle-income developing members, including China, Fiji, Hong Kong, India, Indonesia, Korea, Malaysia, Pakistan, Papua New Guinea, the Philippines, Singapore, Taipei China, and Thailand. These resources are lent at a market-related interest rate that varies with the cost of borrowing; with a maturity of 15 years and a grace period of 3 years. ADF resources are restricted to a number of low-income members, including Afghanistan, Bangladesh, Bhutan, Burma, Cook Islands, Indonesia, Kampuchea, Kiribati, Laos, Maldives, Nepal, Solomon Islands, Sri Lanka, Tonga, Vanuatu, Viet Nam, and Western Samoa. There is a service charge of 1 percent on disbursed outstanding balances; the maturity is 40 years with a 10-year grace period for ADF-only borrowers, and 33/10 for OCR/ADF "blend" countries.

Canada: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
Import support	Grants	Normally to finance specific imported goods or commodities. Tied or untied to procurement from Canada; administered by donor. Use of counterpart funds may be restricted to specific development projects, but more frequently available for general budgetary support.	Usually has as pre-requisite the adoption of a program supported by the Fund and/or World Bank. Sometimes disbursed in tranches linked to policy/program implementation. Specific measures from Fund-supported program sometimes incorporated in bilateral agreement.	Wide variety of countries mostly in sub-Saharan Africa; also Asia, Latin America, and the Caribbean.
Cash balance of payments or budgetary support	Grants	On an exceptional basis.	(See above)	(See above)
Food aid	Grants	Mostly Canadian-produced agricultural commodities. Local currency proceeds sometimes restricted to specific development projects; but usually available for general budgetary support.	(See above)	(See above)

European Union: Summary of Facilities for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
Import support				
From structural adjustment specific resources and national indicative program (country allocations) under EU-ACP agreement ("Lomé Convention)	Grants	May provide financing for specific categories of imports or for general import support, subject to a short negative list. Tied to procurement from EU or developing ACP countries.	Support for structural reforms in recipient countries, in coordination with a program supported by the Fund or World Bank.	Among 70 ACP (African, the Caribbean and the Pacific) countries, including SPA countries.
From structural adjustment special envelope plus a limited proportion of protocol budget funds	Grants	May provide financing for general or sectoral import programs. Tied to procurement from EU.	Support for structural reforms in recipient countries, in coordination with a program supported by the Fund or World Bank.	Among eligible Maghreb and Mashrek countries, (Algeria, Jordan, Morocco, and Tunisia).
Cash balance of payments assistance				
STABEX	Grants	Compensation for shortfalls in primary agricultural and fish export receipts.	Negotiation of a "framework of mutual obligations" based on sectoral (and/or) economic reforms.	ACP countries.

France: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
<u>Cash balance of payments assistance</u>				
Structural adjustment loans (PAS), Caisse Française de Développement (CFD), Treasury and Ministry of Cooperation	Concessional loans: interest rate of 3.5 percent per annum for intermediate income countries; grace period of 9 years; and repayment period of 13 years		Requires the existence of a program supported by the Fund, frequently with additional bilateral conditionality on sectoral or institutional issues	Traditional recipients of French aid, mainly in sub-Saharan Africa
Budgetary grants (SAS) by Caisse Français du Développement (CFD), Treasury and Ministry of Cooperation	Grants for low-income countries		(See above)	(See above)
Sectoral adjustment loans by Caisse Français du Développement (CFD), Treasury and Ministry of Cooperation	Concessional loans (see above)		(See above). Usually coordinated closely with World Bank adjustment lending	(See above)
Budget of balance of payments assistance provided through regular country allocations for Aid and Cooperation Funds (FAC), from Ministry of Cooperation	Grants		(See above)	(See above)
<u>Food aid</u>				
Ministry of Agriculture	Concessional loans (see above)	For the purchase of French agricultural commodities	May be extended in support of adjustment programs monitored or supported by the Fund	Traditional and non-traditional recipients of French aid

Germany: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
Import support				
Commodity assistance, from regular country allocations under aid budget.	Grants and concessional loans (either IDA terms or standard terms, i.e., 2 percent interest rate, 30-year maturity, 10-year grace period).	Targeted on specific categories of merchandise imports; procurement may be tied or untied. Competitive bidding is not required except where this is customary for the recipient. Disbursement may be on the basis of a letter of credit, directly to suppliers or on an ex post reimbursement basis.		In principle, open to all developing countries.
Sectoral programs	(See above).	(See above). Generally competitive bidding.		(See above).
Structural Adjustment Facility	(See above).	Untied financing for general imports subject to a short negative list. Generally subject to international competitive bidding. Used for cofinancing with World Bank, parallels Bank's disbursement procedures.	Requires adoption of a program supported by the World Bank.	(See above). Up to now, mainly for African countries.
Local cost financing From regular country allocations under the aid budget.	(See above).	Case-by-case decision. May include up to 100 percent of aid volume for a relevant project. Not permitted in the case of commodity assistance or structural adjustment facility.		(See above).
Food aid	Grants		May be extended in support of adjustment programs.	(See above).

Inter-American Development Bank: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions	Conditionality	Recipients
Fund for Special Operations	40-year amortization; 10-year grace period. Interest rate 1 percent during grace period; 2 percent thereafter; 0.75 percent credit fee; 1 percent supervision fee.	Short negative list of goods. Competitive procurement among member countries.	Dependent on sector focus: revenue/expenditure targets, institutional reforms. Policy changes, regulatory reforms, legislative changes, etc.	Bolivia, Guyana, Haiti, Honduras, Nicaragua
Intermediate Financing Facility (IFF)	20-year term, 5-year grace; interest rate 5 percent below Ordinary Capital interest rate; 0.75 percent credit fee; 1 percent supervision fee.	Short negative list of goods. Competitive procurement among member countries.	Dependent on sector focus: revenue/expenditure targets, institutional reforms. Policy changes, regulatory reforms, legislative changes, etc.	Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Paraguay

Italy: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms 1/

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
Import support	Grants	Generally targeted on specific categories of merchandise imports, which may include capital goods, raw materials, or inputs. Tied to procurement from Italy. Use of local counterpart funds is generally restricted to specific development projects. In some cases, counterpart funds are used as budget support.	Italy often seeks to coordinate its assistance with programs supported by the Fund or World Bank.	Countries with whom Italy has long-standing aid, political, and commercial relations, mainly in the Mediterranean region and sub-Saharan Africa (in connection with the World Bank SPA).
Cash balance of payments assistance	Grants	On an exceptional basis.	Has been undertaken only in context of programs supported or monitored by Fund and Bank.	Considered only for a very few countries.

Japan: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
Import support				
Nonproject budgetary grants	Grants	Financing for general imports, subject to a short negative list. Untied. Use of local counterpart funds is restricted to economic and social development projects. Disbursed on replenishment basis.	Normally requires existence and continued implementation of a program supported by the Fund or World Bank.	Low-income countries in sub-Saharan Africa and other least developed countries.
Direct commodity loans, from Overseas Economic Cooperation Fund (OECF)	Concessional loans (interest rate 1 percent for LLDCs, 2.6 percent for low-income countries, 4.5 percent for middle-income countries; grace period 7-10 years; maturity 25-30 years)	Financing for general imports, subject to a short negative list. Untied. Use of local counterpart funds may be restricted to specific development projects. Disbursed either on replenishment or reimbursement basis.	No bilateral conditionality. Provided in urgent cases where stabilization is required. Availability of new commitments may be affected by the policy environment in the recipient country.	All recipients of Japanese bilateral assistance are eligible.
Sector program loans (OECF)	As above.	Financing for general imports subject to long positive list. Disbursed either on replenishment or reimbursement basis. Untied. Use of local counterpart funds is directed to specific sectoral purposes.	No bilateral conditionality. Provided in urgent cases where stabilization is required.	To date, only Eastern and Central Asian countries.
OECF cofinancing of adjustment loans (since 1987)	As above.	Financing for general imports, subject to a short negative list. Generally untied, bearing in mind both domestic and international situation. Disbursements usually on replenishment or reimbursement basis.	No bilateral conditionality. Extended in the context of adjustment loans by multilateral development banks. Disbursement in tranches linked to program implementation.	Recipients of MDS adjustment loans.
Cofinancing of adjustment lending by Export-Import Bank of Japan (JEXIM)	Loans on slightly concessional terms (interest rate 0.2 percent below long-term yen prime rate; grace period, maturity varies depending on project)	Financing for general imports, subject to a short negative list.	(See above)	(See above). To date, no such cofinancing for ESAF-eligible countries.

Japan: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms (concluded)

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
<u>Cash balance of payments assistance</u>				
Budgetary grants from account administered by the Fund	Grants		For countries with overdue obligations to the Fund who adopt Fund-monitored programs.	
Food aid	Grants	Financing for imports of basic foods needed in the recipient country. Use of local counterpart may be restricted to development projects.		Developing countries with shortages of food.
Aid for increased food production	Grants	Financing for imports of agricultural inputs and machinery needed in the recipient country for achieving self-sufficiency in staple food. Use of local counterpart may be restricted to development projects.	Submission of agricultural development program.	Developing countries seeking to increase food production.

The Netherlands: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
Programme assistance from country allocations under aid budget	Grants	Various modalities of finance: general imports, subject to short negative list; specific commodities, untied for SPA-countries; co-financing World Bank adjustment programmes; in some cases general balance of payments support on cash basis; debt relief; budget support; other modalities. Generally, use of counterpart funds is untied.	Usually requires acceptable social and economic policies of recipient country, often including adoption of a program supported by the Fund or World Bank.	Mainly to traditional recipients of aid from the Netherlands in Asia and sub-Saharan Africa and Latin America. Also to countries in transition.
Balance of payments support program/debt relief	Grants	Almost entirely debt relief; trend towards increased participation in multilateral efforts.	(As above)	Several countries annually, from among traditional and nontraditional aid recipients.
Food aid	Grants		May be provided in support of adjustment measures.	Traditional aid recipients.

Sweden: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities 1/	Terms	Restrictions on Utilization	Economic Policy Conditionality in Relation to Fund/Bank	Recipients
Import support	Grants	Untied financing for general imports, subject to short negative list. No restrictions on the use of local counterpart funds. Procurement by recipient, *subject to international* competitive bidding.	Provides support for economic reform programs of the poorest, heavily indebted countries, in the context of bilateral policy dialogue, which may cover both macroeconomic and sectoral policies. In most countries, extended only after the adoption of SAF/ESAF arrangements.	Assistance to a number of countries, including Zambia, Ethiopia, Mozambique, Nicaragua, Tanzania, Viet Nam, and Zimbabwe.
Debt Relief	Grants	Granted on a case-by-case basis.	Support for implementation of economic reform programmes of the poorest, heavily indebted countries.	Used in connection with debt buyback for Zambia; World Bank *fifth-dimension for* Zambia, Bolivia, and Nicaragua; support groups for Viet Nam, Cambodia, and Macedonia.

1/ The facilities listed below are all included in the same budget allocation. Other uses to which this allocation have been put include Sweden's contribution to the ESAF Trust and financing of Paris Club Agreements. General balance of payments assistance has also been allocated on an exceptional basis (to Uganda).

United Kingdom: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms 1/

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
Import support				
Commodity assistance programs.	Grants	Mainly provides financing on negative list basis, either untied or tied to procurement from the United Kingdom. No restrictions on use of local counterpart. Procurement mainly by recipient; ex post reimbursement basis sometimes used.	Requires adoption of a program supported by both the Fund and World Bank. The continuation of disbursements may depend on continued program implementation.	Low-income countries in sub-Saharan Africa, and a very few countries in Asia, Latin America, and the Caribbean.
Cash balance of payments assistance	Grants		None.	
Food aid	Grants	May be provided in kind or in cash to purchase food from international or regional sources.	At times provided in support of adjustment programs.	

1/ For Africa a regional budgetary allocation is made each year, which is then allocated by ODA to specific countries.

United States: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality and Relation to Fund/Bank	Recipients
Economic Support Fund (ESF) 1/: Cash grants	Grants	Under ESF, donor seeks to guide use of funds to particular broad purposes (e.g., support for foreign exchange auction, increased private sector access to foreign exchange).	Provided with or without conditionality, but in some cases tightly conditioned on specific policy performance.	For a wide variety of traditional recipients of U.S. aid; in recent years over 80 percent allocated to non-ESAF-eligible countries.
Economic Support Fund (ESF) 1/: Import support under commodity import programs	Grants	Mainly provides financing for specific types of merchandise imports; usually tied to procurement from the United States or low-income countries, but may be untied. Use of local counterpart may be restricted to specific development projects. Other restrictions are the same as for cash grants (see above).	Extended through bilateral agreements specifying macroeconomic and/or sectoral conditionality; usually coordinated closely with programs supported by the Fund or World Bank.	

1/ The ESF is also used to provide project assistance.

World Bank Group: Summary of Facilities and Policies for Balance of Payments Assistance on Concessional Terms

Facilities	Terms	Restrictions on Utilization	Economic Policy Conditionality	Recipients
Import support				
Structural adjustment loans	IDA 1/	Financing for general imports subject to a negative list. Usually on an ex post reimbursement basis. Procurement restricted to member countries, and subject to international competitive bidding. Some retroactive financing is permitted.	Provides support for programs of macroeconomic and structural adjustment, in the context of the Bank's policy dialogue with the borrower and as specified in the loan document. Extended in close collaboration with the Fund. Also requires Bank staff review of the public investment program. Usually disbursed in tranches.	Developing member countries.
Sectoral adjustment loans	IDA 1/	Disbursed against imports subject to a negative or positive list targeted on specific sectoral import requirements.	Differs from above mainly in that the program being supported typically focuses on sector-specific reforms.	(See above)
"Hybrid" loans	IDA 1/	As above, except that such loans usually provide financing for specific sectoral import requirements or "time slice" of the public investment program.	As above, but extended in support of sector-specific reforms combined with specific investment projects.	(See above)
Rehabilitation loans	IDA 1/	Supports policy reforms targeted to private productive sector, when structural adjustment loans are not possible. Always accompanied by of an IMF Systemic Transformation Facility.	Macroeconomic and sector reforms needed in short term to reverse declines in infrastructure capacity and efficiency of productive facilities.	(See above)

1/ All World Bank Group adjustment lending is provided either from IBRD or IDA resources. Access to IDA credits is restricted to low-income countries with no or limited creditworthiness for IBRD lending; currently 78 countries are eligible recipients of IDA credits. A few "blend" countries have access to both IBRD and IDA loans, including China, India, Nigeria, and Pakistan. IBRD resources are lent at a market-related interest rate that varies with the IBRD's borrowing costs; the maturity of loans varies with per capita income, up to 20 years with a grace period of 5 years. A service charge of 0.75 percent per annum is levied on outstanding, disbursed balances of IDA credit; the maturity is 40 years with a grace period of 10 years for IDA-only countries, and 35/10 for "blend" countries.

Rethinking of Aid Policies in Selected Countries

Canada

In February 1995, following a year-long internal consultation on Canada's international relations, the Government issued a foreign policy statement entitled Canada in the World. 1/ The document sets out the three key objectives of Canadian foreign policy: to promote prosperity and employment; to protect global security; and to project Canadian values and culture. In this context, Canada in the World states: "The purpose of Canada's ODA is to support sustainable development in developing countries, in order to reduce poverty and contribute to a more secure, equitable, and prosperous world." To achieve this purpose, Canada intends to concentrate its available ODA resources on six program priorities:

- basic human needs: to support efforts to provide primary health care, basic education, family planning, nutrition, water and sanitation, and shelter. Canada will continue to respond to emergencies with humanitarian assistance. Canada will commit 25 percent of its ODA to basic human needs as a means of enhancing its focus on addressing the security of the individual;

- women in development: to support the full participation of women as equal partners in the sustainable development of their societies;

- infrastructure services: to help developing countries to deliver environmentally-sound infrastructure services, with an emphasis on poorer groups and on capacity building;

- human rights, democracy, and good governance: to increase respect for human rights, including children's rights; to promote democracy and better governance; and to strengthen both civil society and the security of the individual;

- private sector development: to promote sustained and equitable economic growth by supporting private sector development in developing countries; and

- the environment: to help developing countries to protect their environment and to contribute to addressing global and regional environmental issues.

1/ The review began in March 1994 with a national forum of interested persons from academia, trade unions, and business. Canada in the World was the Canadian Government's response to recommendations made last November by the Special Joint Parliamentary Committee that reviewed Canada's foreign policy.

Prior to the statement of policy described in Canada in the World, a series of budgetary cuts beginning in 1987 had required a reorientation of aid policies within the foreign policy framework. More recently, the aid budget has come under extreme pressure and in February 1995, Canada announced a 14 percent reduction in the International Assistance Envelope (IAE) for 1995/96. Further reductions are expected in later years with IAE expenditure in 1997-98 projected to be 20 percent below the 1994/95 level in nominal terms.

As a result of both the budget cuts and the end of the Cold War, there has been greater concern about the effectiveness of aid and a tightening focus on poverty reduction and basic humanitarian needs. There has been increased emphasis on efficiency, which has changed the character of the aid program towards provision of assistance in areas where the Canadian International Development Agency (CIDA) feels it has a comparative advantage.

In the Canadian view, poverty reduction might include poverty targeting (e.g., specific programs for poor women in rural areas), poverty focus (i.e., programs that are not targeted specifically but have a wide impact on the poor), and poverty policy issues (e.g., public expenditures on health and education). The increased emphasis on poverty alleviation is cross-cutting, covering all forms of aid, including balance of payments support. The Canadian authorities believe their relative strengths in poverty reduction efforts, compared with other donors, to be in the areas of women in development, primary education, and microenterprise support through NGOs.

Canada provides balance of payments assistance in the form of grants to a wide variety of countries (mostly in sub-Saharan Africa) and usually has, as a prerequisite, the adoption of a program supported by the Fund and/or World Bank (see table in Appendix II). Specific measures from Fund-supported programs are sometimes incorporated in the bilateral agreement. Counterpart funds may be restricted to specific development projects, but more frequently are available for general budgetary support.

Germany

Since the beginning of the 1990s, the geopolitical context of Germany's development policy has undergone radical transformation which has led to the formulation of development policy with a view to achieving a new qualitative dimension in order to eliminate the causes of conflicts, violence, and human misery. German development policy seeks to flexibly address these challenges by focussing on the priority development needs in partner countries and on the global tasks facing both developing and industrialized countries.

Budgetary pressures, including those caused by reunification, coupled with demands from the countries in transition, led to a modest decline in ODA as a share of GNP from 1990 to 1993 (from 0.42 percent of GNP in 1990 to

0.37 percent of GNP in 1993). In part, the adverse impact on ODA to traditional recipients was offset by an increase in the German aid budget to allow for both ODA and flows to the countries in transition, which increased from around 0.03 percent of GNP in 1990 to 0.13 percent of GNP in 1993. The total aid budget (covering ODA to traditional and non-traditional recipients and non-ODA flows to the countries in transition) increased from 0.45 percent of GNP in 1990 to 0.50 percent of GNP in 1993.

The German Government concentrates its development cooperation activities in the areas of:

- poverty alleviation, which is viewed as the key prerequisite for socially just and peaceful development. This also includes the support of structural reforms at the levels of government and society as a whole, as well as the promotion of private sector initiatives in small and medium-sized industry;

- protection of the natural resource base; and

- promotion of education and training in developing countries.

In October 1992, the German Government adopted a new paper on poverty alleviation, which is the prime objective of German development policy. The German concept of poverty alleviation is derived from a definition of poverty which also includes aspects of democratization and the protection of human rights. The ideas of participation and self-help are two of the guiding principles of poverty alleviation, which is linked to the promotion of the productive capacity of the poor. Poverty alleviation is seen as a "cross-sectional task," that is, a goal to be reached in all sectors and areas of assistance, not just in the social sectors of health and education.

The view of the German Government is that development aid can only yield its maximum impact if it goes hand-in-hand with determined efforts undertaken by the developing countries themselves. Germany therefore supports developing countries in the process of reform, and seeks to tie the scope and nature of its inputs to their effort to create a climate conducive to development. Accordingly, aid decisions are guided by the degree to which recipient countries meet five criteria: (i) respect for human rights; (ii) rule of law; (iii) participatory political processes; (iv) pursuit of market-oriented policies; and (v) commitment to development (including good governance).

Germany provides balance of payments support in the form of grants and concessional loans, which is in principle available to all developing countries (see table in Appendix II). Support under the Germany's Structural Adjustment Facility requires adoption of a program supported by the World Bank.

Italy

Following drastic cuts in the aid budget in 1993, 1/ the Minister of Foreign Affairs of Italy announced in November 1994 a reform of aid policy, in part to address concerns about aid effectiveness. In the future, emphasis will be placed on the role of aid in ensuring stability in a number of areas where poverty and economic uncertainty are undermining political and social stability. Emphasis will also be placed on the role that aid policy can play in promoting and strengthening democratic institutions (in particular election procedures), safeguarding human rights, and ensuring efficient central and local government.

As far as geographical priorities are concerned, primary emphasis will be placed on the Mediterranean countries, but a number of poorer countries elsewhere will also be included. This does not mean, however, that Italy intends to abandon other developing countries; rather, Italy's aid policy for these areas will be specifically tailored to their varying stages of development, realistically reflecting available budget resources.

From an economic standpoint, Italy intends to continue to pursue the goal of alleviating poverty. This goal will be pursued by means of supporting the economic reforms of the governments concerned, whether through measures to ease the social and political costs of programs of structural adjustment, or through actions aimed at developing private enterprise in these countries.

Faced with the steadily increasing number of emergency situations (most of which are attributable not to natural causes, but to domestic or international conflict), Italy's humanitarian efforts will be geared toward maintaining a substantial intervention capability, increasingly integrated into concerted international efforts.

The new aid guidelines also reflect the emergence of democracy and market economies throughout Asia, Africa, and Latin America. It follows that aid policy in the future will be less a matter for government-to-government interaction, and instead will seek to increase the opportunities for decentralized implementation of aid policy at all levels of society. The new policy guidelines stress the role to be played by nongovernmental organizations, local government, the business community, and universities.

Because of limitations on available resources, the Italian authorities intend to give consideration to consolidated and efficient operations, involving a clear increase in quality in comparison with Italy's past aid efforts. The main innovations of the new approach are a focus on the

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1/ Italy's ODA allocations have been declining in recent years, and in 1995 will be below 0.20 percent of GNP, compared with a peak for net ODA disbursements of 0.42 percent of GNP in 1989. The 1995 Finance Law further reduces ODA allocations for 1996 and 1997.

humanitarian aspects of aid and a marked increase in initiatives to support private enterprise. With respect to organizational issues, there will be a radical streamlining of the implementation stages of aid policy, accompanied by the establishment of explicit accountability and supervision procedures, and transparent criteria for selecting operations.

The scarcity of funds means that it is not possible for specific allocations to be made for activities involving the environment, women's issues, population, education for development, and information. This does not mean that these areas will be ignored altogether in aid projects; instead, they will be a component of broader-ranging initiatives. 1/

Balance of payments support is provided in the form of grants, mainly to countries with which Italy has had long-standing relations, primarily in the Mediterranean region and sub-Saharan Africa (see table in Appendix II). Italy usually seeks to coordinate its assistance with programs supported by the Fund or World Bank.

Japan

In June 1992, the Japanese Ministry of Foreign Affairs published Japan's official development assistance charter. The basic philosophy of the charter is that Japan attaches central importance to support for the self-help efforts of developing counties towards economic development. Accordingly, in implementing its ODA, Japan will seek to ensure the efficient and fair distribution of resources and encourage "good governance" in developing countries through developing a wide range of human resources and socio-economic infrastructure, including domestic systems and through meeting basic human needs, thereby promoting the sound economic development of the recipient countries. In so doing, Japan seeks to work for globally sustainable development while meeting the requirements of environmental conservation.

The principles of Japan's aid take into account the recipient countries' requests, their socio-economic conditions, and Japan's bilateral relations with the recipient country. Japanese ODA is provided in accordance with the principles of the United Nations Charter, as well as the following four principles:

- environmental conservation and development should be pursued in tandem;
- any use of ODA for military purposes or for aggravation of international conflicts should be avoided;

1/ Source: Presentation by Italy's Minister of Foreign Affairs on development aid activities for 1995 (Law No. 49/87, Article 2(2)).

- full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms, etc., so as to maintain and strengthen international peace and stability, and from the viewpoint that developing counties should place appropriate priorities in the allocation of their resources on their own economic and social development; and

- full attention should be paid to efforts for promoting democratization and introduction of a market-oriented economy, and the situation regarding the securing of basic human rights and freedom in the recipient countries.

With respect to aid priorities, Asia will continue to be a priority region for Japan's ODA. Priority issues are:

- approaches to global problems, such as the environment and population;

- basic human needs, to help people suffering from famine and poverty, refugees, and others;

- human resources development and research and other cooperation for improvement and dissemination of technologies;

- infrastructure improvement, which is viewed as a prerequisite to socio-economic development; and

- structural adjustment, so that the entrepreneurship and vitality of the private sector in recipient countries can be fully exerted in the market.

Although the traditional support for economic infrastructure is still seen as important, the aid program has been putting greater emphasis on more visible areas such as: environment, women in development, population, health and education, and support for NGOs.

Japan's Ministry of Foreign Affairs announced in January 1995 that the proposed gross operating budget for official development assistance assumes an increase of 3.7 percent in nominal terms in fiscal year 1995. On a net basis, the budget could grow by 2 percent for fiscal year 1995. Japan remains committed to reaching its medium-term ODA target for 1993-97 of US$70-75 billion (on a commitment basis). In the first year of the plan, (1993) commitments were almost US$18 billion, exceeding the implicit annual average of $14-15 million.

Japan extends balance of payments support in the form of grants and concessional loans. Grant aid is concentrated on low-income countries while all developing countries are eligible for concessional loans (see the table in Appendix II).

The Netherlands

The government is currently conducting a general foreign policy review which is expected to be completed in 1995. This review contains three parts: closely scrutinizing policies, with a view to increasing their coherence; making organizational changes as a consequence of greater coherence; and addressing budgetary aspects. In this context, the aid policy is also under review. The intention to create greater coherence follows directly from the conclusions of the 1993 report, "A World in Dispute," which was an analytic update of the 1991 report, "A World of Difference." The aid policy review will also address the issues of the effectiveness of aid and the relevance and increase in some non-ODA expenditure.

At present, aid policy is still guided by "A World of Difference" and "A World in Dispute," which was published by the Minister for Development Cooperation in September 1993 in response to the rapid developments and changes occurring in North-South and East-West relations. "A World in Dispute" draws a strong link between development and conflict resolution and prevention. While recognizing the importance of traditional development objectives, the paper sets out the view that priority should be given to the restoration and maintenance of peace, including emergency assistance and reconstruction programs. The main points raised by "A World in Dispute" were that aid should:

- give priority to the achievement of peace and the prevention of violent conflict;

- reduce the rate of world population growth;

- eliminate the ecological, political, and socio-economic reasons that compel people to migrate, as well as providing proper care and support for flows of migrants;

- promote a balanced transformation of the economic and political order in societies experiencing a period of change, which is closely linked to good governance; and

- combine the effective alleviation of poverty with reduction in economic inequality.

In the report, it is concluded that a more integrated approach is needed for aid policy (development cooperation), foreign policy, and international economic relations. In the view of the Netherlands' authorities, poverty alleviation depends on economic growth which makes full use of the potential available in the country concerned. The best opportunities for exploiting this potential lie in exports (with the competitive advantage of low labor costs) and in the informal sector. Labor-intensive growth in these sectors is the most powerful weapon against poverty. To generate the capital and knowledge required for this growth, development aid programs promote cooperation between companies in the Netherlands and in poor countries. Governments in developing countries also need support as it is they who are responsible for creating and maintaining the conditions for economic growth. For example, a better education improves the chances of the poor on the labor market. A stable macroeconomic situation is also necessary for the development of the private sector. To this end, balance of payments support and program aid are provided. The Netherlands' development policy also aims to ensure that growth is sustainable. One important element of this is the transfer of environmentally friendly technology.

In addition to good governance, which can be analyzed as having mainly a top-down orientation, the Netherlands' authorities attach great value to participation in development with a strong bottom-up orientation. In the view of the Netherlands' authorities, the two concepts are complementary and perhaps even mutually necessary. As regards participation in development, the Netherlands' authorities believe that donor support needs to be directed particularly at institutional strengthening of intermediary organizations, which are able to interpret the needs and desires at the micro-level and propel them onto the agenda at the macro-level, so ensuring that they are actually taken into account in the process of political decision-making.

The Netherlands has entered into deeper cooperation with some countries, such as Benin, Bhutan, and Costa Rica. In these cases, there is a long-term relationship with important aspects of reciprocity such as a commitment by the recipient country to learn about the Netherlands' environmental policies and emulate appropriate aspects of that policy.

A significant portion of the Netherlands' aid is channeled through NGOs in lump sum payments without linkage to specific projects, in the belief that they can reach social and geographic areas that the bilateral government program cannot. Interest in NGOs is strong, and it is likely that it will increase after the overall review of the aid program being carried out. Disbursements are made mainly through cofinancing the Netherlands' NGOs but also through project proposals that include local communities.

All balance of payments financing is in the form of grants, mainly to traditional recipients of aid from the Netherlands in Asia, sub-Saharan Africa, and Latin America (see the table in Appendix II). Usually, balance of payments support requires acceptable social and economic policies and often adoption of a program supported by the Fund or the World Bank.

Sweden

Recent budgetary constraints in Sweden have led to some new orientations for aid policy. First, the concentration on the poverty reduction objective has been renewed. Within this objective, special attention is to be given to the social dimension, concentrating on issues relating to women in development, population growth, economic reforms, and good governance. The Swedish authorities believe that the social dimension itself is an important determinant of growth. Second, there will be a concentration on a long-term relationship in fewer countries, with a special focus on Africa (in part to protect the poorest countries from aid cuts), and assistance to some of the better performing countries in Africa and Asia will be phased out over time. Third, there will be a special focus on encouraging democracy and security.

In Spring 1993, the Swedish Parliament confirmed the emphasis on poverty in Swedish aid: "the long-term effects for the poorest groups must be of decisive importance when programs of development cooperation are drawn up."

The five stated goals of Swedish aid are:

- economic growth: to contribute to increased production of goods and services;

- socio-economic equality: to help reduce differences between rich and poor and to enable recipient countries to meet the basic needs of all their people in respect to such things as food, health services, and education;

- economic and political independence: to enable countries to make their own decisions about their economy and other matters, to create the conditions necessary for independence and national self-determination;

- democratic development: to help bring about conditions that give people greater influence over development on local, regional, and national levels; and

- environment: to contribute towards the sustainable use of natural resources and protection of the environment.

Criteria for Swedish aid allocation include progress in democratization, respect for human rights, 1/ progress in market-oriented reform, efficiency in aid management, as well as potential benefits for Swedish companies. Sweden also examines a government's efficiency in

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1/ Sweden distinguishes its approach on the promotion of democratic development from that of human rights. In the latter case, it focusses on respect for human rights; in cases where abuse of human rights were observed, there would be a reduction of aid but dialogue would continue. For democratic development, Sweden would reward those that undertook democratization. In the area of "excessive" military expenditure, Sweden subscribed to the joint declaration of Nordic ministers (September 1990) which emphasized open dialogue with recipients on the subject.

handling aid payments, including evidence of corruption, and its spending on defense in relation to civilian projects such as schools and hospitals. In applying these criteria, Sweden looks at progress rather than absolute levels.

Balance of payments assistance is in the form of grants to support economic reform programs of the poorest, heavily indebted countries. Traditional recipients have included Ethiopia, Mozambique, Nicaragua, Tanzania, Viet Nam, Zambia, and Zimbabwe (see table in Appendix II). In most countries, support is extended only after the adoption of Fund arrangements.

Switzerland

Switzerland's aid policy is formulated in the context of overall foreign policy, as set out in November 1993 in the "Report on Switzerland's Foreign Policy in the Nineties" by the Swiss Federal Council. This established the strategic objectives of Switzerland's foreign policy: maintenance and promotion of security and peace; commitment to human rights, democracy, and the principles of the rule of law; increase in prosperity among people; promotion of social cohesion; and preservation of the environment.

In 1994, the Parliament adopted the "North-South Guidelines." They argue that North-South relations have changed with the end of the Cold War and that a new awareness of environmental problems has emerged, while ethnic conflicts were mushrooming and the differences between North and South in health and education have deteriorated. The guidelines describe the main problems of Switzerland's development policy in this context and establish the new guiding principles for development policy to address these problems. These principles are: preservation and maintenance of peace and security through promotion of human rights, democracy, and the rule of law; promoting prosperity; improving social justice; and environmental protection.

In implementing development policy, the Swiss authorities seek to pay particular attention to respect for human rights and promotion of the rule of law. Promotion of good governance in these areas is facilitated by positive measures (e.g., support for local organizations for the defense of human rights, support for the electoral process, training programs for the legal administration and apparatus, promotion of administrative structures for the rule of law, etc.), political dialogue with the partner countries on the basic conditions required for effective cooperation and, in certain cases, direct conditionality that ties the granting of aid to certain political and economic conditions.

The goal of promoting prosperity is advanced by efforts to improve the basic conditions for the sustainable development of developing countries, including financial support for socially tolerable structural adjustment. 1/ Development of the private sector and expanding the access of developing country exports to the markets of the North are seen as key elements in this regard. 2/

Efforts to improve social justice include: combatting poverty through political dialogue with beneficiary countries so as to encourage appropriat social and economic policies; curbing population growth; and promotion of coherent, internationally coordinated humanitarian aid. In the view of the Swiss authorities, immigration, political asylum, and development cooperation policies should be coordinated in order to ensure that economic and political conditions in the largest number of countries and regions are such that people can live there in dignity. In this context, development policy supports recipient countries' social policies in the fields of education, health care (including birth control), demographics, and especially in the battle against AIDS.

In the view of the Swiss authorities, the consumption patterns of the industrial countries and their immoderate use of resources are responsible for a more than proportionate share of the negative environmental effects and must not serve as examples to the developing countries. Accordingly, efforts to protect the natural environment include defining a sustainable development policy for Switzerland itself and promoting awareness of the importance of sustainable development at the international level. 3/ The Swiss authorities also intend to seek harmonization of environmental, trade and development policies, and will support the formulation of economic,

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1/ In this context, the first priority of Switzerland's development cooperation is to improve productive resources by promoting agricultural production and food security, stimulating industrial and handicraft output, and supporting the development of adapted technologies. Support also takes the forms of: support for scientific research capabilities (especially in agriculture), support for transport infrastructures, promotion of economic diversification (informal sector, small enterprises, new fields of activity geared toward exports), and promotion of the private sector in the broadest sense.

2/ In the view of the Swiss authorities, the establishment of an open multilateral trade system is essential for the developing countries since growing export receipts will enable developing countries to finance a larger share of their own needs with their own resources, to create jobs, and to offer a future to a growing population.

3/ In this context, special attention is given to human resources development (education and health care) and to strengthening the management capacity of the developing countries to enable them to gain permanent control over the use of their natural resources. For the Swiss authorities, the priority issues are the development of mountainous regions, the protection and rational use of tropical forests, soil conservation, drinking water, and waste reduction.

trade, and foreign policies, and coherent development policies at the multilateral level.

United States

The allocation of United States aid continues to be regulated by the 1961 Foreign Relations Act. In 1994, the Executive Branch of the Government presented the Peace, Prosperity and Democracy Act to Congress. The Peace, Prosperity, and Democracy Act seeks to repeal the 1961 law governing foreign assistance and set a new statutory basis for a restructured foreign aid program. It proposes abandoning the current practice of budgeting for ODA along functional lines and instead would apportion the foreign aid budget according to thematic objectives of United States foreign policy, which include: promoting sustainable development; 1/ building democracy; promoting peace; and providing humanitarian assistance.

Congressional reaction to the main lines of this Act was favorable on the whole, but the legislative program was not completed in 1994, and the shift in the balance of power in the legislature following the November 1994 Congressional elections makes the passage of a new Act uncertain in the near future. The legislation is officially off the table--to be considered by the new Congress, the legislation would need to be reintroduced. Nevertheless, the Administration has begun to frame and coordinate its foreign assistance expenditures in terms of the proposed objectives.

Aid flows are increasingly presented as investments in civil societies motivated by self-interest, in part to address the increased pressure on the aid budget in recent years. For example, the potential impact of social strain in developing countries on the United States was stressed in this context, including through migration and increased health risks.

The U.S. authorities envisage a concentration of aid resources on countries with strong commitments to policy reform and good governance. These criteria may imply a continued reduction of development aid, facilitated by further graduations of recipient countries, including some countries in the Western Hemisphere.

U.S. policies on good governance follow closely the DAC orientations on good governance; this approach is considered pragmatic and focussed on the overall legal framework and proceedings.

At the March 1995 Social Summit for Development, it was announced that, as part of the U.S. Administration's New Partnerships Initiative, within

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1/ Within the sustainable development category there are four major programs: broad-based economic growth; protection for the global environment; stabilization of world population growth; and support for democratic participation.

five years 40 percent of USAID's development assistance would be channelled through nongovernmental organizations, both U.S. based and indigenous. The New Partnerships Initiative has three main objectives: to empower small businesses and entrepreneurs to drive economic growth; to strengthen the role of NGOs in development programs; and to help nations bolster democracy at the local level.

Balance of payments assistance is provided in the form of grants to a wide variety of traditional recipients of United States aid (see table in Appendix II). In recent years, over 80 percent of support was allocated to non-ESAF-eligible countries. Import support from the Economic Support Fund is closely coordinated with programs supported by the Fund or World Bank.

Review of External Financing Experience in Selected Programs--Country Notes

Bangladesh

Bangladesh experienced shortfalls in official loans and grants of 13.5 percent in 1992 (fiscal year ending in June) and 7.8 percent in 1993, following a shortfall of only 2.4 percent in 1991. The shortfalls arose from lower-than-expected food and commodity aid disbursements as a result of increases in domestic rice production and continuous delays in implementing the Annual Development Program (ADP). Problems with the ADP stemmed from delays in project approval and processing, inefficient project management, and delays in procurement of goods and acquiring land for projects. Also, inadequacies in the authorities' database for monitoring disbursements contributed to unrealistic projections.

The authorities took some action to improve the management of projects in 1992/93. This may have been a factor in reducing the extent of the shortfall in 1992/93 compared with 1991/92. Donors raised the issue of slow implementation of projects at consultative group meetings in recent years and a major initiative in Bangladesh, at present, is reform of the civil service (with support from the World Bank) which aims to improve project management.

Bolivia

The disbursements of loans and grants exceeded the targets in 1991 and 1992 in Bolivia and were on target in 1993 (with only a minor shortfall of 0.4 percent of the target). The close monitoring of external financing by the authorities was regarded by Fund staff as a major reason for the good record of timely disbursement of loans and grants.

Burundi

Burundi had a good track record of disbursements of external financing. The target for official loans and grants was exceeded by 2.4 percent in 1991 and met in 1992. Also, despite a coup d'etat in late 1993 (which postponed the presentation of a negotiated ESAF-supported program to the Fund's Executive Board), there was a shortfall of less than 2 percent in official loans and grants in 1993. The authorities' external financing database was well-maintained and the Ministry of Planning tracked disbursements closely--in the view of Fund staff, this was important in the good disbursement performance.

Guyana

Guyana experienced sizable shortfalls in 1991 and 1992, at around 42-48 percent of the target for official loans and grants. The shortfalls were due to slow implementation of projects (particularly in the electricity sector) and difficulties the authorities experienced with implementing the conditionality involved. The authorities' monitoring unit was also relatively ineffective in tracking loans and discussing problems with donors as they arose, which also contributed to shortfalls in non-project financing. Technical assistance from donors appears to have been a factor behind reduced shortfalls in 1993. Technical assistance from donors in Guyana was coordinated by the World Bank to assist in closer monitoring of conditionality on project loans. This appears to have contributed to a turnaround from a shortfall of around 55 percent for project loans in 1991 and 1992 to an over-performance by 2 percent in 1993. Although performance on non-project loans also improved in 1993, a shortfall of around 12 percent occurred. This contributed to an overall shortfall in total loans and grants of 5 percent in 1993, despite the over-performance on project loans.

Honduras

Disbursements of external financing were on target in 1992 and exceeded the target by 3 percent in 1993. The Central Bank monitored non-project loans on a monthly basis and this, coupled with the improvements in the database in response to requests from Fund staff, appears to have been an important factor in the good record for external financing.

Kyrgyz Republic

In 1993, under the STF/SBA, the authorities experienced a shortfall in official loans and grants of 35 percent from the program target. The authorities encountered problems in identifying suitable projects and dealing with donor procurement requirements, such as international competitive bidding, given their limited experience in this area. The large shortfall in non-project loans in 1993 (85 percent below the target) was primarily due to problems encountered with donor procedures and lower-than-expected demand for imports rather than policy slippages.

Lesotho

Lesotho experienced a shortfall in official loans and grants in 1993 (excluding the Lesotho High Water Project) of 23 percent of target, following good performance relative to target in 1991 and 1992. The shortfalls in 1993 related to problems meeting donor conditionality on some aspects of structural reform.

Malawi

A shortfall in official loans and grants of 12 percent was experienced in 1991, mainly due to a shortfall in grants. In 1992, while non-project loans in support of structural adjustment were only 30 percent of the target in 1992, total official loans and grants exceeded the target by 2 percent. This was because donors responded to the devastating drought of 1992 with grant aid (which exceeded the original target by 20 percent). The problems with external financing stemmed from macroeconomic slippages (which contributed to delayed completion of the mid-term review of the third-year

ESAF arrangement from 1992 until 1994) and donor concerns about governance issues in 1991-92. Also, administration problems played a role. The documentation from the customs administration often was inadequate to meet donor requirements for import-support. Furthermore, monitoring of disbursements was irregular and inadequate, with different government agencies responsible for different sectors and no central monitoring unit in place.

The elections in late 1993, coupled with economic policy actions in key areas, including the introduction of an interbank exchange market (which simplified the documentation flow), allowed the resumption of donor support in 1993 and completion of the mid-term review of the ESAF-supported program in early 1994.

Mauritania

A shortfall in official loans and grants of 6 percent was experienced in 1992. The shortfall was connected with political factors in relation to the Gulf War and problems with observing World Bank policy conditionality, rather than lack of administrative capacity. In the view of Fund staff, monitoring of disbursements by the Central Bank and Ministry of Planning was relatively close. By 1993, the shortfall was more than made-up, with an excess relative to the target of 14 percent for official loans and grants.

Mozambique

Shortfalls in officials loans and grants of 16 percent in 1991 and 9 percent in 1992 were experienced in Mozambique. The shortfall in external financing in 1991 was mainly due to macroeconomic policy slippages, but administrative weaknesses also contributed to the problems. In the case of aid-in-kind and funds that were not channeled through the Bank of Mozambique, difficulties were encountered with tracking the funds, particularly to generate counterpart funds. Also, monitoring of disbursements was poor and in several cases the authorities failed to provide documentation to donors necessary to support disbursement.

By 1993, performance in mobilizing external financing of the balance of payments improved and the target for loans and grants was exceeded by 2 percent. However, external financing of the deficit continued to fall short of the target as problems remained with mobilizing counterpart funds. Some action was taken by the authorities to address these problems by improving the information on private sector imports under commodity import programs. However, the persisting problems with mobilizing counterpart funds suggests that the action was not adequate.

Nepal

Nepal experienced a sizable shortfall in official loans and grants in 1993 (25 percent below target). The problems centered on mobilizing project loans. Project implementation was hampered by poor expenditure monitoring and control of projects, excessive administrative delays in claiming reimbursements on foreign financed projects, and expenditure on items not eligible for reimbursement. Also, the decentralization of project administration to local managers caused problems with the flow of documentation for reimbursable expenditure because local managers had little incentive to provide documentation required to disburse import support. The authorities' database for monitoring disbursements was inadequate and projections were based mainly on aggregate data with incomplete reporting of progress on projects. The authorities have requested assistance from the World Bank and Asian Development Bank in improving the system for the flow of documentation.

Sri Lanka

Disbursements of official loans and grants were on target in 1991, but shortfalls of around 14 percent were experienced in both 1992 and 1993. Forecasts of financing did not appear to take full account of the administrative constraints. This was particularly the case with regard to projects, where poor monitoring of disbursements and projects led to delays in project implementation (although, it should be noted that significant shortfalls occurred for poverty projects, where implementation is often difficult). Sri Lanka stood out from the other countries included in the review because it experienced large and persistent shortfalls in project loan financing 1/ that were offset, in part, by over-performance of targets for non-project financing in 1991 and 1993. In part, this is explained by delays in meeting the conditionality of the World Bank's Public Manufacturing Enterprise Adjustment Credit, which was not disbursed in 1992 as originally expected but was disbursed in 1993 (for non-project loans, this contributed to the 23 percent shortfall in 1992 and the 36 percent excess in 1993).

Tanzania

Tanzania experienced only a small shortfall in 1992 (3 percent of the target for official loans and grants), but this was followed by a significant shortfall in 1993 (13.3 percent of the target for official loans and grants). The problems in 1993 stemmed from a complicated system of disbursement of import funds and failure to meet specific World Bank conditionality for a sectoral credit in 1992/93--as a result non-project loans fell 42 percent short of the target in 1993. The authorities' database for tracking disbursements was regarded as poor by Fund staff, which contributed to problems with both non-project and project loans (the latter fell short of the target by 30 percent in 1993--weaknesses in project implementation capacity also contributed to the shortfall).

1/ Almost 20 percent in 1991 and 1992, and 35 percent in 1993.

Togo

Togo experienced a shortfall in official loans and grants of 34 percent of the target in 1992. Donor concerns about lack of good governance was the prime factor behind the shortfalls. Difficulties between donors and the authorities worsened in 1992, as donors encouraged the authorities to hold democratic elections. The general strike in November 1992 coincided with suspension of donor support. Some donors have continued the suspension, e.g., the European Union through 1994, although a new ESAF arrangement was approved in 1994.

Uganda

Uganda experienced a sizable shortfall of official loans and grants in 1992 (27 percent of the target) but exceeded the targets by 21 percent in 1991 and 4 percent in 1993. The shortfall in 1992 related to both project and non-project financing. Import support funds were disbursed through an auction system from early 1992 until the introduction of an interbank market in late 1993. The combination of documentation requirements for importers using the auction and low demand for imports, as a result of restraints on government expenditure and a depreciation of the exchange rate, contributed to a shortfall in 1991/92 of US$42 million in non-project loans (38 percent of the target) and US$54 million in grants (21 percent of the target). Shortfalls in project loans in 1991/92 stemmed from a combination of the poor quality of the database (which led to optimistic forecasts of project implementation) and constraints on government expenditure (which held up projects due to the lack of domestic funds).

In 1992 and 1993, the problems were addressed by moving to an interbank foreign exchange system and obtaining the necessary documentation from customs rather than through the auction, as well as incorporating more realistic projections for project financing into the program. This meant that the target for external financing was exceeded by almost 4 percent in 1992/93.

Zambia

Zambia experienced persistent shortfalls in official loans and grants under its rights accumulation program--averaging around 20 percent over 1991-93. Economic policy slippages were the prime reason for the shortfall of 26 percent of the target in 1991. Shortfalls in subsequent years arose because of difficulties meeting the documentary requirements of donors for import support, which in turn stemmed from poor coordination among government agencies and with donors. In response to the persistent shortfalls, the authorities began to improve coordination among government agencies and with donors, although serious action in this regard was only taken in 1994.

Zimbabwe

Of the countries included in the review, Zimbabwe experienced some of the largest shortfalls in official loans and grants in 1992 and 1993, averaging around 28 percent of the target. A lack of administrative capacity to process import support documentation was the principal factor behind the shortfalls in 1992. In part, these difficulties reflected Zimbabwe's lack of experience in dealing with donor import support on the scale committed following the drought in 1992. The problem was further complicated by the restrictions on use of import support funds by donors which, until recently, often excluded imports from South Africa. A devaluation of the exchange rate in late 1991 and tight monetary policy also dampened demand for imports and reduced the utilization of import support funds. 1/ Project financing shortfalls were a greater problem in 1993 than in 1992, accounting for more than three-quarters of the shortfall in total official loans and grants in 1993 compared with less than one-quarter in 1992. The shortfalls stemmed from slow identification and implementation of projects. This resulted from a lack of coordination between the authorities and donors and lack of coordination among the various government agencies, combined with constraints on government expenditure.

The authorities initially argued that the shortfalls were temporary. However, in late 1993, the authorities began to take corrective action and established a unit to monitor external financing and speed-up disbursement. Nevertheless, shortfalls persisted through 1994 and it is not clear whether the unit has resolved the problems. The World Bank has offered technical assistance to strengthen the unit, but the authorities have not yet accepted the offer.

1/ Importers had an incentive to first utilize access to direct allocation of foreign exchange by the Reserve Bank at the official exchange rate which was less costly than import support funds through the open general import license scheme (OGIL) or export retention scheme (ERS). This was because of the 10 percent tax on OGIL imports (although foreign exchange was available at the official rate) and the premium on export retention scheme funds of around 20-30 percent over the official exchange rate in 1992 and 1993.