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# The Aid Relationship

Andrzej Krassowski



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Although there is, in some respects, a common international aid effort, the approach to aid-giving differs from donor to donor. But none of the present approaches have yet led to the sort of aid relationship between donor and recipient that would offer the best chance of exploiting the full range of services that a developed country can offer as its contribution to the economic and social development of a poor country. The main purpose of this study is to show what such a relationship might look like. It is proposed that a satisfactory aid relationship should be based on the 'involvement approach' to aid-giving; an approach which envisages the donor taking an intimate and active part in the recipient's debate on development policies and performing a wide range of services to further the development process. The discussion then turns to a number of specific policy issues of particular significance to the involvement approach; these are examined in the light of current practices and policies, especially American policy in Tunisia. The study explains how a number of key issues are handled today, and how administrative mechanisms, decisions on country, sector, and project allocation, and the forms of aid, would have to be altered to make possible the implementation of a series of country strategies based on the involvement approach.

The author, Andrzej Krassowski, is a member of ODI research staff.

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# The Aid Relationship

A discussion of aid strategy  
with examples from the  
American experience in Tunisia

**Andrzej Krassowski**

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# Introduction

To be effective, an aid policy requires a set of objectives, a strategy, well conceived measures, and an administrative machine to carry them through. Of primary importance is the choice of global and regional objectives, and of countries to be assisted. Next comes the choice of a strategy which will further these objectives at country level. Finally, at the most practical level, comes the choice of an appropriate set of tactics and aid measures and administrative mechanisms appropriate to the country of operation. This study is concerned largely with country strategy and tactics. Assuming that the primary practical objective of aid-giving (whatever the motives may be) is to encourage development, the aim is to show how this might be done more efficiently.

The study is divided into two parts. The first puts forward the lines on which a sound development aid strategy—or donor approach to development—could be based: one that would offer a positive alternative to the unsatisfactory approaches to aid which are now all too prevalent. These approaches are, in general, unsatisfactory because they are based either on inflexible dogma, or on a pragmatic approach which over-emphasises the present and immediate future at the expense of a long-term perspective. In order to integrate aid into the development process and take full account of the diversity of conditions and experiences in the developing world, all the opportunities open to aid-givers, and all the limitations of aid, the proposed strategy is founded on three simple principles. The strategy has to be tailor-made to fit a particular developing country. It has to be recipient-orientated. It has to provide a framework which allows the aid-giver to become committed to the aid-receiving country's development progress.

The proposed strategy is then compared to the American view of what is the most appropriate and effective form of donor approach to the recipient and to aid-giving. The American example has been chosen for two reasons. First, to contrast the proposed strategy with the American strategy should help to make clear the essential differences between what is proposed in this study and the attitudes which currently govern the approach to aid of the more progressive, but still essentially orthodox, donors. The distinction is particularly important since there are many points of contact between these approaches and that set out in Chapter 1. Secondly, the American example is useful because it allows one to provide some necessary background analysis of particular techniques developed largely by the Americans, which can be borrowed and adapted for the purpose of evolving and implementing country strategies based on the proposed approach to aid-giving.

How to give the strategy operational meaning is discussed in the second part. Three topics are selected for special attention: administrative mechanisms, especially in the field of operation (Chapter 4); procedures for the design, preparation, and implementation of aid operations and related activities at country level (Chapter 5); and the forms of aid (Chapter 6).

During the past few years the US Agency for International Development has evolved, and made use of, a field administrative structure and country programme planning procedures which could profitably be used more generally, and, with some amendments, could serve, as already mentioned, as the basis for implementing the aid strategy proposed in Part I of this study. In Part II, therefore, the day-to-day political, administrative, economic, and technical issues and problems which arise in the course of implementing an aid strategy are discussed in the light of American experience, especially of their operations in Tunisia.



# **I The Aid Relationship**

# 1 Towards a True Partnership

## The basis of an aid strategy

An important characteristic of aid—and one which, in theory, should give it a number of important advantages over other approaches to development promotion—is that it is malleable and flexible. Aid, more easily than, for example, trade, can be applied to the solution of particular problems, in a particular place and at a particular time, in a specific and unique way. Other problems, elsewhere and at another time, can be attacked with the same basic ‘tool kit’ in a completely different manner. There is no need for universal rules, patterns, and procedures.

Despite this, nothing has plagued the last 20 years of development aid history more than the persistent search for *the* formula, *the* procedure which will be able to cope with all development problems, wherever they may be found and however much they may differ from each other. Most of the theories which have had an impact have stressed one particular development obstacle or bottleneck, and, not surprisingly in view of the development process, the rate of obsolescence among these models has been rapid. Models focusing on ‘resource shortage’ gave way to others focusing on ‘regressive social structures’, ‘political inertia’, ‘inefficient state enterprise’, etc. As a particular model fell by the wayside, so aid policies were readjusted—especially in the USA—and the emphasis shifted from capital aid, to technical assistance, to economic and social reform, to ‘performance strings’, private sector support, etc. Aid policy has followed and reflected, even though not always consciously, the changing fashions among development theorists. The root cause of the changing fashions has been the fundamentally mistaken belief that there is a unique model of development, and that if it could be found, it would provide the single appropriate guide for aid action. Fortunately this belief, too, is now going out of fashion.

There is no *prima facie* case for thinking that there should be a single path of development, or a universal concept of the ‘developed’ society. Societies which today are usually thought to be developed differ widely among themselves, and even those that are broadly similar have reached their present state of evolution by often very different processes. Despite modern technological forces which now impose and dictate a more uniform development pattern than in the past, a poor country which seeks to develop rapidly can aim towards any one of a number of possible ‘states of development’, and it can select from an extensive and varied number of paths leading to any one of them. It can try to emulate any one of the developed countries; or it can strive towards some goal which synthesises the different characteristics of the various developed societies; or it can

explore in new directions, borrowing and adapting what is useful, building on its own traditions and social and political concepts, evolving new notions and goals.

Essentially, development is, and must be, a process of exploration and experimentation, a process of tentative changes in the *status quo*. Such changes are not made within the context of a grand plan, with each step carefully prepared, adding up, eventually, to a new pattern. Normally, such changes are the direct outcome of some challenge or stimulus; some problem appears and must be faced and resolved. Governments, companies, institutions, and individuals, faced with some kind of challenge, are committed to make some kind of response. The response produces a new situation, with new possibilities, new problems, and further stimuli. Development, rather than being a series of movements along a single line towards a specific goal, is a sequence of random challenges and responses producing change, new patterns, and new situations. The movement is rather *away* from an existing situation than *towards* a known and defined one. The pace of change depends on the number, timing, and nature of the stimuli. The stimuli can be of many kinds, either internal or external. Among internal stimuli one would include natural disasters, or discoveries of mineral deposits, or quite minor things which upset the balance between, for example, different regions, or various political factions. Among external stimuli one would list, for example, military or political pressure from outside, changed market conditions for a country's exports, new contacts with other cultures and values, and the introduction of foreign capital, skills, and institutions.

In a stagnant society, isolated from the outside world, challenges which upset the *status quo* are infrequent. When these do occur, they may send out a series of shock waves across the country, but these soon wane and the country adapts itself to a new normality. In some developing countries there is sufficient internal movement for domestic stimuli to be thrown up with sufficient regularity to maintain a state of flux and movement without the need of external stimuli. But in many others external stimuli play an important part by adding momentum to the stirrings produced within the country.

The nature of change depends on the form that the stimuli take, as well as on the nature of the responses to them. These, in turn, depend partly on the skill with which the short- and long-term consequences of a particular response can be foreseen, and partly on the limitations—political, social, economic, and technical—on the choice of theoretically possible responses.

Aid, whatever its guiding principles, administration, and forms, is first and foremost a major external stimulus to which the recipient has to react. The stimulus takes two distinct forms—it gives a recipient country a chance to make use of resources, skills, and know-how which would otherwise not have been available, and it brings recipient government departments, non-government institutions, and individuals into contact with a range of diverse donor officials, organisations, and individual citizens.

The very possibility of being able to obtain aid presents the recipient government with a new range of choices—and forces it to make decisions within a new set of circumstances. The availability of aid allows (or even demands) a reassessment of economic policies and plans—at the very least in terms of the scale of development expenditure, both in the public and private sectors. Aid opens up new possibilities and brings new obligations. The manner in which the recipient government and economy react to the new factor can take many forms, and each will have different consequences. In any case, the acceptance of aid *necessarily* alters the course of development, and the bigger the aid inflow, the more far-reaching the repercussions that can be expected; of course, the repercussions need not necessarily be favourable to development in the long run.

Aid can be expected, then, to have a variety of repercussions on the recipient just through its presence. Given the particular circumstances of the recipient's economy, the nature of the repercussions in specific directions is dictated by the attitude of the aid-giver to aid and the forms in which the aid is introduced.

The contacts established with the donor as a result of aid negotiations and aid-receiving can in themselves become sources of stimuli for the recipient. This is the case, even if the donor authorities take a 'stand-off', or neutralist, attitude to relations with the recipient authorities. The stimuli are sharpened when, in discussions about aid, donors are prepared to voice their opinions on the recipient's situation and development prospects—in short to play the role of devil's advocate or loyal opposition. This sort of donor role falls somewhere between giving advice and exerting pressure. Advice is normally offered with the expectation of action being taken in accordance with the advice given. The devil's advocate role is to advise, but without expecting, or necessarily wanting, acceptance. Pressure is normally backed by some form of sanction to ensure that certain actions follow. Again the devil's advocate role is a form of pressure for action, but there is no threat of sanctions if no action follows. This sort of contact with the aid-giver puts the recipient in a position where he is questioned, challenged, and even harassed. In this way recipient authorities are encouraged to examine, reconsider, and reappraise all their policies, and discouraged from regarding anything as being sacrosanct.

Since in the majority of developing countries there is no genuine debate on policy or the debate is confined to a very small, and unrepresentative, inbred circle, the lack of serious and broadly based discussion leads to a lack of critical appraisal, a dogmatic following of certain concepts, and a lack of innovation and of challenge to familiar and traditional methods. The donor government's aid and development personnel can, in many cases, perform the role that one would expect a loyal opposition to perform—the role of a partner for a necessary exchange of views, and one whose outlook is likely to be sharply different and, therefore, inherently critical.

Over and above providing an external stimulus to the development process of a recipient country, the aid-giver can perform a variety of more



specific and tangible services. The simplest and most 'neutral' of these services is to make available resources—commodities, technical skills, capital, foreign exchange—either at no cost to the recipient, or at 'subsidised' rates. External resources which supplement those available domestically allow the recipient country to do more than it would otherwise have been able to afford; to budget for more ambitious targets in existing activities, to introduce additional activities for which no resources could previously be found, or to reorganise expenditure patterns to make more use of specific (and often more 'productive') types of resources, such as foreign exchange, which were previously particularly scarce. This service might be called the 'resource-supplementing' function of aid; its important distinguishing characteristic is that it loosens the overall resource constraint and allows the recipient to alter the size, number, quality, and pattern of activities within an already broadly established policy framework.<sup>1</sup>

In addition to the supply of resources in various forms, the aid-giver can perform a range of more specialised services. The aid-giver can give the recipient government or other institutions in the country access to specialised resources, techniques, and know-how. In this way the recipient can be presented with new opportunities, with new and often better means of achieving a given end, and, most important of all, with the option of formulating qualitatively different objectives in its development policies.

The most obvious and direct means of creating new opportunities and allowing for a reappraisal of existing actions is through the supply of skilled personnel. Where specific technical, managerial, or operational problems arise, the recruitment of external specialists to supplement domestic expertise provides an obvious, well-tryed, and relatively simple solution. To provide such personnel, either as external experts with auxiliary services and equipment, for work on specific defined problems, or to fill particular posts in the Civil Service of the recipient country, is an established function of aid. But it is only a small and, in many countries, relatively unimportant part of the wider, technical service side of aid.

More important than solving problems may be identifying them. This is a more difficult task for the aid-giver, as it is more general, less well-defined, and, because less apparent, not often accorded very high priority. Time and again, when looking for a solution to a particular problem, it becomes apparent that the problem need not be solved at all, but can be by-passed altogether, by choosing a different route to a given objective. In such situations an aid-giver's expertise can be of great value. If the donor is fully aware of the ultimate objective that a series of recipient measures and policies are designed to achieve, it is possible, through the introduction of techniques, expertise, and resources which may not be familiar in recipient countries, to find alternative means to the same end which by-pass particularly restricting bottlenecks in the recipient country.

In many countries the most immediate bottleneck is in the area of

1. In most discussions of aid this service is usually implicitly made the single most important one in the whole aid operation; this seems to be too simple a view.



policy formulation and administration. Where this is the case the aid-givers' advisory and technical services are of special importance in identifying problems, articulating policy requirements, finding and selecting projects and activities which will promote these objectives, and arranging their technical appraisal, planning, administration, and finance. Even in countries where planning, organisational, and administrative capacity is 'adequate', policies are on the whole still formulated on the basis of a very cursory examination of alternative approaches to a given end. The choice often falls instinctively on the well-tryed and familiar procedure. The point at which the aid-giver is brought into the policy-making process can have a profound effect on the way an objective is tackled. If the donor is asked to lend support to an *objective*, there is then considerable scope for formulating the specific steps and policies in a new way, one with which the donor is, and the recipient may not be, familiar. If the recipient government works out the objective as well as the policy steps, consideration of different (possibly better—i.e. cheaper, easier, more suitable) methods is either impossible or impractical, especially if the donor is asked to contribute to only one part of an interdependent set of activities and projects.<sup>1</sup>

An extension of the aid-giver's advisory and technical service role is the 'managerial' role. This needs little elaboration—it refers simply to the donor taking responsibility for the implementation, administration, organisation, supervision, and possibly even initial operation of some specific project or enterprise (usually financed at least in part by aid).

The aid-giver can thus perform a wide range of services as his contribution to the development process of the recipient country. These services can be phased into the recipient's activities at appropriate levels and over the appropriate time-span. First of all, contacts with the aid-giver and the opportunities presented by the availability of supplementary resources in themselves act as stimuli to action and to the reassessment of objectives and policies. These stimuli can be sharpened if the donor is prepared to take on the role of devil's advocate in dealings with the recipient. The recipient's responses to these stimuli can be debated and assessed. Possible alternative responses can be pointed out. The range of new opportunities, and the consequences of each particular response, can be made clear.

1. A striking example of such a situation is provided by the recent introduction of TV-schooling in Niger with the help of French aid. A familiar and well-tryed approach to meeting a given target of primary school educated pupils would have been to expand the number of school places and teacher-training places, and the supply of necessary teaching equipment and textbooks. The next step would have been to seek aid in the form of equipment, finance for buildings, teacher-trainers, etc. A request for any one of these items would no doubt have been sympathetically considered. In this case, however, France offered a method of reaching the same target by using the potential of television in educational policy. This approach required a different pattern of expenditure and use of personnel. It by-passed the basic bottlenecks—scarcity of qualified teachers and shortage of teacher-training places—not by a better and expanded teacher-training programme, but by a more efficient use of the *available* teaching force. The *effectiveness* of teachers was raised not through better training, but through the provision of a teaching medium that used their already acquired skills more fully, and could compensate for such shortcomings as were present. The *shortage* of teachers was tackled, partly by expanding their numbers, partly by enabling one teacher to instruct more pupils than was previously possible, without prejudicing the quality of instruction. Not only is this new approach expected to meet the desired target at a lower overall cost, but it should raise overall educational attainments and standards, both by improving the performance of teachers who have already been teaching for some time, and by providing tuition which is more suitable to the local needs of a largely agricultural country, something that could not have been done using the 'traditional' methods. See *French Aid* by Teresa Hayter, ODI, 1966, pp. 197 ff.

The range of possible responses can be widened by the removal of technical and economic limitations. The scope of choice, the information upon which the choice is based, and the means with which the choice is implemented can all be expanded by making full and appropriate use of aid.

The relative importance of the various services that the aid-giver can provide necessarily differs from country to country, but each has a place, even if only a minor one, everywhere.

The task of aid strategy is to ensure that the full potential of aid is realised in any given situation and that each service that the aid-giver is capable of performing is performed to the limits of its usefulness within the overall limits of the country aid programme. But the strategy can only be effective if it is evolved within the framework of a close relationship between donor and recipient.<sup>1</sup>

## The key issue: the aid relationship

Aid contacts have an important place in dealings between countries; aid is thus right in the arena of diplomatic operations and international politics. This does not mean that the primary considerations in aid are, or should be, diplomatic or political. But, since the aid operation is international, and especially inter-governmental, its success or otherwise in achieving whatever end is envisaged for it depends on the attitudes that givers and receivers adopt towards each other. The aid relationship is far more important than are the 'technical' aspects of aid, not least because the latter are influenced by this relationship.

The donor's approach to aid-giving, and the policies that follow from this, whether articulated in a formal strategy or not, result from the same complex interaction of causal factors as is the case with any other major policy towards the rest of the world. Even where the central purpose of the aid operation is unanimously acknowledged to be the development of the recipient's economy, differences in national and sectional donor interests, in political orientation and traditions necessarily produce not one but a variety of different 'ideal' aid models. Different people provide different answers to the question of the ideal role of the aid-giver in promoting another country's development. The large number and variety of answers, and the many types of aid relationship they imply—some already tried, others only theoretical—can be grouped into several categories, each distinguishable from the others by a number of prominent characteristics.

1. At this point it is necessary to anticipate a worry that is likely to enter the reader's mind in following the argument of this chapter. Only very cursory references are made to the problems raised by the multiplicity of donors and the divergence of their respective policies on crucial issues. This neglect is deliberate. The relevant aspects have already been discussed elsewhere (see *Pledged to Development* by John White, ODI, 1967). Moreover, the proposals put forward in this chapter, although they are discussed with reference to individual donors, need no substantial alteration to fit the multi-donor case (see page 30).

The basic qualitative difference between the various categories of approach to the aid operation concerns the donor government's attitude to the desirability of intervening in the affairs of the recipient. The aid-giver is faced with a number of choices. The basic choice is between, on the one hand, a policy of deliberate intervention, which can take many forms, and, on the other hand, a policy of non-intervention or neutrality. The choice of intervention requires a set of further decisions as to the nature and type of intervention that is desirable and feasible, and, also, the manner in which it is to be organised.

The concept of neutrality in aid can have a variety of meanings according to what aspect of the aid operation is intended to be neutral. Two are particularly relevant to this discussion—internal and inter-country neutrality. Both of them start from the same premise that the object of aid is to make resources available without *any* attempt to influence their use, either by attaching conditions, or by indirect persuasion; complete freedom of choice for the recipient is essential. To achieve internal neutrality—i.e. neutrality in the case of a single country—and ignoring the possibility of aid being withheld, aid has to be in the form of freely convertible foreign exchange, all in grant form, and without any form of condition, stipulation, or control. Strict *inter-country* neutrality is not possible. Whatever the basis for determining country allocation might be, it will favour some countries and some policies and discriminate against others. Still, for most practical purposes it is enough to approximate to the condition of neutrality. For this *any* formula which can allocate aid on the basis of a set of *measurable* economic criteria will do. The formula will be arbitrary, but as long as the donor is not able to re-allocate aid, once the formula is settled, in response to recipient policy decisions—whether economic, social, military, or political—of which the donor disapproves, then this is good enough.

As for intervention, there are two main varieties, each based on a different supposition. The first variety of 'intervention' is based on the simple idea that the donor country's superior range of skills, great technical capacity, and longer development experience enable it to exercise a beneficial supervisory role both in the use of aid and in the formulation of development policies. This may be called the 'influence and control' approach. It rests on the notion of 'performance criteria'; specific advice is given, and aid is made, explicitly or implicitly, conditional upon a satisfactory reaction to the advice. The second variety of intervention, which may be called 'involvement', takes as its starting point the fact that aid contacts act as a stimulus to the receiving country. The involvement approach seeks to maximise these points of contact in an all-embracing aid relationship; and the donor seeks to make use of the opportunities offered by aid to perform the role of devil's advocate. The approach sees the donor as bringing a certain view and a set of values, and confronting the recipient with them. The resulting clash of views and attitudes helps to stimulate the recipient's thinking and action. Any influence that is

thereby exercised is not direct, but a product of the stimulus to thinking and action produced by the donor's 'involvement' in the affairs of the recipient.

The implications for future policy of the differences between the 'involvement' and 'influence and control' philosophies will be examined a little later. Before doing so it will be useful to examine in some detail the current approaches to aid of the various donors.

### **Current approaches to aid: influence and control**

There is, at present, no country or multilateral agency which gives aid in a way that would satisfy either of the two definitions of neutrality given above, although a number of donors *believe* that their aid should be 'neutral'. Similarly, there is no country which bases its aid policies on the 'involvement' approach, although the USA, in its dealings with a small number of countries, has made some efforts to evolve such an approach.<sup>1</sup> Aid-giving is, in fact, almost exclusively guided by the principle of 'influence and control'. In different donor countries or multilateral agencies 'influence and control' is handled very differently. In some, it is exercised rather vaguely and haphazardly—as in the case of Britain, for example. In others, it is more deliberately and systematically applied, as in the case of France, America, and the World Bank. Some donors are more assertive than others; some are dogmatic, while others extemporise. All these divergent approaches to influence and control produce different types of contact between donors and recipients, different forms of aid organisation and administration; each demands a different type of aid relationship.

It is possible to classify the approaches of the various aid-givers according to their predominant characteristics, by examining each with reference to four specific questions.<sup>2</sup> First, does the aid-giver try to limit the scope of his influence and control to specific aid operations, or does he try to include a wide range of recipient development and related policies and operations? Secondly, does the aid-giver approach influence and control passively, leaving the initiative to the recipient, or does he try to play an activist role, taking the initiative where this is felt to be useful? Thirdly, does the aid-giver attempt to establish aid procedures and criteria for global application, or does he vary them deliberately according to the recipient immediately concerned? Fourthly, does the aid-giver attempt to dictate and impose his views, or does he try a more indirect approach based on incentives and inducements?

In the first question the relevant issue revolves around the word 'try'. In practice, a hard and fast distinction between controlling the use to which aid funds are put, on the one hand, and controlling recipient government policies *in toto*, on the other, cannot be maintained. It is the

1. In Pakistan, Taiwan, Turkey, and Tunisia, for example.

2. Several of the smaller donors, not particularly interested in promoting development, adopt approaches to suit their own particular objectives. These countries are ignored for the purpose of the following discussion.

*intention* to influence and control only aid expenditure (and nothing more) that dictates the donor's attitude to the recipient, and imposes a set of policies and measures which will be qualitatively different from those evolved in circumstances in which there are no self-imposed, prior limitations on the scope of potential donor control.

With the first, 'limited control' type of approach, the donor's main concern is normally to safeguard the aid that is provided. The aid-giver wants to ensure that particular undertakings—those financed by aid—are sound. That is the primary consideration; the overall effect of aid on the general situation in the recipient country is of only secondary importance. This interest in the soundness of aid may stem, at one end, from a simple need for the donor government to account in detail for its expenditure to its own legislature, or, at the other, from a suspicion that recipients are not capable of making good use of aid on their own and that the aid-giver has something to offer in an area in which he has acquired particular skills and techniques (a view which may or may not be justified in any given situation).

There are four basic methods whereby donors can exert such limited influence and control on the recipient government's use of aid, corresponding to the four possible permutations of answers to the second and third questions posed earlier.

Two of the methods, which can be described as attempts at 'passive control', are characterised by a 'take it or leave it' attitude on the part of the aid-giver. Since some form of supervision of aid is required, either because donor procedures must be adhered to, or because it is deemed necessary to ensure its efficient use, aid is made available on condition that certain criteria are satisfied by recipients, and in forms that make it usable for only specific, stipulated purposes. At the same time, the *recipient* government is expected to take the initiative—propose a specific scheme, justify it, and show how it is to be tackled. The donor government then responds. It may approve, propose amendments, even agree to a request to help with design, planning, implementation, and management; at the end of the process resources are provided to carry the scheme through. Donors can scrutinise, approve, make demands for modifications, or reject requests either with reference to global criteria of development needs, or on the basis of an assessment of individual country needs. The existence of global criteria implies a more inflexible attitude; at the same time, however, it implies also a somewhat less passive approach, since the very existence of stated eligibility criteria for aid can in itself act as an inducement to potential recipients to put forward aid requests of a particular kind.<sup>1</sup>

These passive approaches to aid require no more than a simple, rather

1. For example, a donor might feel that an inadequate infrastructure causes a severe development bottleneck. With this in view the aid agency announces the creation of a fund to meet the foreign exchange cost of infrastructure projects, provided that the requesting country can satisfy a number of conditions—that the project is likely to be 'viable', that it is properly designed and costed, that the necessary staff can be found to operate it, etc. Or the donor may feel that a shortage of trained administrators is the critical problem; courses may then be offered for suitable applicants from developing countries, provided that they have the necessary qualifications, and that the donor can be satisfied that suitable replacements are available to fill any posts temporarily vacated by the trainees.



remote form of relationship between aid-giving and aid-receiving countries. Contact between them takes place on an *ad hoc* basis and is confined to the subject matter of specific aid requests. Discussion does not encroach on matters of recipient policy not directly related to activities to which the donor government makes a direct contribution. In practice, most of the discussions and exchanges revolve around identifiable projects; where donors provide general budgetary or balance of payments support, they do not exercise any 'control' on the recipient that goes beyond the vetting of accounts to see that there is no blatant misappropriation and corruption on the part of recipient officials, or donor country suppliers and officials. It is clear that a 'passive control' approach requires no more than skeleton donor administration, with hardly any formal representation in the recipient country.

In contrast, the 'active control' approach, whether global or country by country, requires not only a more continuous and involved donor-recipient relationship, but also more sophisticated and specialised donor administrative arrangements (at home and in the field). With this approach, donor influence and control of aid expenditure is, in theory, similar in scope as in the 'passive' approach. But the functions taken on by the donor are more complex and involved. The 'active' donor approach is based on the view that the donor should share with the recipient the responsibility for taking the initiative on how, where, and when aid is to be used. The donor not only reacts to requests, but stimulates and encourages specific requests for specific activities. Moreover, requests are considered in a wider framework, and donor officials offer advice on alternative ways of tackling particular projects, initiate investigations and feasibility studies, seek out potential uses of aid, and in some cases impose various performance conditions.

The more actively a donor pursues such efforts to influence and control aid use, the more difficult it becomes to draw a line between control over aid funds as such, and intervention in recipient government policies in general. The success or efficiency of aid activities depends, of course, on related activities elsewhere which are not financed by aid. Therefore, any hope of an *effective* control and supervision of aid activities requires a measure of influence over these related, non-aid activities. The more anxious the donor is to ensure an efficient use of aid, the larger the number of recipient government activities that inevitably get caught in the donor's net.

Some donors have recognised both the limitations of separating activities that are aid-financed from those that are domestically financed, and the interaction between different parts of a development programme and general policies in the economic, social, and other fields. This recognition has caused them to sweep aside all 'artificial' restrictions on the scope of donor activities; the restrictions that remain are dictated by the degree of political sensitivity and the extent and nature of the donor commitment to aid in general, and to a specific recipient in particular.

This 'general policy' influence and control approach is, by its nature, 'active'; there is no 'passive' version as in the case of the 'limited control' approach. Instead, the distinction between the 'global' and the 'country by country' approaches assumes a much greater significance. The 'global' approach tends towards 'mandatory' aid conditions; the 'country by country' approach is more flexible; control and influence can be exercised either by pressure or by persuasion.

The global approach is based on the belief that a sound development policy requires given policy steps. As with the global, 'limited control' approach, the donor starts from the position that there are a number of specific steps needed to speed up development. The aid programme is then so organised that it can only be received by countries willing to follow given policies and measures, and use the aid in the prescribed manner. By providing aid for specific purposes donors can try to induce recipients to follow the 'correct' policies. Or they can try to obtain the same results by requiring recipients to demonstrate 'satisfactory' performance in some specific area of policy. And 'satisfactory performance' means following the donor's suggestions. This becomes the major eligibility criterion for obtaining aid, although the donor is likely to be prepared to help to formulate and adapt policies with some form of technical assistance so that the criterion can be met.

The country by country approach can, and often does, follow a similar course. The difference between this and the global approach is that the eligibility criteria and aid conditions do not apply indiscriminately to all countries, or all countries within a wide region, but are specifically geared to the circumstances of one country, or at most a small group of countries. This makes the whole exercise more flexible, and the criteria more meaningful. Moreover, the very absence of a set of general criteria on development requirements, and a willingness to look at each country's problems separately, mean that there is a greater probability that the donor will wish, from time to time, to *participate* (at least in some 'special' countries where conditions for this are 'favourable') in the development of policies, rather than attempt to impose a particular view. In any case, whether donors dictate or suggest, this approach requires the giver and receiver of aid to maintain day-to-day contact on aid and development matters through formal machinery set up for the purpose, as well as through various informal channels. The discussions and negotiations can then range over all aspects of aid, and beyond to issues concerning the recipient's general economic policies and development tactics.

The above variations on the theme of donor influence and control cover all the major current approaches to aid-giving. Even so, each is open to many different nuances in performance. As has already been said, the particular approach that any donor chooses is determined by the interplay of many considerations and influences; some of these relate to donor interests, others stem from a particular donor's interpretation of development needs and the functions aid should perform to meet these needs,

and still others to the donor's assessment of the recipient government's political and diplomatic sensitivity. In trying to assess aid solely from the standpoint of the development impact, one needs to determine whether all these various approaches to aid-giving are equally efficient; or whether some are better than others in promoting development.

In the discussion of the nature of aid the various services that aid-givers could perform were briefly analysed (see pages 12-16). These may be restated in the following terms: aid-givers provide a stimulus to the recipient economy; they can capitalise on the contacts established through aid-giving by taking on a role of devil's advocate *vis-à-vis* the recipient authorities; they can supplement the recipient's own resources and skilled personnel; they can provide advisory, technical, and managerial services.

Any approach to aid that deliberately denies or curtails the aid administrator's freedom of choice to make the best possible use of *all* these opportunities offered by aid would seem, *prima facie*, to be inferior to one that does not do so. Again, any aid approach that is essentially donor-orientated is inferior to one that is recipient-orientated. This last assertion needs no detailed justification at this point; it follows directly from the fact that the *recipient's* development, and not the donor's, is the immediate object of the whole aid operation.

How do the various current approaches to aid, which have just been described, stand up to these two 'tests'?

Of the approaches based on the belief that the donor should use aid to exercise development control and influence, those which draw arbitrary demarcations around the scope of donor control—restricting it to those matters directly related to aid use—are of more limited value than those that do not. The aid-financed and domestically financed activities of a development programme constitute an indivisible whole. Influence on, and control of, aid expenditure guarantees neither a proper integration of aid activities into the overall development pattern, nor even an efficient use of the aid itself. That, after all, depends to a large extent on many other related, though often imperceptibly so, recipient government activities and policies. The degree of government competence in the management of the economy is one important determinant of performance in development. This same competence, or lack of it, determines the skill and efficiency with which aid is utilised at the recipient end. But how well aid is used is not only determined by the recipient government's overall management competence, it also helps to determine it. If the recipient's overall economic management is good, *aid* is likely to be well used and make an effective contribution to development. Development progress, in turn, makes overall management easier and therefore probably better, because it removes some of the obstacles which complicate management. Thus good domestic policies and well used aid interact and reinforce each other. But even if recipient management is good, it does not mean that there is no place for the aid-giver's 'advisory/technical/managerial' services; the need is rather for more specialised and sophisticated forms of donor



participation. And the usefulness of the devil's advocate role is in no way affected. If recipient management is poor, the development impact of aid tends to be weak, because its potential contribution is dissipated or neutralised just as much by the poor overall management of the economy as by straightforward mismanagement of aid. So any approach which tries to separate donor interest in, and responsibility for, controlling aid use, from donor interest in, and responsibility for, influencing development policies in general, unnecessarily restricts the likelihood of the donor achieving the maximum attainable development impact through aid.

All global approaches to aid suffer from a built-in tendency to standardise, generalise, and simplify. Such approaches make it difficult to take account of the differing circumstances and requirements of individual developing countries. This is a serious enough indictment. In addition, the global approach is inherently prone to overstress donor, at the expense of recipient, considerations. The result is aid which is donor-orientated, and consequently donor influence and control is quickly transformed into either an extreme form of 'laying down the law', at one end, or indifference and passivity at the other.

The 'partial control' and 'global' approaches to aid, then, must be found wanting in one respect or another. This does not mean that aid policy based on them cannot contribute to the recipient's development; but it does mean that these approaches deny donors the opportunity of exploiting the full potential of aid. Of all current approaches to aid, only one seems to be compatible with making full use of all the opportunities that are open to the aid-giver; this is the one that is based on a country by country appraisal and which does not limit donor 'participation' (in principle at least) to aid activities, but allows it to include all aspects of development and related policy.<sup>1</sup>

Two bilateral donors, France and the USA, and to a lesser extent the World Bank, have so far come closest to evolving this type of aid approach. The World Bank is still heavily influenced, however, by its past heritage of global rules and criteria, which make its operations far less flexible than they should be. It has also, so far, not yet achieved the close and continuing aid relationship with recipients that the proper exercise of influence and control demands.<sup>2</sup> France, in its operations in its former African colonies, has developed its 'influence and control' policies more than any other donor. Its case, however, is somewhat special, since the major recipients of French aid are linked to France by a variety of institutional and personal ties that have no equivalent anywhere else; in addition, the very large numbers of French officials and influential technical assistance personnel working in these countries make the aid relationship between France and Francophone Africa a very exceptional

1. At any time donor participation is, in practice, limited to particular aspects of recipient government policy, but the selection of areas and issues to keep clear of is left to the discretion of the donor administration and is not the subject of general and arbitrary regulation.

2. See *Pledged to Development*, op. cit.

one.<sup>1</sup> The United States is, in some senses, more progressive than other donors, yet in others it is inflexible, dogmatic, and donor-orientated. The United States has been a major pioneer in advancing towards the most sophisticated aid operations based on the country by country, active, overall influence and control approach. It has evolved some first-class institutions and procedures for channelling aid and participating in the development process of the recipient. It has succeeded in mounting operations that turned the influence and control approach almost into true development partnerships with several recipients. At the same time its operations have been progressively strangled by new rules, regulations, and restrictions, and some of the worst examples of dogmatic, inflexible conditions and donor-orientated performance criteria.<sup>2</sup>

### **Influence and control versus involvement**

In the previous section the main approaches to aid-giving which guide present-day aid policies were described, and their relative merits—judged with reference to development needs—examined. A case was made out for selecting as the most efficient approach one that was characterised by the four following qualities: assessment of policy requirements on a country by country basis; an active donor role; the inclusion of all development issues within the scope of potential donor influence; and a flexible, recipient-orientated (rather than dictatorial, donor-orientated) form of influence and control.<sup>3</sup>

This approach is not, however, the most appropriate that can be devised. It can be used as a starting point and then improved and refined. Much can be achieved, for example, by placing the right people in key positions: the tone, flavour, and efficiency of the aid operation depend very much on them. But to achieve a general upgrading of aid and to attain a much smoother aid operation, and one that is effective in the *long run*, requires a basic redirection of effort and thinking away from emphasis on influence and control. The better among the present approaches may well be still appropriate for the stagnant, most under-developed countries (especially those with particularly acute shortages of skills and administrative talent), but they are no longer appropriate for the more advanced countries and those beginning to undergo a profound process of transformation. And it is doubtful whether any of the present approaches will be appropriate for very much longer for even the least advanced countries.

There seem to be two possible bases on which a new approach to aid could be founded. The two bases appear at first sight to be totally contradictory and mutually exclusive, yet paradoxically both will have to be relied

1. See *French Aid*, op. cit.

2. See Chapter 2.

3. It must be admitted, however, that such an approach is probably impractical for most of the smaller donors. If they do not wish to harmonise their activities with one or other of the large donors, or operate within the framework of some form of multilateral guidance and surveillance, then the more appropriate course of action for them would be to base their aid-giving on a country by country, active, 'limited influence' type of approach.

on in any future evolution of aid. The two bases are 'neutrality' and 'involvement'. Neutrality needs no elaboration beyond the straightforward definition already given.<sup>1</sup> Involvement, however, does require some further comments. These will then be followed by a comparison of involvement with the current basis of aid—'influence and control'—and, in the next section, with neutrality.

The involvement approach is in some respects a more sophisticated version of the most enlightened control and influence approaches. It shares with the latter the notions that donors should play an active role in the aid relationship, that their policies and ideas should be evolved on a country by country basis, and that donors should be 'involved' in a wide range of recipient development issues. But on one major issue the involvement approach diverges from the others; involvement emphasises that the donor's main usefulness and responsibility is in conducting a dialogue with the recipient, whereas influence and control stresses, explicitly or implicitly, the donor's role as guardian of 'correct' policies.<sup>2</sup> To put the difference in another way, the involvement approach is mainly concerned with questioning, the influence and control approaches are mainly concerned with providing answers (often to the donor's own questions).

Donor involvement must necessarily be built up by a gradual process, intensifying progressively over a number of years until a full working partnership can be established. In the initial stage recipient policy, as reflected, for example, in a development plan, provides a basis upon which donors can act. This is not the time for debate and fundamental reappraisals of recipient policy; it is the time for donors to concentrate on tactical aspects and the means of putting into effect specific 'promising' recipient objectives. The provision of resources, on the one hand, and of technical and managerial services, on the other, has to occupy the centre of the stage. The advisory service probably has to be directly related to any project finance that the donor is providing: this embraces help with the working out of the details of possible projects, the initiation of detailed surveys, feasibility studies, and pilot projects, the provision of skilled personnel for operational posts and on-the-job training, and the establishment of various institutions and mechanisms to tackle particular problems.

At the same time, donor policy during the 'transitional' period should aim at establishing a dialogue with the recipient on the broad lines of future development, and the volume and nature of external resources that this will require. Ideally, the recipient government should work out its development plan or policies in consultation with the donor. While it is up to the recipient to decide on the basic objectives and lines of policy, the donor's participation at an early stage of the planning process is useful for two important reasons. First, it is at this early stage that comment on

1. See above, page 17.

2. All serious interventionists, whether they are inclined towards involvement or control, regard these aspects of aid as even more central to the aid operation than the provision of actual resources.

the feasibility of broad recipient propositions is most helpful, and a full debate on fundamental technical questions—such as sub-sectoral investment allocation, investment phasing, project selection, implementation procedure, expenditure control methods, etc.—is most necessary. Development plans, for example, are often finalised without *detailed* consideration of their component parts, and the proposals are not clearly linked and related to financial, monetary, fiscal, and other complementary policies. It is an important donor function to prod the recipient authorities to consider and spell out their policies fully and in as much detail as may be practical. Secondly, donor participation in planning at an early stage should help to produce policies, or a plan if there is one, that are based on some clear indication of the volume and nature of aid that will be forthcoming. The object of consultations on policies at an early stage is to produce a set of aims that incorporates as nearly as is possible politically determined recipient aspirations and wishes that the donor can wholeheartedly support.

If there is some fundamental and lasting disagreement between donor and recipient as to the recipient's long-term objectives, the ideology that inspires them, or the way they should be tackled, a close relationship may well be difficult to achieve. But a donor should not be put off by, nor try to discourage, a recipient wishing to experiment along lines which are alien to the donor—in terms of ideology, or of social and political organisation—but which may well be appropriate to the recipient's situation.

The ultimate aim is to bring about a situation in which donor and recipient are engaged in a continuing dialogue about the recipient's development and the contributions that the donor could usefully make. In time, such a dialogue would blur the sharp demarcation between donor and recipient and fuse them in one common development effort.

The superiority of the involvement approach over the best 'influence and control' approach arises from the difference in the tone of the respective aid relationships. Firm adherence to the concept of the dialogue which is at the heart of the involvement approach avoids the main trap into which donors intimately concerned with the recipient's development affairs can only too easily fall. The trap operates on the following lines: the aid-giver views the recipient from his vantage point of a modern and affluent environment, with superior know-how and technical competence. Backed up by all these advantages that he has over the recipient he approaches him with some tentative suggestions on policy, and commits his resources and skills to enable the recipient to carry them through. As long as things go well, co-operation works smoothly enough. But if the anticipated results do not materialise (as they usually do not, because expectations are set too high), or if the recipient insists on taking measures which seem illogical from the point of view of the aid-giver's own economic, political, and social experience, he becomes impatient and his line hardens. Either he begins to lose interest in the recipient and curtails his commitments, or he becomes concerned about controlling aid use and recipient

policies more and more tightly in order to maximise the chances of development 'progress'. If the latter fails to produce a dramatic improvement, the aid-giver resorts more and more to specific conditions on aid use, and makes his aid eligible on strict performance criteria which he himself sets. This generates friction between donor and recipient, and the friction increases rapidly when some political or ideological differences of view arise. It does not take much, in those circumstances, to bring about a complete breakdown of communications, recriminations all round, and a major setback to co-operation on development.

Any approach to aid that is likely to produce this sort of situation should be suspect. The involvement approach minimises chances of such a situation occurring because it puts the stress on debate, exchange of views, criticism—dialogue in short—and does not link, except very indirectly, the volume and forms of aid to donor-dictated performance criteria.<sup>1</sup> It therefore removes the major objection, raised in both donor and recipient countries, to anything more than a superficial donor intervention in the recipient's affairs.

The major objections to donor intervention seem to be the following. First, while it may be acknowledged that donors have certain 'rights' in attempting to ensure that aid is used effectively, these rights are considered to be limited, and not to extend beyond direct aid matters as such; political ethics dictate a 'respect' for the sovereignty of recipients. Secondly, there is the fear of imposing donor views and ideas on the recipient because these could turn out to be ill-advised or wrong; donors, it is argued, do not necessarily know what is best for the recipient, despite their technical know-how and experience, since their economic, political, social, and cultural circumstances and values are different and thus provide a bad guideline on which to base recommendations. Thirdly, it is argued that recipients will not tolerate any approach to aid which involves outside 'interference' in their domestic affairs; to press this might do political damage to the donor, and quite irrespective of any potential development advantages that may accrue, such a donor approach should be discouraged.

How much force is there in these objections when they refer to involvement? In so far as the issue of 'ethics' is concerned, self-imposed limitations of freedom of action by sovereign states are not new; there are many precedents in the form of bilateral agreements, treaties, and membership of international groupings or organisations. In all these cases—and it applies also to the involvement aid relationship—the recipient enters into any commitment on a voluntary basis.

In any case, involvement does not raise any *new* issue of political ethics. It should be stressed again that current aid practices already are a form

1. It might be thought that this attribute of the involvement approach is illusory, since whatever the *intentions*, force of circumstances will inevitably produce the same outcome in donor/recipient relations. This is not so. The initial intention is vital in establishing a particular framework of aid co-operation which can do much to safeguard reasonably smooth relations even over contentious issues. This safeguard can be reinforced by the appropriate procedural mechanisms and administrative organisation (see Chapters 4 and 5).



of interference in the recipient's internal affairs. Aid today is not 'neutral'. Even the simplest decision—to give or not to give aid—is a form of intervention. If aid is made available in the forms that the recipient requests, with no strings attached, then this implies tacit donor support for whatever policies that recipient is following. In the opposite sense, rejection of an aid request also has its repercussions on the recipient. If the forms of aid are in part determined by the donor, as they always are, or if any kind of condition, for whatever reason, is attached, the donor is partly responsible for determining the nature and direction of the recipient's development effort, as well as its scale. Involvement, therefore, alters the nature of, rather than introduces, donor 'interference'; but it certainly seeks to respect recipient aspirations.

The argument that donor involvement may be unwise in the long run—even though perhaps useful in the short—is more serious. If a large part of the development effort is in the hands of expatriates, if most of the important decisions have to be taken, or approved, by them, if there is limited scope for local initiative and experimentation, and if there is considerable reliance on borrowed values, systems, and procedures with little effort to adapt them to local conditions, then the recipient may end up, or remain (in the case of a former colony), in a state of complete dependence on the donor. The recipient may then become a sort of inferior copy of the donor; a potentially more promising line of development, more deeply rooted in local conditions, with a greater chance of long-term survival and progress, might thereby have been sealed off. Should donor/recipient co-operation break down for any reason, the recipient can then all too easily be sent on a downward slide from which recovery will prove to be difficult, or almost impossible. These are extreme eventualities, but even so there is much force in this line of argument. It does point to some of the possible dangers if a proper sense of perspective is not maintained. One quite real danger in many countries is that donors, anxious to obtain development successes, become too impatient with recipients and try to lay down unilaterally and rigidly the recipient's whole development pattern. But the argument does not apply to the involvement approach, because involvement emphasises that donors must refrain from imposing policy objectives, or taking over the direction of the development effort. The approach stresses quite different aspects of the aid relationship; donors should stimulate debate and discussion, explain the consequences of certain actions, help to identify problems, advise on tactical and technical matters, and allocate resources, technical expertise, and a wide range of skills where they are felt to be most needed by both parties.

Lastly there is the objection that recipients do not like donors to take a very close interest in their affairs. There seems to be no *a priori* reason for thinking that the majority of recipients would not wish to co-operate very closely with donors if such co-operation produced more enlightened aid policies, less donor inflexibility, and more encouraging development results. Most recipients tolerate the current 'influence and control' variety

of aid relationship; it would be most surprising if they did not prefer the involvement approach.<sup>1</sup>

One aspect of recipient willingness, it would seem, could present a major obstacle to a working aid relationship based on donor involvement. In a number of developing countries the existing social and power structure seems to be an important limiting factor on development. Development may therefore depend on changes in the socio-political *status quo*; this would undermine the position of the established ruling groups and their supporters. If development is seen as a threat to the existing power structure, it is doubtful whether a donor, whose main aim is to encourage and make possible such change and development, will be welcomed by the recipient government. If there is no common interest in development between donor and recipient governments, the dialogue approach may well have to be ruled out as impractical in the short run. The donor, however, may wish to persevere with a dialogue approach, hoping that, *in the long run*, this may produce some favourable results. The alternatives to this are either to disengage from aid altogether, or to provide aid which alleviates particular problems (and perhaps thereby reinforces the socio-political *status quo*). From the point of view of the long-term development of a particular country, it may well be best to persevere with the dialogue approach. From the point of view of the development of the developing countries as a group, disengagement might be the better policy. In this way scarce resources, trained people, and donor energies could be channelled into those countries where a more fruitful co-operation on development could be attained.<sup>2</sup>

Apart from the fact that the above arguments against donor intervention in the recipient's affairs apply with much less force in the case of involvement than in the case of the present policies of influence and control, there is one important practical reason for advocating involvement. Both approaches are equally practical as long as there is only one donor to whom a particular recipient can turn. In a multi-donor situation the involvement approach becomes the more practical alternative. The difference may not be very significant if any one of the following three conditions is satisfied. The first is that one donor provides a very substantial share of aid; for practical purposes this makes the situation similar to the single-donor case. The second is that donors delegate their functions and powers to a single agent, acting on their behalf, with funds subscribed by them according to some formula (binding or voluntary). This also becomes an almost exact replica of the single-donor case. The third is that the various donors co-ordinate their approaches towards a particular recipient and act in unison, while at the same time retaining separate administrative responsibility and procedures.

1. This argument is developed in Chapter 2.

2. This is a very delicate matter to resolve. It would appear that it could only be settled, in the final analysis, either on political grounds or with reference to some arbitrary, but pre-determined, formula. Fortunately this dilemma does not have to be faced in more than a small number of countries. Even so, before taking any action it is particularly important for a donor to make sure that the power structure is a major obstacle to development, and not merely one that happens to pursue policies which do not seem to be compatible with the donor's view of the development process.

It would seem that at present the multi-donor case presents fewest practical problems where one donor is dominant. A number of the smaller countries, especially former colonies, are in this category. Although in time many of these may wish, and be able, to attract aid from new sources, this change is unlikely to take place quickly.

In the case of several of the larger recipient countries in which substantial aid is provided by several donors there are reasonable prospects that donor policy co-ordination can be developed through the medium of a multilateral agency. There are already a number of rudimentary mechanisms for such a co-ordinated approach. Pressure from one or two of the bigger bilateral donors could provide the necessary push for making them into very effective instruments for co-ordination at country level.

The most difficult obstacles to progress on co-ordination arise in those recipient countries which receive substantial aid from various sources, but where the donors do not share a common objective. In such countries donors are not only inclined to work independently of each other, but may actually be in competition with each other. Such donor competition in aid is not so much a result of differences of opinion on the methods by which aid can promote development—though these exist—but rather a manifestation of a more general competitive frame of mind. Most differences of opinion—and competition—in aid result from differences of view on the importance of non-development objectives in a given country. Aid is also used to promote the interests of one donor *vis-à-vis* another, with the recipient acting as an innocent intermediary. Such inter-donor rivalry is especially associated with East/West competition; but it is also a feature of relations between DAC members and extends even to the various multilateral agencies.

With the involvement approach donor policy co-ordination is less of a pressing need than with the influence and control approach. Where several donors provide roughly equal quantities of aid, one of them can perform the 'loyal opposition' function, and effectively help to stimulate debate and discussion even when the other donors take a fairly rigid 'control' approach. Such 'competition' does not substantially reduce the usefulness of the donor who perseveres with the involvement approach; in some cases it can actually make the other donors more flexible and less 'dictatorial'. Involvement therefore does not have to wait upon a more co-ordinated effort between the donors. It can be pursued by any one of the big or medium-sized donors on its own initiative.

### **Involvement versus neutrality**

The essential characteristics of the involvement approach and the conditions necessary for aid to be neutral have now been set out. The last step in the argument has now been reached: all that remains to be done is to examine how the two quite distinct philosophies of aid compare, what their particular merits and disadvantages are, and what their respective place in the future evolution of aid should be.



The apparent attractiveness of neutral aid owes much to the suspicion that donor intervention in the recipient's affairs must be, in the long run at least, more harmful than useful. It is thought to inhibit radical solutions and force recipients to take the most orthodox, developed-country-inspired path to development, because the donor's main interest is alleged to be maintaining stability, and discouraging any action which might be prejudicial to its own political and ideological inclinations. Neutral aid, in contrast, respects national sovereignty; it allows recipient countries to pursue their own policies without having to court the donor's favour, and to seek their own solutions to problems.

That there is much force in these arguments has been readily acknowledged in the discussion of the shortcomings of the 'influence and control' approach to aid. Similar arguments were in fact advanced at that particular point in order to show just why the involvement approach is superior to the 'influence and control' approach. Thus, the arguments advanced by the neutralists do not apply, *by definition*, to the involvement approach. Still, the neutralists can produce a counter-argument. It is that *in practice* the involvement approach is not possible; even if donors *intended* to comply with the spirit of the involvement approach they would, through pressure of events, inevitably end up with an 'influence and control' approach. This cannot be proved or disproved conclusively. But it is not really necessary to disprove the contention; it can be maintained, with equal conviction, that neutral aid is also impossible *in practice*, using exactly the same arguments that the neutralists advance to show that a true involvement approach is impossible. A decision on the direction that future aid policy should take—whether towards neutrality or involvement—would therefore seem to rest on a personal, subjective choice. But, if one examines neutralist reservations about donor involvement more carefully, it becomes apparent that the biggest worry for them is the question of aid security and continuity. It is not donor involvement as such that is most feared for the potential harm it can do, but donor unpredictability and fickleness.

The involvement approach to aid implies that donors allocate their aid between countries according to some kind of assessment of needs. This gives aid considerable flexibility and allows it to flow to particular countries when it is most needed. But this implies that from the point of view of any one recipient it is not possible to rely with certainty on a given quantity of aid except for a relatively short period in advance. Moreover, since aid allocation is solely at the donor's discretion, considerable room is left for political factors to influence choices. Neutral aid, on the other hand, has to be allocated on the basis of a predetermined formula, based on measurable, objective criteria. This gives recipients advance notice of what they can expect, and insulates them from sudden changes of aid policy, including those brought about by political factors. But the resulting aid allocation must, of necessity, be arbitrary, and unable to take into account sudden

1. See below, page 28.

2. See below, page 17.

changes in the circumstances of a particular recipient, or qualitative differences in needs between recipients.

Aid of both varieties has its disadvantages as well as its advantages. The obvious and most rational policy solution is to draw on the advantages of both. If a *portion* of aid can be allocated according to a 'neutral formula' this will do much to allay the fears that are always present when aid can be withdrawn unilaterally, and will enable recipients to be more confident in their dealings with donors. At the same time, the advantages that recipients can derive from donor involvement need not be sacrificed. Where the emphasis is to be placed has to depend on the weight that one wishes to attach to predictable aid committed well in advance, on the one side, and, on the other, flexible aid, rationally and deliberately worked out.<sup>1</sup>

### **The problem of political will**

The donor's role in the development process and development debate can, by its very nature, produce an abrasive situation. This danger is unavoidable. To perform a useful role the donor needs to be an instigator of criticism and reappraisal, and a champion of change. To be able to perform these functions needs both tact and perseverance. But, in a sense, the 'right' to perform them is not automatic; it has to be 'earned' by the donor. The mere fact of providing resources in aid is not a sufficient qualification. To 'earn' the right can itself be a tedious, involved, difficult, and unrewarding operation. It is clear, therefore, that for the donor to take this on in order to help promote development in an overseas country requires strong motivation. Thus, the most important single determinant of the donor government's willingness to establish a really close aid relationship is the strength of its commitment to the idea of development—whether motivated by disinterested concern about low living standards, or for political, self-interest reasons.

What is the current situation concerning the commitment to aid in donor countries?

The very low level of income in most of the underdeveloped world, relative to the average in the economically advanced countries, provides the *raison d'être* of aid. The actual commitment to provide aid is a result of the interaction of a profusion of diverse considerations and views. Thus, according to one main strand of thought, the obvious central objective of aid is the promotion of more rapid economic growth in low-income countries. But, to different people, this one objective is paramount for different reasons. First, development is thought to be desirable as an end in itself. Secondly, from the point of view of the developed countries as a group, promotion of development is thought to be a necessary precaution against conflicts and disturbances arising from growing international disparities in wealth. Thirdly, again from the point of view of the developed countries as a group, the development of poor countries is thought to

1. The author's own view is that predictability and advance commitment should take second place and that involvement should be made the dominant theme of future aid policy.

enhance the long-term economic and commercial position of the richer countries. Fourthly, from the point of view of one rich country, development of countries within its sphere of influence, or neutral countries, is thought to serve the political, strategic, commercial, and cultural interests of that rich country. Finally, development is thought to serve particular sectional interests, such as those of companies operating in developing countries or exporting to them. The motives can thus vary widely—some of them even conflict with each other—but the aid *objective* in each case is *development*.

According to another view, an attack on poverty is not the purpose of aid; rather poverty makes economic aid a particularly powerful and attractive instrument for exerting influence on developing countries. Those who support aid on grounds of direct or short-term donor self-interest usually assume that it also contributes to development—the very fact that resources and skills are provided (whatever the intention) is thought to bring economic benefits to the recipient.

A third view is that, though aid is not a good method of promoting either development or any other specific objective, some contribution is politically necessary. Some token of support is easier than outright refusal of recipient requests or failure to contribute to various multi-donor programmes. To those who hold this view the primary consideration in aid-giving is to minimise the real cost of aid to the donor while trying to maximise its nominal, or apparent, value.

It is clear that if support for aid is founded on either of the two latter views—political influence or diplomatic necessity—then there is no incentive for the donor to try the form of aid approach proposed in the previous section.

The stated primary objective for which most aid is now provided is developmental (even though the *motives* for this choice differ between donors and individuals within one donor country in the way just described). At the same time aid is used to promote various other objectives which are not linked with the recipient's development. Sometimes the combined force of several of these so-called secondary objectives is sufficient to submerge the primary objective, even though this is not intended. In this situation the nature of the impact aid has on the development of the recipient's economy is left completely to chance. It is, of course, possible that the forms, terms, conditions, and end-uses of aid happen to be such as to serve development needs as well as if they were specifically selected for this purpose. But such a fortunate convergence does not occur frequently. More often than not the impact on development is small; on occasions it is indeed harmful. Even where the development objective retains its pre-eminence, attention to secondary objectives and indiscriminate donor cost minimisation distorts the aid programme in such a way as to reduce its development impact.

When there is only one policy objective the choice of means to promote it can be determined largely on 'technical' grounds. Where there are

several major objectives, or one primary and a number of secondary objectives, the choice of means is governed by the weight given to each objective and by the need to avoid potential conflict; aid measures must be so designed as to promote one objective without at the same time hindering the others. If the objectives themselves conflict, the situation can only be resolved rationally by giving higher priority to some, and dropping others altogether. Otherwise the policy is self-defeating. It is clear that the present proliferation of objectives provides much scope for conflict, and leads to an equivocal donor attitude to the aid relationship.

Since the involvement approach advocated in this chapter depends to such an extent on a donor commitment to use aid for development and to persevere with this commitment, the chance of the approach being tried might, at first sight, seem rather remote. Yet this is not necessarily so. There is one fairly straightforward way to make a substantial start without putting all aid on an exclusively development basis.

The first step is to select a limited number of countries. Which countries should be chosen would have to be decided on a combination of political and technical grounds. Obvious candidates in the initial stages could be found among those countries in which donors already have a major aid presence, especially those few where the influence and control approach has been adopted and used in a flexible, enlightened manner. The involvement approach would probably bring the greatest gains for those countries which are already showing signs of change and movement affecting a relatively wide cross-section of the population and economic activities, and whose governments are anxious, and able, to put up ideas and have them subjected to donor scrutiny. The full value of the involvement approach cannot be realised if there is no genuine *two-way* flow of ideas and influences. This implies that the *recipient* government must be able to react to the aid-giver's stimuli, and know how to make use of his services.

# 2 The American View

## Principles of American aid

The official policy directive under which the United States Agency for International Development (AID) operates is that aid is an instrument of foreign policy—an instrument necessary to help create, in the words of the *AID Program Guidance Manual* (PGM),<sup>1</sup> '... a community of free nations co-operating on matters of mutual concern, basing their political system on consent and progressing in economic welfare and social justice . . . [because] . . . such a world offers the best prospects of security and peace for the United States'.

The specific role of economic aid in furthering the objectives of American foreign policy is stated to be twofold: to maintain political security and economic stability in countries which are threatened by external aggression or internal subversion, and to promote economic and social development. In its first role, economic aid is complementary to military assistance, and may indeed be an alternative to a direct American military presence. The link between aid and the specific foreign policy objective in this case is clear. It is less clear in the case of development-orientated aid. It is obvious enough that aid can promote economic development, but it is not self-evident why development in Asia, Africa, and Latin America should promote the basic political interest of the United States, as outlined in the PGM. The proposition on which this view is based appears to be quite simple, however; a later passage in the PGM states: 'Aid as an instrument of foreign policy is best adapted to promoting economic development. Development is not an end in itself [for the USA], but it is a critical element in US policy, for in most countries some progress in economic welfare is essential to the maintenance of independence and the growth of free, non-communist, societies.'

A series of forceful arguments can be put forward both to support, and to oppose, the validity of this proposition. The argument is not likely to prove conclusive. In any case, from the point of view of effective aid, the important factor is that a consensus, however tenuous, has been achieved, that US policy objectives should be pursued by emphasising development. Thus the primary operational objective of aid—some exceptional areas where immediate security issues are paramount apart—is to promote the development of the recipient, within a broad social and political context compatible with what are called 'free world' ideals. And, as far as possible, the exceptional cases are designated in advance, and special considerations apply there.

1. The PGM is an internal AID document, consisting of several volumes, which contains all the detailed aid policy instructions, procedural guidance, rules, and regulations. It is constantly revised and updated.



Most current country aid programmes have their origins in pre-AID times—the Agency was set up in 1961—when development and short-term political considerations were much less clearly separated. The 1962 classification of recipients according to major US objectives in aiding them was, therefore, very much a process of rationalisation; the original purposes of aid were rather mixed, and certainly not well defined. The classification then adopted, but which since has become somewhat blurred, was as follows:

- 1 Transitional programmes
- 2 Major programmes
  - (a) general development support
  - (b) qualified development support
  - (c) basic security and stability
- 3 Limited programmes.

Although political considerations still exert a strong influence on aid practice today (above all on aid allocation), the accent has shifted more towards development. Thus decisions on where aid should flow, and how much, are still dominated by immediate political considerations; but once aid is allocated it is used, in an increasing number of countries, with development foremost in mind.

The classification of recipients into various categories served not only to rationalise and specify objectives. Since developing countries are not amenable to uniform treatment because of the disparity in their conditions and the diversity of their problems, breaking them down into sub-groups was also intended to facilitate the evolution of practical policies appropriate to the varying needs of different countries.

The factors determining the allocation of a recipient to a particular group were a mixture of political and economic considerations. Countries in group 2 (c) obviously stand out from the rest; there strategic factors are the primary, or sometimes only, consideration. A large American presence in these countries is a direct result of the Cold War and economic aid a supplement or alternative to a military presence. The objectives are maintenance of internal and external stability, protection from aggression, and prevention of economic collapse in strategically located countries.

The other groups bear the following distinguishing marks.

Group 1 consists of countries which, with or without extensive American aid in the past, have reached a stage of economic development thought to be sufficient for 'self-sustaining' growth in the very near future; remaining aid programmes are being phased out.

Countries in groups 2 (a) and 2 (b) are judged to have reasonably favourable prospects for reaching the stage already attained by countries in the 'top' group within a foreseeable time-span. In addition, they are considered by the United States to be of special importance, on account either of their geographical position and size, or of the role they are expected to play in the developing world.

The distinction between sub-groups (a) and (b) can be summarised by reference to the 1965 aid proposals presented to the Congress.<sup>1</sup> General development support countries—sub-group (a)—‘have generally raised savings and investment levels in the past few years and taken steps to allocate investment funds and other resources more effectively. Although their development policies are by no means ideal, these . . . countries have made serious and sustained attempts to make better use of both their own resources and the external funds available to them and have had a substantial measure of success.’ Qualified development support countries—sub-group (b)—are comparable to those in the other sub-group ‘in their importance to United States foreign policy interests and their longer-run prospects for development. Generally speaking, however, they have not yet shown an adequate and sustained commitment to sound development policies and effective resource use.’

Finally, group 3 contains all other recipients in which the Americans maintain a limited presence for any one of many possible reasons, such as token of support, maintenance of American base facilities, an alternative to Sino-Soviet aid, supplement to a major European aid effort, etc.

The division of countries into a number of groups serves various other needs besides the ones already mentioned. The most important of these is that a classification of countries into groups serves domestic publicity ends. Aid can be given a sense of impetus and purpose if recipients, ranked according to some economic criterion, are seen over the years to rise from a lower to a higher group. Since the philosophy underlying AID operations is that assistance is not endless, but that most countries will eventually achieve ‘economic independence’, it is useful, from a public relations point of view, to be able to ‘promote’ an occasional country from one group into another. The publicity surrounding the occasion of Taiwan’s ‘graduation’ from group 1—out of the aid programme altogether—shows the usefulness of being able to spotlight ‘success stories’ to keep public and Congressional interest in, and support for, the work of AID.

In this scheme of things, Tunisia finds itself in group 2—i.e. major programme, general development support. The United States is in substantial agreement with Tunisia’s internal development objectives and the manner in which they are being pursued. It is not likely that Tunisia would adopt a very different development *strategy*—though it would certainly adopt somewhat different tactics and a less ambitious programme—if American aid were not available. The donor/recipient relation is relatively unobscured by political and strategic issues and policy discussions are generally confined to technical or near-technical matters. However, even though development support has been theoretically recognised as the primary aim of American policy in Tunisia, AID has to operate within a legislative framework which attaches to aid a number of secondary—and possibly conflicting—objectives of American internal or external

1. *Proposed Mutual Defense and Development Programs FY 1965, Summary Presentation to the Congress, April 1964.*

policy. AID is, of course, also subject to pressures from within the State Department, or the Pentagon, or elsewhere, so that policy measures sometimes go off at a tangent from AID's own thinking, or the Agency's freedom of choice of means and methods is curtailed.

The complexity of AID rules and procedures, together with the occasional inept political move, are the blackest features of American aid. The rules, restrictions, and conditions cause long delays before activities are approved. This is wasteful. Then again, the rules make it difficult, at times even impossible, to use aid in the best and most rational manner. Sometimes they add directly to the cost of aid schemes. They involve officials in both Washington and the field in much tedious routine work; much of the time of experts and administrators is occupied in reporting, checking that all regulations are complied with, and rechecking with recipient government officials. Administrative work is also increased for the recipient government. Each activity requires hundreds of man-hours of avoidable additional work. Since there is an inadequate supply of personnel able to cope with unfamiliar American procedures, or just simply qualified in routine clerical and administrative tasks, those few who are competent in these tasks have to be taken away from more essential duties, or the work falls on senior officials. This represents a cost which, although hidden, is all the same real and borne by the recipient. Some of the AID regulations discriminate against local business participation in aid projects. Finally, some conditions are resented and cause embarrassment, ill will, and suspicions as to the motives for American aid.

There is every danger that the programme will be strangled by the annual accretion of Congressional amendments and administrative regulations (many of which are themselves introduced to forestall the more blunt Congressional hand). Already now some parts of the system work only because the President is willing to ignore certain Congressional rulings on grounds of 'national interest'. A number of the most important of these procedural rules and aid restrictions will come up in the discussion of aid forms in Chapter 5, so this question will not be pursued here any further.

The strict requirements of accounting and the consequent need for minute field supervision of all aid activities have, however, provided some incentive for two more positive features of American aid—strong field representation and donor intervention. Field missions owe their existence partly to the need for close accounting supervision. When the emphasis in aid shifted towards development, the supervisory functions which had been primarily confined to checking that aid was used in accordance with aid agreements were extended to embrace the wider considerations of its effective use. In other words the Americans were no longer satisfied with trying to prevent corruption, ensure the technical soundness of projects, and minimise costs, etc., but began to take a closer look at the rationale of projects, how they fitted into the overall development pattern, and what the wider alternatives were. Because of the inter-



relation between aid projects on the one hand and activities outside the immediate ambit of aid on the other, such a course naturally heightened interest in general policies in the country receiving aid, and how these could be improved. In the same way, a greater interest in development results required that there should be some general examination of recipient policies which were, at least indirectly, supported by means of general commodity, budgetary, or programme aid.

Concurrently with these developments experience was showing that in many countries economic development was held up not only by shortages of resources and skills, but also by serious weaknesses in recipient policies. In the catch-phrase that became popular in the early days of AID, recipients were not doing enough 'to help themselves'. Preferential treatment, it was therefore decided, would be given to those who could demonstrate that they were taking, or prepared to take, 'self-help' measures. Furthermore, AID was prepared to help countries to identify what needed to be done, to help devise appropriate policies, and to back them, where feasible, with aid.

Development aid allocation was therefore made partly conditional on recipients taking appropriate domestic steps. Aid was looked upon as a catalyst which would set the development process moving. Initially, self-help criteria were developed in general terms, and were intended to be applied with little differentiation amongst countries. Good performance was deemed to mean, amongst other things: preparation of development plans, reform of tax structures and land tenure, steps to increase savings, 'sensible' monetary and exchange policies, 'adequate' scope for the private sector, etc. Later these general conditions were supplemented, or in some instances replaced, by much more specific conditions, worked out for individual countries.

This is the present position. The American approach to aid and the aid relationship corresponds in many important respects to the influence and control approach outlined in Chapter 1. The American attitude to aid necessarily demands of AID an intimate association with the recipient. An important role is therefore assigned to field missions, and considerable effort goes into aid programming—the preparation of an aid and policy package to fit the particular needs of one specific economy, in the context of overall American objectives. The manner in which influence and control are exercised varies from country to country, and from period to period; on the whole there is an underlying preference for 'performance conditions'; but on some occasions the approach begins to resemble more a genuine involvement approach.

The involvement approach requires a sophisticated administrative structure, with strong representation in the recipient country, and a set of procedures and mechanisms for evolving a country aid strategy, and then implementing this strategy. Other donors can benefit from studying the structures and methods that AID has evolved for managing its aid operations. These structures and methods will be scrutinised in the second

part of this study, which deals with the formulation and implementation of a country strategy. They will be scrutinised in the context of an actual aid operation—the case of Tunisia—which, although it is still essentially based on an ‘influence and control’ approach, has managed to blur some of the distinctive characteristics which separate that approach from involvement. Before turning to this it will be useful to look briefly at Tunisia’s attitude to aid in general, and to the American programme in particular; such a background sketch should give a general idea of the atmosphere in which the aid relationship between the two countries has evolved.

## Tunisian attitudes to aid

The objectives of the last two development plans were drawn up on the assumption that foreign aid would meet the gap between planned expenditure and domestically raised resources.<sup>1</sup> Reliance on aid is officially stated to be a temporary expedient—within a decade of the launching of the first plan in 1962 it was assumed that aid would no longer be required. This, in view of the level of income that will be attained at the end of that period, might be regarded as a rather bold gesture motivated by sentiments of national pride and a desire to feel independent. It has never been very clear whether it was a serious political aim. In view of the difficulties of the past few years it is not likely that the planned self-sufficiency will be attained.<sup>1</sup> When the objective was adopted, however, it was in line with the more general objective of loosening the economy from dependence on any one foreign country—especially France. The rather unhappy relations with France in the early days of independence—first over Algeria, then over the evacuation of the French naval base at Bizerte, and then later over the question of ‘colon’ (or foreign-owned) lands—when aid and trade concessions were granted and withdrawn several times in rapid succession—no doubt reinforced the Tunisian desire for economic ‘self-reliance’ at the earliest possible date.

At present aid is welcomed from all quarters as long as no obvious political strings are attached. The Tunisian leadership, a majority of the educated population, and a large minority of the public at large are oriented towards the ‘West’, if not particularly in political terms, then certainly emotionally and culturally. There are no particular difficulties, therefore, about attracting aid from Western Europe and America. At the same time, Tunisia follows a policy of friendship to all countries (some Arab League members, until very recently, excepted), and does not refuse aid, if it is found to be useful, from Communist countries. It attempts to foster particularly close ties with the smaller European countries

1 See Appendix A.

—both in the East and in the West—and aid projects seem to follow after practically every new contact. In one or two cases, where blatant political strings were evident, Tunisia has preferred to give up aid—the relinquishing of quite a substantial volume of aid from Kuwait in 1965 during one of a series of disagreements between Tunisia and other Arab states over the Israel question is one instance of this. In the case of non-political strings, the attitude seems to be one of rational calculation of the advantages and disadvantages: thus loans from Italy and France, made available on condition that, in the one case, former Italian residents in Tunisia should be allowed to repatriate their capital, and, in the other, that the government loan should be used as down-payment for French capital equipment supplied on a private short-term credit basis, were accepted.

Tunisia has in fact been successful in attracting aid from a wide range of countries.<sup>1</sup> Its political posture, the personal popularity and prestige enjoyed abroad by President Bourguiba, the absence of hasty and provocative criticism of donors, its serious commitment to development, and its competence and ability in the eyes of developed countries have all contributed to what is quite a remarkable achievement. Tunisia regards foreign aid as a manifestation of friendship towards it by the outside world, and of a desire to help Tunisian efforts. Tunisia in no way regards aid as something that comes as of right. Much of what is offered is unhelpful and inappropriate—and some of it is never used. This does not unduly annoy the authorities; they merely allow for the fact in drawing up their development plans.

The official Tunisian policy line is that decisions on the direction and use of aid are the Tunisian Government's prerogative. Thus, in theory at least, aid should not influence Tunisian priorities or planning strategy. Interested donors must contribute in accordance with, and for purposes outlined in, the plan. This line is, however, not adhered to in practice. The approach is much more flexible. For one thing, projects are often 'dressed up' in such a way as to appeal to a particular donor. Secondly, not everything which is offered, and accepted, appears in the development plans—though this is not a common occurrence. Thirdly, the plans are sufficiently vague and general in many sectors to leave donors considerable scope for suggesting—as well as financing—specific activities; the final product does not always turn out in the way that the Tunisian planning authorities conceived or imagined it. And finally, in the case of American aid, there is not only considerable informal donor influence on the direction and use of aid, but the Americans also attempt to influence some of the policies and tactics on which the development plans are based.

One gets the impression that in private Tunisian officials do not resent criticisms and helpful suggestions. They seem to be prepared to listen and be persuaded, if the case is convincing; this is especially so with the more senior officials and the leading politicians. From this evidence it is possible to draw the conclusion that the public posture stressing complete domestic

1. See Appendix B.

control of Tunisian affairs is maintained partly for domestic political purposes (to forestall possible internal criticisms that there is too much foreign influence), and partly to demonstrate independence and non-alignment to the rest of the world. At the same time, any praise from donors or public manifestation of support from abroad is turned to domestic use—it becomes useful internal propaganda in the cause of government policies.<sup>1</sup>

How do the Tunisians see their aid relationship with the Americans? There is no doubt that the general climate is excellent. The relationship started in a favourable atmosphere and the Americans have made full use of the auspicious beginnings. American support shortly after independence did much to alleviate the situation when French financial assistance was withdrawn. When President Bourguiba visited Washington in 1961 and could present the draft of the Ten-Year Perspective Plan it was favourably received, and US backing to support the first stage of the plan with up to \$180m over three years followed soon afterwards. Tunisia was the first country to respond to President Kennedy's new proposals that the USA would support those who demonstrated a willingness to help themselves and could put forward clear and sound development policies. Up to that moment the USA considered its presence in Tunisia as temporary; the aim had been to fill the gap created by the cessation of French financial support, and then to withdraw once 'normal' relations could be re-established between Tunisia and France. The 1962 US offer to back the plan started the process towards the close relationship now in evidence. Later in 1962 the USA gained much goodwill by its rapid and effective response in providing large quantities of surplus commodity aid as soon as it became clear that a disastrous harvest failure would not be avoided.

Thus major and decisive action by the USA on several occasions put the aid relationship on solid foundations. No serious political disputes have arisen. American efforts to persuade and impose 'self-help conditions' have been pursued with tact. A number of mistakes have been made but they seem to have embarrassed the Americans rather than caused resentment on the part of the Tunisians. There is no doubt that the Americans have been influential in a number of areas, especially agricultural education, irrigation policy, tourism, the phosphate industry, budget procedures, and the role of the private sector. The Second Plan has incorporated some American thinking. This shows a readiness on the part of the Tunisians to be guided, if a good case can be made out to interest them.

To the Tunisians, working with the Americans does not, on the whole, come naturally. There is a considerable leaning towards the French approach. The Americans are thought to be too meticulous, too demanding—and unnecessarily so, imposing on an overworked bureaucracy requests

1. When Ben Salah (Minister of Planning) returned home after a World Bank Consultative Group meeting in 1965 at which the new Tunisian plan was discussed, he made great play with the fact that while shrewd and experienced foreigners, many of whom by ideology and tradition were averse to planning and state control, wholeheartedly supported the Tunisian efforts and policies, it was rather puzzling that many Tunisians did not give more than lukewarm support to planning and other current government policies. These remarks were widely publicised by the local press, and had an obvious propaganda purpose.

and demands which seem petty and trivial. Many of the rules and procedures of AID are time-consuming, painfully slow, and constricting.<sup>1</sup> Yet, despite these grievances, relations between AID officials and the Tunisians seem to be good, even cordial.

Peace Corps volunteers seem to be genuinely liked and admired, not only in official circles and the press, but also in the country at large. Their contribution, though on a small scale, is valuable in itself; most of them are teachers or nurses, or work at simple, yet strategic, duties for which Tunisians cannot yet be found (accountants or store supervisors on co-operative farms, assistants to agricultural extension officers, etc.). Through their work and their attitude they give a quiet, but effective, practical demonstration of the good intentions underlying the American aid effort as a whole. They are often praised, somewhat surprisingly, at the expense of French and Belgian volunteers, who, with little justification, are accused of aloofness and disinterest, and are often thought to be in Tunisia simply to avoid military service, or to make money, or both.

It will be interesting to see what happens when the French resume normal relations, and once again provide substantial aid. It is not yet possible to say whether the Americans will lose much of their influence—it will certainly not be possible for both France and the USA to attempt to do what the Americans now do—at least not without close consultation and a co-ordinated approach. It is quite possible—and the Americans on the spot would not resent it—that Tunisia will once again turn to France.

1. AID officials often find them just as trying as the Tunisian officials, and criticise them—but this, of course, does not make the restrictions less real.

## **II The Country Strategy**



### 3 Clearing the Ground

Getting the aid relationship right is the first—and basic—step towards effective aid. Once the right attitude has been adopted the relationship must be given operational meaning and content; donors must equip themselves with the machinery and instruments with which to put their intentions into practice.

The 'loyal opposition' role of aid-giving relates to the overall, or macro, problems of a particular recipient. In its other roles—resource supply, and the carrying out of the advisory, technical, and managerial services—the aid-giver must be selective; detailed attention can be focused, by the very nature of the aid operation, on only a limited number of problems or sectors. The crucial determinant of the effectiveness with which those other activities are tackled is the skill with which the selection is made. Thus the exact make-up of the aid programme and its value to the recipient depend, above all, on the donor's ability to understand what sort of aid is most needed, where, and for what, and what the nature of the recipient's requests is. But to work out a specific aid measure with any degree of certainty that it is likely to produce the desired results is extremely difficult. First of all, its outcome is not determined exclusively by factors directly related to the measure. In the case of an aid project, for example, success does not depend only on such factors as location, design, staffing, etc., but on a multitude of often only remotely related activities undertaken elsewhere. Some of these can be traced or foreseen, and then taken into account or influenced. But this is not true of all cases; the cause of unsatisfactory performance may even be difficult to pinpoint after the event. Thus decisions on choice of activity, given the inadequacy of hard data, the speculative nature of complementary activities, and the number of possible but unforeseeable pitfalls, are often taken according to some rule of thumb; these tend to favour undertakings that seem 'safe' and predictable, rather than those which may be most urgent.

The second complicating factor is that the wider repercussions of specific measures may be very far-reaching, but not foreseeable, or not apparent until much later. These repercussions may be damaging, even though the actual aid activity is a success. Technical assistance is especially prone to this danger; aid which shapes basic institutions and policies such as education, administration, the tax structure, land tenure, etc. can easily produce long-term headaches along with short-term solutions.

The third difficulty is that failure to tackle certain problems may be more serious than an obvious waste of resources on a 'white elephant'—especially if the problem remains undetected. It limits performance in other areas, including those to which aid has been applied, or it may complicate the whole development programme in the future.<sup>1</sup>

1. Failure to check population increase is the most dramatic example of this (though it is certainly not a problem which is 'undetected').



The fourth complicating factor is that the effectiveness of aid depends as much on the volume of aid as on what is actually done with it. This is of particular significance when there is a sophisticated, well-integrated development plan, for which sufficient finance is not forthcoming. If any items are left out, the effect of this is felt throughout the economy; unexpected bottlenecks appear and hinder progress in many of the activities that do go ahead.

The fifth and last major difficulty is that the processes and interrelations which bring about development are not well enough understood to provide adequate guidance to action on many occasions.

The net effect of all these difficulties is that a search for abstract criteria to provide guidance for aid decisions is of dubious value. 'Good' aid measures, in the abstract, do not exist.

Fortunately, the donor does not act in a vacuum. The basic development objectives are determined by the recipient, even though they may be expressed only very vaguely. This situation at once makes the donor's task easier. The development objectives—or proposed development plan—throw up a series of questions and weaknesses. Thus, on the expenditure side, there may be internal inconsistencies, vagueness on many proposals, and projects and policies unrelated to declared objectives; on the revenue side, there may be too little attention to the exact source of finance needed for the plan, imprecisely worked out tax policies, with no attention to wider consequences of tax measures, etc. And in the general field of policy there is usually plenty of scope for adapting various measures more closely to the requirements of development policy objectives—e.g. taxation, pricing of utilities, tariffs, import regulations, exchange control, monetary and credit policy, budgeting procedures, company law, etc. The donor's role in all this is to observe, analyse, draw the recipient's attention to various inconsistencies, demonstrate the likely consequences of different measures, suggest alternatives, suggest improvements; to offer help for deeper and more extensive analyses of certain sectors or planned policies; to channel aid into those activities on which performance over a fairly wide area is thought to depend.

There seem to be two ultimate tests of the effectiveness of aid. The first is the donor's ability to contribute—to the greatest possible extent for a given outlay—to a smoother and quicker attainment of the recipient's basic development objectives. The second is the donor's skill in fostering a sense of urgency and experimentation. The practical implication of the first of these criteria is that aid must be concentrated in those sectors and activities on which progress elsewhere largely depends—i.e. where aid will have the maximum 'spill-over' effect. To find these is not easy, but the search for key sectors and activities can be facilitated by the development and use of systematic procedures. The implication of the second is that the donor must find the right people to direct the 'loyal opposition' role.

Having decided on the end-uses of aid in a given situation, donors

need to fashion the precise forms (and terms) in which their aid is to be made available. Exogenously decided aid forms should on no account themselves become important determinants of the ends to which aid is put. What is to be done with aid, and how it is to be done, should not be determined by what it is most expedient from the donor's point of view to provide. The end-uses must be determined, as far as possible, independently of such donor domestic influences, and aid must be shaped so as to achieve specific desired results in the recipient country. In most cases a donor can provide aid in only a limited number of forms, and objectives are therefore necessarily determined to some extent by the types of aid available. But the decision to shape the objectives according to the availability of aid forms should never be taken lightly. In those cases where a particular objective can be reached in a number of equally, or almost equally, effective ways, considerations of what is most suitable to the donor can certainly sway the decision one way or the other. Where this does not apply, and where there are several donors, another donor might be asked to contribute. If the objective is judged to be critical to the development programme, the donor may have to take steps to evolve, as a matter of policy, forms of aid which it finds difficult to provide—finding the appropriate forms to aid agriculture is a case in point. This may require research, training of personnel, recruitment of third-country nationals for technical assistance, provision of some resource which is especially limited in the donor country (e.g. foreign exchange), and so on.

Although the range of aid forms available to any one donor is limited, it is nevertheless very wide. In most instances in which aid forms alter recipient priorities and objectives the cause lies elsewhere than with genuine donor inability to provide what is required. One donor practice which is at fault is that of formulating general aid 'rules', and circumscribing aid with restrictions to accommodate particular donor interests, without detailed reference to the specific needs of particular recipients and particular problems. Aid, to be effective, needs to be flexible, with a minimum of *general* restrictions. Restrictions and conditions, if imposed, need to be decided on a single country basis. This applies to conditions and restrictions motivated by concern for the recipient's interests, as well as for donor national or sectional interests.

Once a decision has been reached on the size of the development effort a donor is prepared to undertake, the further decisions as to the forms in which it is to be provided should be taken, as far as possible, on technical grounds. From an efficiency standpoint it may be preferable to *reduce* the nominal value of the aid programme in return for the removal or relaxation of some particularly restricting conditions which are imposed to keep down the real—in relation to the nominal—cost of aid to the donor. Certain forms of tying—resorted to in order to minimise the impact of aid on the balance of payments position of a particular donor—would be strong candidates for such an 'exchange'. One of the specific advantages that donor involvement offers is that of better aid quality—forms ap-

appropriate to the recipient's needs, with a minimum number of unnecessary restrictions, on the right terms, and for the required purposes.

# 4 Administrative Mechanisms

## The mission and the aid dialogue

The country mission is the keystone in the American aid structure. The important place accorded to the mission is one of the main characteristics that distinguishes American aid from that of most other donors. Much of its strength is derived from this.

This mission has three main duties. First and foremost, it is the main agent for fostering and maintaining the right relationship between donor and recipient. Secondly, it works out, in co-operation with the recipient, detailed proposals for the content of the country aid programme. Thirdly, it is in itself a form of technical assistance. It performs, also, a number of subsidiary functions, the most important of which are to keep the main objective of aid in focus by ensuring that development aspects are given due consideration in policy deliberations in Washington, and to maintain relations with other donors on day-to-day issues at country level.

Formally, the mission is the overseas arm of AID in Washington. Much of its work is concerned with gathering and feeding information on which decisions in the capital are made, and then implementing these decisions in the field. But the mission also operates as an informal 'lobby' for the recipient cause. Its formal functions follow a fairly standard pattern from country to country. The other—or informal—functions depend to a large extent on the special circumstances of each recipient, such as the personalities in the mission and in the recipient government, the degree of joint commitment to overall development policies and objectives, the number and importance of any contentious non-development issues, and the sensitivity of domestic recipient country political issues.

Thus, no two missions are identical, but the one in Tunisia is regarded as fairly typical of the missions in the dozen or so countries where the USA is supporting major development efforts.

The mission is headed by a Director, who reports to the AID Administrator, although the American Ambassador is formally the head of the country team (which embraces all diplomatic, military, economic, commercial, and cultural, as well as AID, personnel). The AID Mission/Embassy relation reflects the government structure in Washington, where AID is an agency within the State Department, and is formally under the Secretary of State, but has direct access to the President through the AID Administrator.

The mission is organised into a number of offices, each fulfilling a specific function and responsible for supervising specific aid activities. The organisation of the Tunisia mission, together with its staff complement for 1967/8, is shown below.

## AID, Tunisia—Organisation and Staff

Office	<i>Senior Staff</i>		<i>Other<sup>1</sup></i>
	AID	Contract	
Director's Office	2	0	3
Programme Office	6	0	3
Technical Offices <sup>2</sup>			
Agriculture	5	10	6
Human Resources	6	13	7
Industry	2	2	4
Public Works	4	18	4
Material Resources (supply)	3	—	8
Comptroller's Office	5	—	15
Executive Office	5	—	69 <sup>3</sup>
Total Staff Complement	38	43	119

The senior staff is American. Others are recruited largely locally. The posts in the Technical Offices are filled not only by AID personnel, but also by experts and technicians recruited on contract from American universities, industry, professional organisations, trade unions, and other US Government departments or agencies. Most Technical Office personnel are not concerned with aid administration as such, but perform particular jobs in their own area of expertise; they are, in effect, technical assistance personnel attached to the mission.

It was emphasised in Chapter 1 that the donor/recipient relationship, to stand the best chance of success, must take the form of a 'continuous dialogue'. This is well understood by American aid officials, with the result that much attention has been given to establishing the mechanism to ensure that the whole aid operation is kept tolerably well in line with such a requirement.

The transplanting of a part of the AID Administrator's office to the field of operation, headed by a high-ranking official (often second only to the Ambassador) supported by his own administrative and technical staff, provides adequate channels through which contacts between donor and recipient governments can be maintained at various levels and on a

1. Includes administrative, secretarial, clerical staff, etc.

2. The number and nature of the divisions will vary according to the country.

3. Includes drivers, cleaners, maintenance staff, etc.

continuing basis. In addition, it allows donor personnel to become intimately acquainted with the detailed problems of the recipient's development efforts, and to establish informal links with all the various representative bodies and groups within that country. It provides a focal point and orientation centre for the stream of advisers and technical assistance personnel working in the country, and continuity to operations staffed on a short- or medium-term contract basis. Finally, it provides a sounding-board for recipient approaches before major 'negotiations' are taken up to Washington, and a clearing-house for specific aid requests. Ideally, it should also make possible quick decisions; this virtue, however, is not one that can be claimed for the American administrative machine.

The 'permanent' nature of the mission arrangement is particularly valuable. The vast expertise available in the donor country cannot be mobilised and put to work on the recipient's problems until local knowledge is well assimilated. This is made difficult since published information on which decisions can be taken is inadequate, or even misleading. Decisions, therefore, are based less on facts and figures, more on local knowledge and good judgement. For the mission member, however expert in his own field, to learn the processes at work in the country, what can and cannot be achieved, and what the special local difficulties are, whether technical, social, or political, requires time, and being on the spot. Specialist missions sent for short periods work under a severe handicap—it is interesting to note that they have often irritated permanent missions by the over-simple and impractical policies and solutions they have recommended because they missed the less easily discernible, though nevertheless crucial, local obstacles.<sup>1</sup>

The second requirement—dialogue rather than confrontation—is achieved through the network of unofficial and semi-official soundings and consultations between individual mission members and their 'counterparts' in the recipient administration, or other influential persons. Before any proposal is made on the donor side, whether it takes the form of a suggestion on policy or tactics, or a formal condition to aid, the recipient's view will have been sounded out, and it is unlikely to be pressed very forcibly unless it is seen to enjoy some support within the recipient administration. All efforts are made to avoid a frontal attack on an issue on which there is a strong consensus of disagreement within the recipient government. The aim, certainly in the case of Tunisia, is to persuade and not to force.

When 'self-help' measures are required as a condition of aid, they follow certain clearly defined lines. They are not applied to all aid, but only to a specific portion of aid; they are not framed in a way which implies that the recipient is being in some way disciplined; the reasons for them, together with their specific objectives, are clearly set out; and the conditions are open to negotiation, with amendments always possible if the recipient puts up convincing objections.

Mostly 'self-help' conditions originate from the well-based belief that the

1. This is a weakness that also applies to World Bank and IMF visiting missions.



recipient government tends to underestimate the importance of quite small things which can make or break a project or policy. Examples which can be cited are provision of facilities for the proper maintenance of plant or equipment or, in a different area, adequate accounting or budgeting procedures. A more specific example from Tunisia will illustrate this point more fully. In 1965 the mission insisted that no further general programme aid would be made available until the Tunisian Government took steps to improve its short-term investment and financial planning by means of annual economic budgets. At that time, the economic data and government budgets were quite inadequate as a tool for implementing the annual tranches of the development plan. Investment and its financing under the plan were not subject to annual checks on a basis corresponding to the plan calculations—the plan was framed in terms of real resources broken down by economic sectors and activities, while annual budgeting was limited to the government's operating budget drawn up in terms of administrative classifications. Fiscal, monetary, and balance of payments policies could not be framed in the light of the necessary appropriate data. Agreement was reached on the introduction of annual economic budgets, and the programme loan went through. At the same time, as a follow-up operation, the mission experts got round a table with Tunisian officials, to improve the use of, and to acquaint them more fully with, the tools newly at the Tunisians' disposal.

A real dialogue, in the case of Tunisia, is made possible because, on the recipient side, there is a high degree of competence and skill. Discussion, especially of the intricate technical aspects of policy, can take place on terms of equality and respect. The discussions do not get side-tracked by irrelevant political accusations and unfounded suspicions. Where the recipient administration is less experienced and more suspicious, with fewer top-flight officials, a meaningful dialogue is more difficult to achieve. There will then be a strong case for providing under aid programmes operational personnel for the government services directly, whose loyalty will be to the recipient government. Some of these expatriates, or teams of expatriates, may take part on the recipient side in the dialogue with the donor—some may actually be of the donor's nationality. But they should not be thought of as *replacing* the need for the mission. Its usefulness in such a situation will be just the same—this can be seen clearly by a reference back to the mission functions described at the beginning of the chapter. It must be pointed out, however, that the American mission with its structure and organisation is not indispensable to an effective aid programme. However, if the mission is thought to be unsuitable or impracticable, some other mechanism which can perform its essential functions must be devised to take its place.

All aid agreements are worked out by way of a double dialogue, one between the Tunisian Government and the mission, the other between the mission and AID Washington. When the mission faces the Tunisians it performs its official duty as spokesman for Washington. When it speaks

to Washington, it is more often than not speaking on behalf of Tunisia—it puts forward the Tunisian case and its claim to aid funds *vis-à-vis* other potential recipients, and also the AID view *vis-à-vis* that of the State Department, the Pentagon, and others.

In Chapter 2 it was pointed out that country allocation of aid depended in large measure on political considerations. Where political pressures are not immediate and urgent, country allocation is strongly influenced by American assessments of the development potential and self-help efforts of the recipient. Tunisia is looked upon with enough favour to have been included in the 'high priority' group of countries in which the USA maintains major development support programmes. This decision, however, does not guarantee actual amounts of aid. Rather, it guarantees strong missions and a readiness by Washington to listen to its views and proposals. Actual allocations from year to year, aid project agreements, and the terms and nature of the aid depend on the persuasiveness with which the mission can present the aid programme, explain specific activities, and justify difficulties and problems which might have stood in the way of good recipient performance in the past.

The mission does not, however, recommend an inflated budget so that anticipated cuts can be discounted in advance and the final allocation emerges in line with estimates of likely need. This certainly happened in the past, but is no longer the case. In Tunisia the mission attempts to make as correct an estimate as possible of the amounts (and types) of aid that the country will be able to handle effectively in any given year. If the mission can demonstrate that it is judging the situation correctly, it stands a better chance of getting its recommendations approved in future years. Thus, for example, if project aid requirements are overestimated year after year—overestimated in the sense that projects are held up because of weak government organisation, lack of skilled manpower, or other factors beyond immediate remedy by AID—disbursements fall below anticipated levels. A growing 'pipeline' may be a signal to Washington that the mission's judgement cannot be entirely relied on.

Mission officials very often become deeply involved in the problems and development efforts of the country in which they serve. In Tunisia, several staff members devote a considerable portion of their time to instructing local administrators in the intricacies of AID procedures, and on how their disadvantages can be minimised—intricacies which they themselves often find unreasonable and tiresome. The mission has, for example, encouraged the establishment of an 'Office de Commerce' which centralises the Tunisian Government's purchasing and supply operations. This has had two beneficial effects. It has reduced the number of schemes being put up for aid financing which the mission could not endorse, because some rule or restriction was being contravened, or some formal condition not satisfied. Now the staff of the Office de Commerce is as well informed on all the pertinent rules and regulations as the mission experts, and can advise all Tunisian departments which previously had to find

their own way through the morass. Tedious routine work has been centralised and thereby minimised as far as is possible. In addition the Office de Commerce has been able to rationalise government purchasing and supply services—this is of value quite irrespective of aid considerations.

A number of improvements and small projects have been suggested and adopted on the informal advice of a mission official. In the course of their work, mission personnel become interested in some facet of a problem which everyone else seems to have overlooked, and if they press for its further consideration in the mission, or find an interested Tunisian official who might take it up, such an initial idea can accomplish useful things without ever becoming formally associated with the aid effort. One example of this is the work being done to promote a Tunisian centre which will keep records of all businesses and what they produce—a sort of clearing house for the use of local, as well as expatriate, business. Another example is the mission survey of tourism. Undertaken single-handedly by a mission official, it led to a thorough report on tourism, its current state and future prospects. It includes a survey of hotels completed and under construction, and a guide to prospective foreign investors on hotel construction and management, giving cost estimates of construction and operation, background notes, references to appropriate legislation and rules, etc. The Tunisian Government adopted it as an official handbook, and ordered its printing and publication. Also, the Government seems to have been persuaded to look favourably on, and encourage, foreign investment in tourism. Given the overall shortage of resources within the country, this last move may turn out to be significant.

Over the last few years the mission has noticed that the Tunisian authorities are not disposed to follow slavishly policies based on rigid principles or dogmas. They are willing to discard practices which seem to be leading nowhere, and to adopt a pragmatic approach. There is, for example, a new tolerance being shown towards private foreign capital in industry, and private ownership or management in agriculture. Pragmatism—especially in these two areas—is something that the mission has constantly emphasised. The debate between mission and government on the role to be played by the private sector has been conducted, much to the Americans' credit, in a very practical way. The mission has refrained from preaching on the advantages of private enterprise as such, but has been more subtle, demonstrating its potential advantages in specific cases. To follow this up, the mission has tried to get a dialogue going between the Tunisian authorities and American businessmen. A team of businessmen was invited to tour Tunisia to explore investment opportunities. Unfortunately, nothing came of this for a long time—in fact, the silence on the part of the participants after their return to the USA caused some bad feelings in Tunisia, and considerable irritation in the mission. Even so, there are indications that the new tolerance towards the private sector has not been abandoned, and that it will lead to some practical gains for the economy. Lately the mission has provided technical advice in connec-

tion with the reform of a number of local banking institutions to serve the private sector, and the establishment of a stock exchange.

## Programming, implementation, and evaluation

Basic to all mission activities is the collection and interpretation of statistics and other pointers on the state of the recipient's economy. Necessary information in nearly all developing countries is either not available at all, or not in sufficient detail, or it is not reliable. Statistics on the Tunisian economy are more readily available and more reliable than on that of many other developing countries, but as tools for the policy-makers they are not yet adequate. The mission collects those government statistics that are available, supplements them, and cross-checks them for accuracy and reliability by drawing on both the experience of its own staff and the information obtained from other private and public bodies in Tunisia, such as the central and commercial banks, the state corporations, economic research institutes, and other private groups. Knowledge of the country and day-to-day contact with a cross-section of Tunisian public and business life enables the mission to assemble a reasonable picture of the economic situation, of the political pressures, both internal and external, that have a bearing on economic development, on the strengths and weaknesses of current government policies, and on its plans for the future.

On the basis of the overall picture of the economy, a detailed appraisal of the Government's development plans and policies is made. In consultation with the US Embassy and the Tunisian authorities the mission picks out *areas or sectors* most suitable for US assistance. An area or sector might be 'water resources and irrigation' or 'agricultural education and extension', or even wider in scope and more vaguely defined, e.g. 'development of human resources'. The theory behind this approach is that American efforts should be concentrated in a limited number of fields where the need is urgent, where US experience, skills, and resources are thought appropriate to the task in hand, and where, in short, there will be a visible and substantial impact. More will be said about the mechanics of this in the next chapter. The important point to note here is that it is the responsibility of the field mission to make the initial recommendation as to where the choice for a concentrated effort should fall. Sometimes the mission is helped by a group of experts sent out from Washington; but the Americans believe that special *ad hoc* visiting missions alone could not perform this function with equal insight and efficiency. Also, in the American view, the whole burden of suggesting areas of assistance cannot be left to the Tunisian Government, since it is not well placed to know what the USA can offer or is most competent to do. And, indeed, this approach would

remove potential US influence on the Tunisian Government to get it to examine areas and problems which might otherwise be neglected or overlooked. Continuous on-the-spot analysis of needs allows the mission not only to recommend the direction of the aid effort, but also to suggest areas in which there is room for improvement in the recipient government's own development programme. If the mission feels very strongly that certain necessary measures are not being taken, it can either recommend the use of aid funds for that purpose, or it can make aid conditional on improved performance on the part of the Tunisian Government. Which line the mission takes depends on the nature of the improvements being suggested. Some, which can easily be turned into either capital or technical assistance projects, may call for an additional aid allocation. With others, say, the reform of a government department, or a change in the pricing policy of a state enterprise, it may be advisable to make some part of aid conditional on these 'self-help' measures being carried out.

Each year the mission, with some guidance from Washington and the Embassy, prepares the Country Assistance Program document (CAP). Running into several hundred pages, it contains, besides detailed information on the economy, a full explanation of US policies and objectives, and a detailed description of all current aid activities, together with funds and personnel used, allocated, and still required to carry them through to completion.<sup>1</sup> The CAP serves as the basis on which the mission recommends to Washington an annual aid level. This includes estimates of needs for the budget year arising from continuing projects, recommendations as to the pace at which newly agreed projects can be launched, and the requirement for general non-project assistance for the year. The aim is to recommend a realistic aid level, an amount that is likely to be disbursed during the year (and as accurate an estimate as possible of potential requirements in each of a number of succeeding years), taking into account both the country's own resources, other donors' aid commitments, and the capacity of the country to spend funds in accordance with the criteria laid down by AID. The mission prepares an alternative, somewhat less ambitious contingency level, but on the whole in Tunisia's case the final allocations have not been far short of the mission's full recommendations.

After aid has been allocated the mission has to supervise the expenditure of funds in accordance with the provisions laid down in the CAP and in aid-authorising legislation.

The system of administering and supervising project implementation in the field is complicated. Although officials stress that the gamut of provisos, legislative and executive restrictions, and AID rules and regulations are less formidable than they seem, to the outsider (and sometimes even to the insider) they are perplexing. Certainly one requires both experience and a feel for the terrain to find one's way through. Thus a great deal of the time of the Technical Divisions and the Supply and

1. The CAP is examined in detail in the next chapter.



Comptroller's Offices is spent in simply keeping the wheels of administration turning. Often the work is sheer drudgery, and perhaps its most alarming feature is that it places a considerable work-load on the *Tunisian administration*, which is already over-worked, especially at higher levels. Some AID procedures are useful because they ensure that malpractice, waste, and certain types of mistakes are minimised. Others are akin to technical assistance—the Tunisian authorities are forced to think through their proposals in depth and detail, are helped to perfect their procedures for selecting, working out, and implementing projects, and are made aware of difficulties and contingencies which they would otherwise tend to underestimate. Nevertheless there is much scope for simplifying aid administration.

The outlook for rationalisation, however, is not bright. The system is not being streamlined, indeed it is becoming more complex, despite efforts to the contrary at mission level. The chief difficulties are encountered at three different points. First, there is the formidable procedure to be followed before an aid project can be approved. Then, there are the minute regulations which are laid down in aid agreements and must be faithfully observed. And thirdly, as a result of the above, there is the heavy burden of constant, accurate, and detailed reporting on work in progress. The main reason for these rules and regulations is the ever-present fear that envelops the aid agency—the fear of making mistakes. Mistakes bring Congressional displeasure, which can lead not only to censure, but also to smaller aid appropriations in subsequent years. Besides this there is the need to prohibit, or at least avoid, certain measures which might offend individual legislators, and to promote (or at least pay lip-service to) interests dear to one or other 'lobby' in Washington.

The mission is also responsible for appraising the impact of aid activities and for evolving criteria by which the effectiveness of aid can be judged.

One of the constant stream of directives to missions from the Administrator of AID stresses the importance of evaluation. It points out that 'the key point of responsibility (for evaluation) is the country mission', and goes on to say that 'Evaluation must be considered a separate component of [AID] activities distinct from, but related to and designed to support, the planning and implementing of AID programmes. Each mission should have an evaluation plan and specific administrative arrangements to insure that evaluation is systematically carried out and the results utilised.'<sup>1</sup> This presents the mission with what is almost certainly the most intractable of its problems though, at the same time, it is potentially one of its most useful functions.

A comprehensive analysis to evaluate the effectiveness of aid must include at least four separate phases. The first phase is relatively simple—it consists essentially of checking the technical aspects of aid activities. Has the task been carried out according to plan? Have any unexpected difficulties arisen in its execution which point to an inadequate procedure

1. State Department Circular dated 13 July 1965.



in project planning? Have there been any failings on the part of the recipient which have delayed progress and which point to lack of co-ordination between AID and the recipient government in project preparation? Have the techniques and materials employed been appropriate to the conditions prevailing in the recipient country?

In the next phase of evaluation, somewhat more complex, AID has to try to establish whether the activity is meeting the objective which has been set—e.g. the training of 50 economists per year, or the irrigation of 20,000 acres within five years, or the construction of 50 miles of highway. To check this may be quite a simple operation, but what is more difficult is to follow up and pinpoint faults if planned targets are not being met. It is, however, necessary to do this if the immediate obstacles are to be overcome, and errors in future projects avoided. The difficulties of appraisal stem from the fact that the fault may lie with the target itself (it is too ambitious), or with the authorities in charge of its execution (either American or local), or it may lie outside the area of activity altogether—the target is well conceived, the execution blameless, but failure in some distant, though related, activity holds up progress. To return to one of the examples, the 50 economists may not have been trained, as only 25 candidates presented themselves for the course; this points to a short-coming of the educational system at a lower level. With all activities, success depends to some degree on other plans proceeding to schedule, and since there is always delay between project or activity initiation and the actual start of operations, mistakes and setbacks are bound to occur somewhere along the line. But it is imperative to pinpoint correctly the exact source of the setback.

When an aid activity has successfully passed the two tests just described, a further question suggests itself at once. With the advantage of hindsight, does it appear that the method chosen was the best to tackle the specific problem? Or could the problem have been tackled in a completely different manner? Usually there are a number of alternative means to a particular target—but they cannot all be considered in detail *ex ante* because of lack of time, or men, or both. Later, once a project is under way or even completed, alternative and perhaps cheaper methods to achieve the same objective may come to light because a fresh mind is applied to the problem, or because research on related problems has shown up new possibilities, or because lessons from similar activities elsewhere can be drawn on. It is the missions' responsibility to look out for alternatives, even when actual projects have reached a 'point of no return', and to analyse and re-examine continuing and old projects, even when they seem to be going well and meeting all planned targets, so that better and simpler methods might be found for future use.

Finally, there is one more group of questions to be asked—the most difficult of all—to complete a thorough evaluation process. What impact did the 'successful' activity have on the economy? Was it right to concentrate in this area of problems at all? Should one continue, or move to

some other area? Has concentration in this area led to imbalances which must be corrected? Have there been harmful side-effects? And so on. Undoubtedly, these are the most important questions that have to be considered, since, no matter how 'successful' any aid activity appears to be when looked at in isolation, its ultimate value lies in its contribution to the functions of the economy as a whole. In the future more and more of the missions' evaluation efforts are likely to be directed to these wider aspects of the impact of aid.

## Project selection

The mission may receive a complete, specific, and detailed project request. In such a case its responsibility is confined to making a preliminary appraisal, and then, if the project is likely to be taken further, to advise on how conditions and specifications required by AID can be satisfied. After approval in principle is obtained, the mission arranges any further preparatory studies that are needed, makes the arrangements for inviting tenders from American companies, works out the specific financial and commodity requirements, contracts for technicians, in-training for local personnel in the USA or a third country, and in general sees to all other necessary details.

However, detailed and complete project requests are not received very frequently, largely because of the nature of development plans. The Tunisian plans, for example, are mainly concerned with the allocation of resources among categories of expenditure, and showing the interrelationship between them. They spell out general and specific targets for investment and output in various sectors and sketch the sort of projects that might be undertaken. AID is therefore aware of the Government's priorities, broad lines of attack, and objectives, but at the same time can make its views known at an early stage in *project* planning.

Essentially, the fact that the development plans do not contain carefully worked out projects is unsatisfactory. It goes without saying that if the Tunisian Government could produce a really good plan containing a set of admirable projects, all interrelated and carefully appraised and costed, and all capable of execution (provided sufficient aid funds were obtained), AID would be delighted. But for the very reason that this happy state is still quite some way off, mission participation in project *selection* and *preparation* is essential. A passive mission attitude slows down the rate at which projects come up for aid consideration. Also, the mission denies itself much needed operational flexibility. Once a specific project is submitted for finance, the mission can either support—with or without minor amendments—or oppose the project. If the project is rejected the Government might go ahead with its own resources, or persuade another

government to help with the finance, or even turn for finance to expensive export credits. Interest and involvement at an earlier stage, on the other hand, allow the mission to ask what the problem to be resolved is and how it can be done at least cost, and not what the objective of the project is, and what its cost will be. The first way of looking at the problem is less restrictive; it permits consideration of a variety of approaches, and a final choice can be made from among several projects serving the same end.

The simplest procedure by which the mission encourages the sort of projects it regards as suitable is to make it known that aid will be available for this or that, if a suitable project is worked out. This is followed up by an offer of help with project identification and preparation, sometimes by means of a technical assistance feasibility project, and later by a pilot project.

A more sophisticated method is the detailed 'sectoral analysis', carried out by the mission in co-operation with the recipient, or commissioned from private consultants. The superiority of this approach lies in the fact that it not only pinpoints solutions to problems, but pinpoints the problems themselves. It also provides the framework for a multi-project approach, each undertaken as part of a pattern, and each reinforcing the others. More will be said on this in the next chapter.

But whatever the approach to project identification and preparation, much depends on the quality of the men in the aid mission. 'Diplomatic' as well as technical skills seem to be required in this area of mission work, and close contacts between the mission and the recipient government, or the individual mission member and his local 'opposite number' are essential. Tact and patience, as well as an intimate knowledge of the country's problems, however small they may be, are essential. The American who has a good feel for the country he works in can command the respect of the local administrators. If he has not, he will be tolerated but not listened to; possibly his 'interference' will be resented. Informal contacts are important. Many an idea can be put across if a sympathetic listener within the government can be found and left to put the case from 'inside'. If the mission is to be effective it must be seen to be genuinely sympathetic and attuned to the country's problems, and its members good listeners to whom government officials can turn with their difficulties. A steady flow of good aid projects is closely linked to the personal and professional relations established between the mission and recipient government officials.

One final brief comment needs to be made on the appropriate size of the mission staff. This depends, of course, on the number and complexity of aid activities, on the competence of the local administration and planning staffs, and on the size of the country. In the American view, the mission must have sufficient numbers to 'shadow' at least the major sectors of economic activity, and to work in depth on a handful of areas of special importance. What this means in actual numbers is difficult to

say; there is a universal feeling among non-American observers that US missions are much too large. In one sense the criticism is based on a misunderstanding. In the case of the administrative structure of American aid certain technical assistance posts are included in the mission staff complement, although those filling the posts are only very loosely attached to the mission; in other countries they would be described as technical assistance experts. The mission complement also includes drivers, cleaners, clerks, etc., mainly local, who in other countries' aid programmes would be provided and paid by the *local* government. Nevertheless the criticism about overstaffing is justified in the sense that a considerable part of the missions' work is 'redundant', made necessary only by the complex set of rules and procedures which govern AID operations. The reasons for this have already been mentioned—most can be traced back to the nature of American constitutional and bureaucratic requirements, and the need to protect the aid programme from domestic attacks. Under different domestic arrangements and a less hostile attitude in the legislature to aid (as in Britain), all the important functions of the mission could be carried out with a considerably reduced staff.

## The mission and foreign policy

The chapter started with the claim that the mission is the keystone in the American aid structure. Although the mission concept antedates US emphasis on 'full involvement' and 'conditional aid', this policy could not be carried very far without the missions or some close substitute. The new policy rests on the proposition that an effective aid programme must be pursued in an atmosphere of close donor/recipient co-operation, and that chances for success improve as donor and recipient come closer to an identity of interest in development. Such an identity of interest can be achieved even if the donor and recipient do not see eye to eye on *all* policy issues. Contentious issues are bound to arise, but if the recipient is serious about development, and the donor has offered to support this development, it is important to ensure that such contentious issues that do arise are properly appraised and seen against the background of the common long-term objectives. Thus, if the donor government wishes to influence recipient policy in matters which are not directly relevant to development, it must decide whether this particular issue is more important than the recipient's economic development. If it is not, the donor can press its views on the recipient in such a way as to keep it clear of the aid process. If it is, then pressure can be applied through aid—if it is thought that this will have some effect. The real question, always, is to decide which is more important—development or the other, more immediate, issue. Since it is in the nature of things to give more consideration to

immediate rather than long-term issues (and development is a long-term issue), one can expect to find a bias against development, and a constant temptation on the part of the donor to sacrifice aid relations to pursue other, though often ephemeral and less important, goals. There is a strong case, therefore, for insulating aid relations and maintaining day-to-day aid contact at one remove from normal diplomatic channels—through an autonomous aid agency with its own country missions. This does not mean that aid is removed from ‘politics’, but that there is a built-in mechanism through which those responsible for long-term development policies are assured a proper hearing, and which isolates all but the most serious disagreements on non-development issues from the aid process.

## 5 Volume and Purpose of Aid

This chapter analyses the way in which decisions on the size and content of a country aid programme are tackled by AID, i.e. the 'programming' process.

Programming is taken very seriously by the Americans; the mission and AID Washington, the Departments of State, Defense, and Agriculture, the Bureau of the Budget, and possibly also a task-force of special advisers and consultants are all involved. The planning 'cycle' starts around April, when the mission submits the 'Spring Preview' to Washington, and is completed shortly after Congressional approval and Presidential signing of the Foreign Assistance (Appropriation) Bill in late summer of the *following* year. There is thus an overlap of some six months; planning for the following (budget) year is well advanced *before* funds for the current (operational) year have been approved. In addition there is now a detailed five-year projection of future needs, updated annually. The actual *approval* of annual funds (which usually takes place in September/October) comes some three months after the start of the operational year, which runs from July to June.

The programming process serves four main purposes: it lays down American strategy and tactics to be adopted in a particular recipient country, it determines the aid budget as a whole, it serves as an instrument for co-ordinating aid operations in various recipient countries, and it provides an element of continuity for an operation that depends on annual appropriation of funds.

The AID procedure for planning a country aid programme, on paper at least, is thorough, meticulous, and impressive. All possibilities are analysed, and the economic, political, and funding implications of US activities noted, catalogued, and 'processed'. The procedure is complex and time-consuming—so complex, indeed, that there is, *prima facie*, some doubt as to whether the results justify the exhausting effort. Whether the system does, in fact, offer significant advantages over the much simpler, less costly, trial-and-error procedure of most other donors should become clear from the following discussion.

### The 'Country Assistance Program' document (CAP)

The principal vehicle for programme planning is the CAP. It is divided into two parts, the first containing policy objectives, the second outlining aid activities and funding requirements. It is brought up to date each year.



Part 1 is submitted to Washington in April<sup>1</sup> and Part 2 in the autumn, when the mission Director appears there to support his aid request. The document serves, at one and the same time, as statement of intent, long-term aid perspective, encyclopedia, aid request, and progress report. It includes the following information (listed here, for convenience, under four headings):

**Purpose of aid.** The CAP starts with a detailed description of the basic US foreign policy (political) objectives in the country, and relates aid activities to these objectives. It attempts to answer the following questions: What are the long-term and short-term US objectives in the country? Are there contradictions between them? If so, how should they be resolved? Do the political and economic objectives and *major* policies of the USA and the government of the recipient country coincide, or diverge; and if they diverge, why do they do so? And is any policy divergence of sufficient importance to the USA for it to seek remedies? Are the differences political or economic? And so on. Where development is the major aid objective, as in the case of Tunisia, the reasons for choosing development are explained, especially why it is thought that *development* is the best method of, and most likely to succeed in, promoting *political* interests. The policy statement on objectives is useful because it serves as a constant reminder of long-term goals, and helps to avoid the proliferation of minor short-term ones. It provides a clear statement of potential conflicts between donor and recipient objectives, and between the various donor objectives. It allows aid decisions to be taken with due regard to the likely and possible repercussions in other areas of policy. Furthermore, the very fact that the long-term goals are made explicit facilitates the orientation of new AID and technical personnel to the mission's work. (Many other sections of the CAP also serve this function.)

**Country data.** This section consists of two parts. The first gives as accurate a picture as possible of the country situation and trends—political, social, and economic—in both statistical and descriptive form. Among the political and social factors considered are: (1) the major influence (e.g. attitudes, values, traditional relationships, etc.) which impede or assist development, (2) the changes taking place which threaten or promote the development of political and social order, (3) the key individuals or groups who prepare or influence development policy, and the nature of the relationships between them, and (4) the adequacy of political and administrative institutions for planning and implementing the development effort. Among the economic factors considered the following are the most important: (1) the major characteristics of the economy, (2) the size and components of GNP, with projections

1. Starting with the fiscal year 1968, Part 1 of the CAP is being submitted to Washington in a condensed and modified form, as part of the 'Spring Preview' (see below, p. 69).

five years ahead, (3) special factors affecting economic growth (e.g. reliance on particular markets or commodities or international economic, financial, and trade agreements, etc.), and (4) the reliability of economic statistics and other data.

The second part of the country analysis consists of an evaluation of government policy. The economic plan(s) are analysed (for their internal consistency and realism), as well as the policies to implement or support them. Attention is paid to the government's past, present, and likely future economic fiscal and monetary policy and 'self-help' measures. Special attention is paid to performance in some key sectors, and the measures designed to improve it (such as productivity, savings, exports, technical and higher education, administration, etc.), and to the government's attitude to, and policy on, land and/or income distribution, taxation, general education, and welfare programmes. Finally, in the light of the assembled data on the country's resources and capabilities on the one hand, and its plans, objectives, and policies on the other, an attempt is made to forecast the amount of external assistance likely to be needed from all sources. The possible American share of the assistance needed, and of the technical assistance which goes with it, is then determined in consultation with the recipient government and, if possible, representatives of other interested donors; account is also taken wherever possible of the anticipated net inflow of private capital from both American and third country sources, and the programmes of private voluntary agencies.

**Assistance strategy.** This section tries to translate US objectives into an assistance strategy appropriate to the particular opportunities and problems of the particular recipient (as set out in the previous section). A number of areas or sectors for special aid emphasis are put forward to serve as the starting point in the preparation of specific 'Goal Plans'. Wherever possible the emphasis in the American aid programme (expressed by the choice of a particular 'Goal Plan') tries to parallel that of the country development programme, but special attention is also given to areas or sectors which in the view of American officials and experts have been given inadequate local attention and need to be strengthened. The assistance strategy also sets out the 'self-help' measures that are deemed desirable and necessary and lays down guidelines on the suitability of specific forms of aid (loans and grants, programme and project aid, etc.) and on the needs for different types of aid (capital, technical, surplus agricultural commodities, etc.). In selecting areas and types of assistance account is taken not only of recipient needs, but also of the relative availability and cost of US commodities and technicians, of any special US competence, and of the effects of specific aid measures on the *US economy*. Finally, this section of the CAP analyses the role played by other donors, the nature of their assistance, and the scope for co-ordinating the activities of the other donors with those of the USA, and it sets out the USA's attitude and policies towards the activities of other donors.

**Aid activities.** A substantial portion of the CAP is devoted to a detailed description of all US aid activities, arranged in groups under a number of 'Goal Plans'. In essence, US thinking is that aid projects (or activities) should not be planned in isolation, independent of each other, but that they should be conceived as parts of a comprehensive attack on a problem over a wide front, fitting into the recipient's economy at the sub-sectoral rather than the project level. The assistance strategy lays down the areas or sectors for US aid concentration. These are turned into action blueprints, called 'Goal Plans'. The specific goals are then worked out in relation to the targets adopted in the recipient's development plan—modified, if an analysis shows these targets to be unrealistic. The plan target, to take a simple example, might provide for an increase of 10 per cent per year over five years in the output of a crop making an important contribution to total agricultural output. The Goal Plan lays down the steps by which this is expected to be achieved; aid activities are then geared into this at specific points to ensure that the target will be reached. Thus the various aid activities are linked together to contribute to this one end.

The Goal Plan may be made for a shorter or longer period, and may cover one industry, a narrow sub-sector (as in the above example), several sub-sectors, or a whole sector. Often, the Goal Plan cuts across sectors, taking in sub-sectors from a number of different sectors, linked by some common factor. Thus, for example, expansion of rural education might be tackled through a separate Goal Plan on rural development, incorporating primary, technical, and agricultural education, farm extension, hygiene, and adult instruction. Or it might be tackled through a Goal Plan to increase agricultural production in a specific area, incorporating agricultural and technical education for children at a post-primary school level, and for adults, and farm extension work.

In countries where planning is rudimentary, these Goal Plans may serve to improve the planning process by providing coherent sub-sectoral or sectoral plans which can be used as the basis of subsequent national plans.

In any one country the number of such Goal Plans will be limited to a handful; in Tunisia there are four.<sup>1</sup> The reason for this, it seems, is rooted in the desire to achieve demonstrable results over a reasonable period. The energies of the mission and the recipient government can be concentrated on the few Goal Plans and the donor contribution is not spread too thinly.

A feature of the Goal Plan approach which is of special interest is that the donor plays a considerable role in deciding the specific aid activities to be undertaken. Once there is agreement on the choice of Goal Plan it is usually left to the donor not only to initiate aid schemes, but also to advise on recipient measures by which its objectives can be attained.

1. For agricultural production, industrial production, development of human resources, strengthening of government economic policy-making. Before 1966 there were eight Goal Plans. Some of them have been amalgamated.

The Goal Plan, then, is a set of interlinked activities to achieve a given objective. The CAP contains a comprehensive description of each Goal Plan and why it was chosen, how it fits into the development plan, and what steps need to be taken by donor and recipient governments to carry it out. It also contains a detailed account of each separate aid activity making up a Goal Plan. This gives a full description of work planned and work carried out; aid spent, committed, and still required, and in what form; US personnel at work, still required, and for how long; and finally, the causes of any delays, the nature of any unanticipated problems, the prospects for attaining targets on schedule, and the consequences to other Goal Plan activities if targets are not attained. This material provides the basis for drawing up the annual aid request, and for calculating the volume and types of aid and the number of experts required in subsequent years. It provides also the raw material for an evaluation of the aid programmes, not only to check on past performance, but also to provide Washington with clues on the types of problem that occur most frequently, so that measures can be evolved to anticipate and overcome them.

The information gathered in the CAP is also intended to serve as a guide to AID Washington in its efforts to co-ordinate its aid activities on a regional or even global level. Recipient countries are usually not well informed about—sometimes not even interested in—the development objectives, policies, and measures of other developing countries. Policies of developed countries—in aid, trade, and other areas—are usually taken into account, at least in general terms, in formulating recipient plan targets. Sometimes this is also the case in respect of neighbours, or other developing countries which are major rivals for particular export markets, or suppliers of important imports, or in those cases where countries form a Free Trade Area or Common Market. The operations of Regional Banks and UN Regional Commissions and the advice of outside experts do help to make countries aware of the plans and aspirations of others. Despite this, development plans and policies are formulated in something of an international vacuum. It is not surprising, therefore, that the attainment of targets in one country is sometimes frustrated because a competing country is doing the same things rather better, or because it 'got in' first, or because it can obtain preferential treatment of one kind or another in that field. And conversely, opportunities for complementary development, inter-recipient harmonisation of policy, and co-operation are lost.

AID, armed with a series of CAPs, is in a good position to see the overall picture, and this enables it to encourage some degree of inter-recipient policy harmonisation—either through 'advice', or through its own aid activities.

To avoid mutually harmful competition, countries need to appraise their respective policies in the light of those of others. Sometimes the mere knowledge of what is going on elsewhere provides sufficient stimulus to avoid measures which are likely to be unsuccessful as a result of someone

else's competition in the same field (e.g. production of particular items for the export market).

More often than not, however, mere knowledge is not sufficient by itself. A recipient may wish to pursue a certain policy because of political or prestige considerations, because it believes that it will be the one to succeed, or simply because there are few alternatives to choose from. Uncoordinated aid activities can all too easily reinforce recipient policies which cannot succeed everywhere; the attainment of a target in one country can itself be a contributing factor to lack of success elsewhere. A close aid relationship with several recipients, and the information available in the CAP, enable AID to play a useful role in inter-recipient policy harmonisation.

That such harmonisation is desirable for the *collective* benefit of recipients is clear. But it does have its dangers for individual countries. It is inevitable that AID's efforts at harmonisation tend to take into account only those countries in which it has a major aid programme, and that relatively little weight is given to other developing countries in different donors' 'spheres of interest'. Thus harmonisation covering a limited number of countries may be to the disadvantage of others. To avoid such a danger, each donor should, ideally, pay close attention to all countries and give them equal weight (irrespective of how much aid is actually made available). Although this does not at present happen in the case of the USA, the USA is at least better placed than most donors to carry out such a policy.

In selected countries (Tunisia being one) the CAP is supplemented by a Long-range Assistance Strategy survey (LAS). The LAS is undertaken at those points in time when important changes in a country might call for major changes in American aid policy. In normal circumstances a thorough and comprehensive review of the country and its problems, and of all US aid policies, is thought to be desirable once every few years. A LAS was completed for Tunisia in 1965; it coincided with the publication of the Second Development Plan, and a large part of it was devoted to an analysis of that plan.

A LAS document is usually prepared by a special mission with outside (non-AID) experts working in conjunction with the permanent field mission and the recipient government. The document is really a 'super-CAP'. It covers roughly the same ground as the CAP: an analysis of the potential, problems, and programme for development in the recipient country, and an identification of the goals, level, emphasis, and techniques of aid and corollary American policies best suited to promote American economic, social, and political objectives within the country. The analysis, however, is deeper and more comprehensive, the projections cover a longer time-span, and the questions to which answers are sought are more fundamental. Also more flexibility is permitted in adapting general AID procedures to individual country requirements. Once a LAS analysis is made, it takes the place of the CAP as the framework for a comprehensive



review of objectives, policies, and performances, for modifications in goals and policies, and for major changes in 'self-help' requirements, aid allocation, sector emphasis, and techniques. Thus the CAP has in practice become the annual policy guide and day-to-day operational plan, while the LAS serves as long-term perspective, review, and basis for major policy innovations and changes.

With the introduction, for the fiscal year 1968, of the Planning-programming-budgeting System (PPBS), the Spring Review will evolve into a new, condensed CAP-cum-LAS document. The main purpose will be to give the US Bureau of the Budget and AID Washington a clearer but at the same time more condensed policy statement on future AID country objectives early in the programming cycle. Moreover, it will provide a longer-range perspective of objectives than has been the case with previous documents, and the analysis of objectives will be restricted to those which can be stated with some precision, are realistic, and have operational significance. It is hoped that this new procedure will help to force a clear assessment of what stage AID thinks that the recipient country should and could have reached five years later, and what the various measures to bring this about should be (especially in reappraising recipient policy and making structural changes in the economy).

Successful aid-giving in a 'control and influence' situation depends on a correct appraisal of the recipient country's development problems, on the compatibility of set objectives, and on the ability to detect weaknesses in recipient policies designed to advance these objectives. It depends, furthermore, on the aid-giver's ability to stimulate the recipient authorities' interest in a continuing reappraisal of its policies, and to find those areas or sectors where aid will yield significant overall benefits to national development. The basic function of the LAS and CAP is to help AID to participate in the recipient country's development efforts in a systematic, thought-out, and well-informed manner. The documents are intended to provide all the necessary information on which action can be taken. Their preparation requires adherence to a procedure which, if meticulously followed, should itself pinpoint and clarify problems, and suggest areas for applying and concentrating aid. At the same time it allows sufficient flexibility for inter-country differences not to be lost sight of. The soundness of actual policies depends, ultimately, on the judgement of individuals and the reliability of the data with which they work. The LAS/CAP procedures, however, are designed to facilitate good judgement by stimulating and prompting the right questions, by providing a check on the completeness of data (and, to some extent also, on its accuracy and reliability). If done with enthusiastic recipient co-operation, the production of some parts of the LAS itself stimulates the recipient government to make a better appraisal of basic economic and social questions.



## Country and sector allocation

The first of two main problems that 'programming' should make easier to solve concerns aid allocation between countries, between sectors, and between individual projects or activities.

There are three alternative methods of country, sector, and project allocation which are based on economic criteria. According to the first, the donor lays down precise criteria of aid eligibility and accommodates all requests which meet these criteria, subject to a given global ceiling. By the second, aid is made available in response to requests, each request being judged on its merits, with only broad and general donor criteria on what might be eligible for aid. The recipient government has to shop around until a donor willing to meet the request is found. By the third method, donors commit their support to a country development programme, having first agreed on the development targets that the donor will support.

Present inter-country aid allocation is made largely according to the first or second method. Few donors use one method exclusively; in general some part of a donor's aid is allocated according to the first method, the rest (usually the main portion) according to the second. Lately, for a number of recipient countries, efforts have been made to try embryonic forms of the third method.

The first method—precise criteria of aid eligibility—is generally applicable only to project aid. The most important donor using this method is the World Bank. The Bank's charter and operating regulations lay down, for example, the precise terms on which project aid can be made available. The same rules apply to all recipients, and remain fairly constant over time. The recipient therefore knows the types of project for which applications will be considered, and can be fairly certain that if the requirements laid down can be met, finance will be forthcoming. In preparing its development strategy the recipient government can take account of the aid eligibility criteria and, if it wishes, incorporate projects which satisfy these criteria.

Inter-country allocation by this method follows automatically; it is determined by the number and size of the eligible projects that are put up for finance from each country. Usually, in applying this method, complete automaticity is modified by a number of general criteria which lay down country or regional ceilings, or by additional provisions relating not to the project as such, but to the overall economic situation in the recipient country (e.g. its external debt-servicing capacity).

A small proportion of funds under the American aid programme is allocated on general and standardised eligibility criteria. Before 1961, the now defunct Development Loan Fund was administered in this way. Now only the Export-Import Bank follows this procedure, and it is not always strictly adhered to. Since Ex-Im Bank loans account for only a small part of the annual US aid commitments, the overall sectoral

and country allocation pattern is predominantly the result of deliberate choice rather than an automatic application of general rules and criteria.

The second allocation method—*ad hoc* bargaining—is, rather surprisingly, 'favoured' by most donors; the bulk of aid is disbursed, and its end-use decided, on this basis. Donors provide recipients with a few rather vague eligibility criteria, and even these criteria are subject to frequent and abrupt changes. The recipient government, in planning its development, is uncertain, both as to the total volume of aid that will be forthcoming, and as to its composition, terms, and likely sectoral allocation. The recipient can opt for a development plan which is based on internal priorities, and in which targets are derived from a more or less arbitrarily chosen overall growth rate. Or it can attempt to pick its desired growth rate, objectives, strategies, and projects in the light of its 'guestimate' of likely donor support. Whichever way is chosen, the recipient is unlikely to be able to attract the amounts and types of aid needed to carry out the plan. Donor reactions to recipient approaches are usually unpredictable; they depend on numerous considerations, determined partly by donor domestic considerations, partly by political currents, and only partly by the merits of the recipient's case. In any case, the usual outcome of negotiations is that the recipient receives a sum smaller than the one requested. In so far as this is always so, the recipient government can make the appropriate adjustments by inflating requests in advance; but of course it cannot anticipate the exact amount by which actual offers fall short of requests, nor are donors slow to suspect inflated requests.

The third allocation method—donor/recipient agreement on strategy and objectives, and an undertaking from both sides to honour certain commitments—corresponds to the one envisaged under the intimate donor/recipient relationship outlined in Chapter 1. There is, of course, no example as yet from actual aid experience, though a number of experimental procedures on these lines have been developed and applied, as in the case of Tunisia (see pages 78–86).

By the third method, decisions on sectoral and project allocation within a country are taken in the light of a comprehensive examination of the economy. Indeed, where aid will go is decided at the same time that the recipient's targets and objectives are formulated. The donor comes in at an early stage of development planning and the recipient's tactics, precise objectives, and means of tackling them are influenced by the donor's participation and advice on where and how aid can be combined with local resources. The donor, in turn, by being in on the planning process as an adviser, is made aware of the recipient's strategy and major objectives on the one hand, and the obstacles to development on the other. This enables the donor to gear aid very closely to major recipient objectives and specific needs. This procedure also reveals those areas or sectors which require close and detailed study, and indicates the requirements for technical assistance and feasibility studies which will finally lead to the identification of precise project needs.

This comprehensive country by country approach to sectoral and project allocation contrasts sharply—and favourably—with the allocation procedure based on precise donor eligibility criteria. The latter approach encourages the consideration and selection of aid projects with relatively little reference to the economy as a whole, and with too little attention to the different needs of the various recipients. Though these are not necessarily faults inherent in the approach, in practice it is almost impossible to avoid them.

Under the precise eligibility criteria approach, decisions on sectoral allocation *within* recipient countries can be taken in various ways. At one end of the spectrum, projects in *all sectors* may be accepted. Sectoral allocation then depends on the number of projects meeting the overall criteria which happen to fall within a particular sector. Often, however, the general rules are framed in such a way, intentionally or unintentionally, as to discriminate against projects in certain sectors. The former World Bank rule that only the direct foreign exchange costs of projects could be financed discriminated, for example, against projects in agriculture. At the other end, eligible sectors may be clearly enumerated; aid can be made available only, for instance, for infrastructure projects, or for *privately* owned industrial projects, etc. Sectoral allocation is then decided in advance by the donor, according to its own view of priorities, covering all recipient countries without distinction.

This approach, although it has the important advantage that recipients know where they stand in advance, and can therefore plan accordingly, has also an inherent and serious disadvantage. Inevitably, any enumerated criteria that are sufficiently clear for potential aid applicants to know where they stand tend to become narrow, exacting, and standardised, and to be expressed in quantitative terms. This, in turn, makes the application procedure complex and time-consuming, and allocation is determined as much by the recipient's ability to put up these complex applications as by the merits of the project. Moreover, it tends to eliminate whole sectors and categories of economic activity from eligibility for finance on the sole ground that their likely contribution to development can be determined only by judgement and qualitative analysis, rather than by quantitative assessments. This approach produces an inevitable bias towards big projects, since the number of projects which can be processed, evaluated, and supervised is restricted by limited administrative capacity. But there is, of course, no correlation between size of project and its development impact (per £ of expenditure). In addition to excluding very small projects the approach encourages the 'padding' of projects to get them above the minimum acceptable size.

The most serious disadvantage of all, however, is that this approach implies a passive donor role; it is for the recipient to select, initiate, and prepare submissions for aid finance. The aid-giver is content to accept or reject them. In this situation, the weaker the administrative capacity of the recipient, the more random and arbitrary will be its list of submis-

sions, depending on the relative capabilities and strength of different government departments and ministers, rather than on national priorities.

The second—*ad hoc*—approach to country aid allocation is in a sense a transitional one; it exists where there is no strong commitment to development aid. It is somewhat chaotic and makes rational decisions based on development criteria difficult. Under this approach decisions on sectoral or project allocation can be arrived at in a number of different ways. The following are among the most frequent.

The recipient normally shops around to see what aid can be negotiated. It may have a particular project in mind for which finance is sought; various donors are approached until one is willing to provide the whole, or part, of the finance (and possibly the complementary technical assistance) that is required. The disadvantage of this method of choosing projects, and arriving at an optimal distribution of aid between sectors, are many. First of all, some of the disadvantages already mentioned in connection with the 'eligibility criteria' approach apply, such as bias towards large projects, and exclusion of whole sectors because the viability of projects within them cannot be easily demonstrated. The more important among other disadvantages are: a bias towards acceptance of projects with 'donor appeal'—e.g. projects which contain a high proportion of the donor's products or which offer prospects of donor export orders later; projects which are politically acceptable to the donor; concentration on these sectors and projects in which success is relatively easy—donors are often reluctant to take risks; and modification of projects simply to suit donor convenience. The net effect of these various disadvantages is that sector concentration and project choice are determined on many grounds other than the recipient's priority needs, and that large areas, which may be of crucial importance, are arbitrarily ruled out for aid finance. Moreover, those recipients less able to identify, prepare, and promote projects cannot easily be helped to devise specific, effective tactics towards the fulfilment of their overall objectives.

An alternative possibility—often an outcome of state visits or similar contacts between national leaders—is for the donor to initiate a specific offer in the form of a complete project, or a gift of commodities, or technical personnel, or training places. In this case again, the choice of how and where aid will go is dictated largely by considerations of donor convenience. But this type of aid is usually only offered as a gesture of goodwill, or to obtain some specific political or other advantage for the donor; it is rarely used when development impact is the paramount consideration, and it need not be discussed any further.

A rather different approach by the recipient to the donor is to present a development plan and ask for a contribution towards it. If the donor agrees, the exact use of funds can then be negotiated later. This is now the most common single method of deciding the specific end-uses of aid. In the detailed negotiations on the specific uses of the total on offer, the recipient can be asked to put forward its proposals and argue its case;

the donor can then simply choose those items that it is willing to support. From the point of view of an efficient allocation of aid resources this practice is open to many of the same criticisms as before. It does, however, have an important advantage over the method by which recipients 'shop around' several donors with fully worked out and isolated project proposals. This is that aid finance can be made available for other than new projects; it may be provided also in the form of budgetary, commodity, and general balance of payments support.

When the volume of aid is settled on the basis of a general request for aid by the recipient government, the donor may, and (as in the case of Britain) usually does, leave the initiative for proposing the end-uses to the recipient, in the way just described. But an alternative approach is also possible, and is used, for example, by the USA with respect to most of the countries where it has relatively minor aid programmes. This approach requires a limited dialogue with the recipient on the basis not of individual aid proposals, but of the development plan as a whole. The donor takes some initiative in selecting problem areas and considers specific requests for aid within them. Technical assistance is provided both to help to identify and prepare particular projects, and to help with some wider policy problems. Support is then provided on some co-ordinated basis, to achieve objectives which are rather wider in scope than an individual project, or interlinked projects are supported to make some impact at the sectoral or sub-sectoral level. Thus the underlying American philosophy in this is to try to dovetail aid to specific country development requirements, and assume part of the burden of choosing the exact end-use of aid.

Before continuing it will be useful to restate in summary form the main points of the discussion on country, sectoral, and project allocation made so far.

Country allocation can be settled in three different ways: these have been referred to as (1) the eligibility criteria method, (2) the *ad hoc* negotiations method, and (3) the donor/recipient joint commitment to development method. The procedures for allocating aid between specific end-uses (sectors and projects) follow from the approach used to determine the volume of aid for each recipient country. Thus, under the first inter-country allocation procedure listed above, sectoral and project allocation is determined partly by the nature of the eligibility criteria (which themselves reflect the donor's assessment of general development priorities), and partly by the precise nature, and number, of project requests conforming to the eligibility criteria. Under the third procedure decisions on sector and project choice emerge from the continuing donor/recipient dialogue on priorities, tactics, techniques, and problems and bottlenecks of development. Under the second procedure two alternative approaches are possible: (a) the recipient government can 'shop around' for aid support with a particular project on offer, or (b) it can 'shop around' for donors willing to support its development plan (or its budget or foreign exchange requirements). In the case of the second approach, (b) above, the final



selection of schemes on which aid will be spent can come about in two ways: the recipient government may put forward a list of specific schemes for donor support, or, alternatively, the donor may take (or share) the initiative in identifying, selecting, and preparing schemes for aid support.

Any attempts to remedy the disadvantages of the *ad hoc* procedure, (2) above, for selecting sectors and projects will tend to transform it into something resembling either of the other two procedures. This is why the *ad hoc* approach was earlier described as being 'transitional'. Donors preferring to leave the initiation of specific requests to the recipient government and emphasising project aid can improve and rationalise sector and project allocation only by laying down firmer guidelines for recipients. The limit to which this movement tends is typified by procedure (1)—clear and precise eligibility criteria, universally applied. Donors preferring to play a more positive role in determining aid allocation and use can improve and rationalise their procedures only by intensifying their interest in the recipient's economic affairs, and following up this interest by focusing not only on aid matters as such, but also on directly adjacent areas, and ultimately on all economic questions. The limiting case in this trend is typified by procedure (3)—the continuing donor/recipient dialogue within the framework of a partnership to promote development.

## Volume, sector, and project choice in Tunisia

The main advantages and disadvantages of the various procedures for determining aid allocation—and the manifold complications that surround these decisions—can be explored in more detail by reference to specific examples from the American programme in Tunisia.

### **Phase one: aid before the Plan**

In December 1956, some nine months after Tunisia gained independence and just before the first political rupture with France which led to a cessation of aid from that country, a special US mission to Tunisia looked into the possibilities of American assistance. A Bilateral Agreement for Economic and Technical Assistance was signed in March of the following year. Between 1957 and 1961, the year in which the Ten-Year Perspective Plan was published, the USA committed just under \$250m. During this 'first phase' of American assistance the programme consisted of an annual grant towards the budget of about \$20m, the supply of surplus agricultural commodities worth around \$100m, some technical assistance, and a number of 'development loans'. The agricultural commodities largely supported three major relief schemes—to feed Algerian refugees and Tunisian schoolchildren, and to provide jobs in labour-intensive public



works for the unemployed (a programme known as 'Lutte Contre le Sous-Développement', or LCSO). The bulk of development loan funds went into five projects—the Oued Nebana Dam (\$18m), the Kasserine cellulose factory (\$6.3m), Tunis airport (\$5.1m), and two credit and investment institutions (\$5m each).<sup>1</sup>

During the years immediately preceding independence Tunisian investment and growth rates were high. The country's infrastructure, especially, was considerably modernised, and at independence there was a relatively good network of transport facilities, harbours, and public utilities, especially in the north and in the Sahel (east coast strip). During the years immediately after independence there was a massive exodus of European technicians and professional and business men, as well as a sizeable flight of capital. Investment and growth slumped. There was also a bad harvest in 1957. The new Tunisian Government's major preoccupations in the economic field were centred on the establishment of new external links, and the organisation of national institutions, such as the Central Bank and a national currency. The economic and financial policy that was followed was orthodox—even conservative—with price stability and a healthy foreign exchange position as major objectives. The worsening economic situation during 1959/60, with increasing unemployment and stagnant investment, strengthened the hand of those advocating more positive government measures in the development field. The first major government 'development' effort, the LCSO programme, was inaugurated at the end of 1959, with American support in the form of food aid. The greater interest in government direction of the development effort led to requests for more assistance from overseas, and culminated with the publication of the Ten-Year Perspective Development Plan in 1961, and the First, or Three-Year, Plan (covering 1962-4 in more detail) some months later.

At the time of Tunisia's independence it was the normal American practice to offer some economic assistance to every independent country outside the communist world. Countries which were on the periphery of the so-called 'free world', and those others in which the USA had major strategic or commercial interests, were generally favoured; programmes elsewhere were, on the whole, more in the nature of token support. Thus the basic decision on inter-country allocation was then taken on fairly straightforward strategic and Cold War grounds; on these criteria Tunisia did not have any clear claim for priority treatment.

The volume of support Tunisia received in 1957-61, and the end-uses for which the support was available, were the result of different decisions, taken with reference to various considerations concerning different aspects of the Tunisian situation.

The post-independence economic difficulties already referred to necessitated, first and foremost, a holding operation. Thus the level of budgetary

1. The volume and forms of American aid to Tunisia are summarised in Appendix B, tables IVA and IVB.

or balance of payments support was largely dictated by the desire to maintain existing government services and imports, in the face of falling tax revenue (due to the decline in economic activity), the flight of capital, and interruptions in the inflow of new private and public capital from France.

The volume of development loans was determined to a large extent by the number of Tunisian project aid requests that satisfied the then current eligibility criteria, the speed at which these requests could be processed and agreed to, and the pace at which project implementation proceeded. American sources of project aid finance were the Development Loan Fund (DLF), and the Export-Import Bank. The operations of both the Fund and the Bank were subject to strict, formal procedural rules. But, in so far as project requests fell within the scope of permitted activities, and could be made to satisfy all legislative or administrative requirements, there was no overall ceiling, in effect, on the amount available. In general, the DLF had a surplus of funds. Thus the volume of capital aid for projects was determined by DLF or Ex-Im Bank eligibility rules, which applied to all recipient countries, and by the ability of the Tunisian Government (and private companies) to make use of the DLF and Ex-Im Bank financing facilities. Occasionally political considerations did interfere with the operations of the Fund and Bank. In Tunisia, for example, some speeding up and relaxation of normal procedures was necessary to start the Kasserine cellulose plant project; up to that time the rate of project approval (both in Tunisia and for the DLF as a whole) had been painfully slow, and the special treatment was intended both as a goodwill gesture towards Tunisia, and as a shot in the arm for the DLF.

The nature of capital projects financed by US aid was determined by the rules and regulations governing the operations of the DLF and Ex-Im Bank, which, as mentioned earlier, applied to *all* countries. The regulations on the types of projects that were eligible were framed in accordance with the aid agency's global assessments of development needs and the proper role of external public capital in meeting them. End-use of aid was thus determined with *specific* reference to the Tunisian situation only in as much as the Tunisian Government had to initiate requests. Tunisian needs for project finance which satisfied the general criteria could be considered, but not any other.

Subsequent progress on the major projects listed above (except on the airport project) was disappointing. On reflection AID mission officers now consider that two of them (the Oued Nebana Dam and the Kasserine plant) were wrongly selected—despite the carefully laid down procedures for project vetting—and that the USA was at least partly responsible by yielding to Tunisian political pressure. The lesson that was learnt was that projects could not be considered in isolation, without reference to sector and national objectives. These and similar experiences elsewhere had an important influence on bringing about a fundamental change in the American approach to project and sector allocation.

The situation in respect of technical assistance was rather complicated.

A very large number of influences of different kinds contributed to the formulation of a small, but varied, programme of activities. Technical assistance was not considered as being a particularly important element in the American programme; the view in the late 1950s was that Tunisia was a sophisticated country, with sufficient skilled personnel, and relatively well-endowed with a basic institutional framework and administrative talent. In addition, the French language, the inherited French administrative and educational structures, and the close institutional links with France seemed to make Tunisia relatively unsuited for American technical assistance. Apart from this there was, at that time, no more than a vaguely formulated American view of general priorities in technical assistance. Technical assistance to Tunisia was thus partly an adjunct to, and outgrowth of, aid-financed capital projects, partly a response to particular Tunisian requests,<sup>1</sup> and partly a holding operation in sectors which formerly relied on expatriate skills and management and could no longer do so.

Lastly, the size and use of the fourth component of American aid, agricultural commodities under PL 480, was determined on both political and economic grounds. At the time the USA had a very strong preference for this form of aid, and it was relatively easy to obtain it in significant quantities. Most of the commodities were supplied in grant form under Title II (Emergency Relief and Development) and were specifically designed to help ease the domestic political problems brought about by the large inflow into Tunisia of refugees from the Algerian War, as well as by the rising numbers of Tunisian unemployed. Both, especially the latter, threatened political and social stability in a country which, although friendly to (even if not formally allied with) the West, had considerable 'leftist' elements. It was thus seen to be in the USA's interest to maintain stability, both for strategic reasons, and to foster conditions likely to favour orderly development. The actual volume of resources allocated was then determined largely on technical grounds: numbers of refugees and unemployed, the administrative capacity available for organising the unemployed in the LCSD, the rate at which suitable LCSD projects could be found, the ability of the Tunisian authorities to raise the finance required in conjunction with the surplus commodities, and the availability of freight space to transport them. The composition of the commodity programme was determined by the extent of US stock-piles, by Tunisian needs, and by dietary considerations.

The procedure adopted for determining the volume of aid and its composition and sector/project allocation during 1957-61 was thus a combination of the first and second of the three basic procedures described in the previous section, i.e. 'eligibility criteria' and '*ad hoc* negotiations'.

### **Phase two: the commitment for the Three-Year Plan**

In 1961 two important policy changes—one in Tunis, the other in Washington—combined to produce a new aid framework.

1. Such as scholarships and training places in the USA.

In Washington the aid programme was completely overhauled. There were five major aspects to this overhaul which affected the Tunisian programme. First, a new agency (AID) took over responsibility for co-ordinating all aid activities, and administering the bulk of financial and technical assistance. Second, the 'development objective' was given greater emphasis relatively to other objectives. Third, programming procedures were reviewed and new, more detailed, but at the same time more flexible instructions on aid administration, aid budget preparation, and project selection were issued. Fourth, aid support would in future be 'guaranteed' for several years at a time. Fifth, and most important of all, recipient country 'performance' was made an important criterion for allocating development aid.

In March 1961 President Kennedy announced that countries which met certain criteria would be eligible for major, longer-term development aid programmes. Among the criteria he listed were the preparation of comprehensive plans for development, a large measure of social justice, and demonstration of ability to mobilise domestic resources for development.

By 1961 the Tunisian Government had come round to the view of those—led by Ben Salah—who were strong advocates of planning. The machinery for this had already been established, and when President Bourguiba visited Washington in May 1961 he was able to convince the American authorities that Tunisia's new draft plan, and its overall policies, met the criteria for major aid support just laid down by the American President. The USA responded with a one-man exploratory survey of the Tunisian Ten-Year Perspective Plan. This survey laid the foundation for a more extensive and intensive analysis of both the Perspective and the newly published draft Three-Year Plan. The recommendation of the Patterson Mission, made public in December 1961, was that the USA should make a long-term aid commitment and proposed that the level of aid should be around \$180m. The official commitment of up to \$180m over three years, subject to annual appropriations, was made in July 1962. This figure was arrived at by projecting external resource needs (more exactly, foreign exchange needs) to implement the targets of the Three-Year Plan. US aid was to cover approximately 50 per cent of external assistance requirements. The objectives of the Plan, as well as the Plan itself, were generally accepted by the Patterson Mission, although it was felt that the projected level of investment expenditure was rather ambitious and unlikely to be achieved over three years.

This new approach differed in three important respects from what went before. First, an assessment was made of overall recipient government policies, objectives, and projected needs. Previously different parts of the Tunisian economy, and different policies, were examined more or less separately and in isolation. Secondly, there was a general, multi-year commitment of support. Previously support was offered on a year-to-year basis (except in the case of commodity aid under PL 480), and always for pre-selected activities or purposes. Thirdly, the USA began to take a

close interest in all aspects of Tunisian economic life. In short, the 'eligibility criteria' and 'ad hoc negotiation' procedures were abandoned in favour of experimenting with something more on the lines of the donor/recipient dialogue approach.

Why was Tunisia selected for multi-year general support? The reasons were partly 'economic' and partly political.

Tunisia did, *prima facie*, satisfy the Kennedy conditions for a major aid effort. The Patterson Mission reported most enthusiastically on the country's prospects, and its determination and competence to make a success of the development effort. The Development Plan was thought to be a professional piece of work and well balanced in its investment targets and sectoral allocation. But, even with a stringent drive for increased domestic saving, there would be a shortfall to meet the investment targets which were set. The foreign exchange position, too, was difficult. Thus aid would be badly needed to supplement domestic efforts.

Although Tunisia could not claim special 'privileges' on strategic or political grounds, there was nevertheless a strong sentiment in favour of continued support in the American administration. To a large extent this was due to a real admiration for Tunisia's outlook and policies under the leadership of President Bourguiba. Although 'unaligned' in foreign affairs, Bourguiba was regarded as basically friendly and sympathetic to the West; indeed he was thought to exercise a moderating influence on 'Third World' politics, and was generally admired. The timing of his visit to Washington—he was the first leader to be able to ask for aid support on the basis of the Kennedy conditions—was also an important factor in the development of the new aid relationship. Moreover, although the USA then considered France to have the main responsibility for Tunisia—and to a certain extent still feels this way—relations between France and Tunisia were at a low ebb and no financial aid was forthcoming from the ex-metropolitan power. Someone had to step in to fill this large gap. Later, the enthusiastic support extended to Tunisia was explained in a way that made it look as if crucial American political interests were involved. Thus Tunisia became a strategically situated country, at one and the same time African, Arab, and 'Western' orientated; an important moderating influence in the Third World; a model of how a small country with few natural resources could succeed through sensible economic and foreign policies with the help of adequate aid; an example of fruitful co-operation; and so on. With hindsight to help, perhaps these descriptions were not all that far off the mark. But at the time the decision was taken it was not predominantly influenced by such 'hard-headed', self-interested thinking. This was a rationalisation of a decision taken—a rationalisation, one suspects, to forestall possible American critics, in Congress and the country at large.<sup>1</sup>

At the time of the commitment to support the Three-Year Plan the USA attempted to establish an aid relationship based on a continuous

1. Critics of aid were especially vocal in 1962/3.



donor/recipient dialogue on development policies and aid activities. In practice this policy was gradually implemented in the course of the Plan, partly as a result of the visibly worsening economic situation. A steady sequence of setbacks, culminating in the crisis which brought on a 20 per cent devaluation of the dinar, in September 1964, was followed by a stabilisation policy, supported by the International Monetary Fund. The setbacks cannot be discussed in detail, but the major ones can be mentioned. They were: disastrous harvests due to drought and then flooding; a continuing exodus of European technicians, managers, farmers, and professional men; shortfalls in anticipated aid disbursements; weak budgetary and expenditure control, leading to overspending in certain sectors and an unbalanced investment pattern; reduction of foreign exchange inflow as a result of the evacuation by the French forces from the Bizerte base; retaliation by France against Tunisian expropriation of foreign-owned land which resulted in a virtual loss of Tunisia's overseas wine and wheat markets, and withdrawal of French financial aid which had resumed in 1963.

As the AID Permanent Mission became more familiar with the Tunisian economic situation, so previously unsuspected policy weaknesses, problems, and bottlenecks became apparent. The shortage of trained manpower at all but the highest levels, an inadequate administrative and institutional framework for plan implementation, and weaknesses in project preparation, costing, and feasibility analysis had not received adequate attention at the time of the Patterson Mission. Moreover, the Development Plan itself lost some of its earlier professional appeal. Although, overall, it was a sound document, it had a number of serious faults which had been rather glossed over in earlier appraisals. But it soon became apparent that both the background analysis and the detailed feasibility work had been of a considerably lower standard than that which the earlier American appraisals had suggested. Many of its assumptions were rather optimistic. Substantial investment expenditures had been allocated without sufficient evidence as to likely productivity (or sometimes even technical feasibility). Too much emphasis had been placed on the provision of physical inputs, especially in agriculture, where the emphasis was on irrigation, accompanied by inadequate extensions services, marketing facilities, etc. Several industrial projects were known to be 'unviable', but it was the Tunisian Government's firm conviction that somehow or other they would turn out to be successful.

These difficulties and weaknesses were partly responsible for the slow rate at which the \$180m commitment was utilised—and especially for the slow progress in agreeing on aid for capital projects. But the slow progress—especially on project aid—was also partly due to the complex AID administrative procedures and restrictions, which not only slowed down and hampered the processing of project requests but also tied the hands of the AID mission.

AID's greater awareness of the detailed problems and needs of Tunisian



development, gained through its continuous association and close contact with the country, opened the way for a policy of 'gap plugging'. Both aid—especially technical assistance—and informal promptings were gradually concentrated in the problem sectors/areas as identified by the AID mission. From a process of trial and error there emerged a clear-cut policy on where support would be most effective.

Concentration was already an established principle in American aid operations. In Tunisia, the Goal Plans up to about 1962/3 did not, however, reflect any conscious policy to focus the aid effort on priority sectors. Rather, commitments were entered into either to meet important immediate needs, or on the basis of a global (rather than local) view of priorities. Although the various activities were pulled together under a number of Goal Plans, this was in effect little more than a paper exercise. By the closing stages of the Three-Year Plan the formal Goal Plans began to reflect more closely an overall view of country priorities; though some of the activities begun in the early days, which fitted rather uncomfortably into the emerging pattern, were simply allocated to whichever Goal Plan could accommodate them least conspicuously.<sup>1</sup>

A great deal of American aid and attention was concentrated in and around five sectors or policy areas: development of human resources, agricultural production, irrigation and soil conservation, foreign exchange, and the private sector.<sup>2</sup>

The areas of concentration were themselves interlinked. Progress in one area was not only meant to achieve specific objectives in that area but also to promote progress in other areas of concentration, and in the economy at large. Thus work on developing human resources was thought to be crucial to success in all other areas of aid concentration. The policies designed to increase foreign exchange earnings were thought to help to strengthen both the private sector and agricultural production, and vice versa. Irrigation and soil conservation would affect agricultural production.

The first three of the five areas of aid concentration listed above received highest priority from both AID and the Tunisian Government. The other two, 'foreign exchange' and 'the private sector', were given rather less weight by the Tunisian authorities than by AID.

In those three areas where there was unanimity about priorities, the American role was essentially threefold. First, it was to provide American finance, resources, and skills. Secondly, it was to provide requested advice and specialised services. Thirdly, it was to stimulate a professional approach: to survey in detail problems and needs; to suggest improvements in policies and procedures; to initiate specific activities; to devise alternative policies for consideration by the Tunisian Government; and to encourage and ensure continued Tunisian interest and attention, and an adequate allocation of local resources.

1. One of the aims of the revised Spring Preview is to ensure that various contemplated activities really do fit into a coherent Goal Plan.

2. US policies were also co-ordinated, to some extent, with those of other donors.

In areas of concentration over which there was disagreement between AID and the Tunisian Government on the priority these should receive in the development effort AID's role was somewhat different. The functions which were appropriate to areas of basic agreement on priorities had to be supplemented by an additional one; moreover the tone of the aid operation necessarily had to be different.

The additional function was 'persuasion'. This can take many forms. It can mean simple pressure, or involved discussion, or various combinations of the two. The method is closely linked to the nature of the political relations between the countries, the degree of mutual trust, and the personalities of those most intimately involved. The course of the 'persuasion' process in Tunisia can best be illustrated with reference to the private sector.

Discussions of policy towards private enterprise, both local and expatriate, in which the USA becomes involved are prone to degenerate into dialogues of the deaf. To the Americans the recipient government's support of private business initiative is one of the chief criteria of sensible development policies. The private sector is supported almost instinctively. The USA is so bound up in its admiration of the virtues of a 'free enterprise' system, and most officials are so conditioned by its ideology, that promoting it inevitably forms part of the American prescription for progress in any recipient country. In many situations the prescription is valid, but in many others it is not. It is often the easy way out (and a substitute for facing the issues) to prescribe more scope for private activities when development results seem unsatisfactory. In these latter cases recipient government intransigence leads to ill will. The Americans feel that the recipients are being doctrinaire and cannot see what is in their own interests; the recipients, for their part, became suspicious that the advice is at best doctrinaire, at worst motivated by a concern for the future of 'Western' commercial interests.

Given this fundamental difficulty and the delicate nature of any dialogue on the private sector, the discussions in Tunisia have been remarkably unemotional and undogmatic on both sides. Some of the credit for this must go to the AID mission. It has largely adopted the correct tactics—not to *preach* on the merits of the private enterprise system. The mission is staffed by officials who, to a large extent, can look at the 'private versus public' question rationally and dispassionately, and can communicate, in private at least, their own doubts about the efficacy or desirability of certain aspects of private sector activities in certain circumstances. More important even than the useful role of the mission has been the generally undoctinaire and pragmatic approach of the Tunisian Government to this question. The difference of opinion on the exact emphasis to be given to the private sector during the Three-Year Plan was not very profound. Tunisian coolness towards the private sector was in itself a relatively new phenomenon in 1961; it seems that their attitudes are constantly undergoing change—between 1963 and 1968 the pendulum has been swinging

slightly back towards interest in the private sector. In the early years the private sector enjoyed a relatively secure position, and government policies were largely in line with its requirements. Although the debate between public versus private and planned versus 'free' development was lively, it was not until 1960/1—after several years of stagnation—that the Government's faith in the private sector waned. Even so, at no point did the Government's attitude become hostile; rather, the new policies created a certain amount of uncertainty which had a dampening effect on private enterprise.

Most American efforts have been concentrated on persuading the Government to take steps which would remove uncertainties—rather than on pressing for a fundamental change in policies. In addition the USA has supported a variety of modest schemes and experiments which would improve the efficiency of private business, and encourage small- and medium-scale enterprise. These have included business management training, support of financial institutions, programme aid channelled through the private sector, promotion of investment identification, and an Industrial Development Organisation. In addition AID has made considerable efforts to interest US companies in investment opportunities in Tunisia (with some success), and persuaded the Government to develop the tourist potential in association with local and external private capital and management.<sup>1</sup> And, finally, AID has encouraged the Government to sell publicly owned land to private companies or lease it to private managers.

The difficulty, from the point of view of the Americans, has been to interest the Tunisian Government in activities which do not seem to them to be very important. Since the Government is more uncertain than hostile in its attitude towards the private sector, no fundamental ideological conflicts have arisen. The American approach has therefore been to look at specific problems and, in devising possible solutions, to suggest responsibilities and tasks that might best be tackled by private initiative. Thus, for example, the problems that arose in the management of state lands, especially after 1964, when the last *colon* lands were nationalised and threatened to overburden the whole national agricultural administrative machine, looked like being capable of resolution through the sale or leasing of some state lands to private concerns or individuals. This was tried, and the analysis, that there were local interests which had the management talent and capital to cultivate such lands, but which could not have been quickly mobilised through a direct government programme, proved correct. Little or no direct or indirect pressure has been exerted on the Tunisians. There has, moreover, been very little general preaching on the merits of private enterprise, even though some of the documents published by AID on the Tunisian programme might give the contrary impression. Persuasion has been through genuine debate and by example in carefully chosen fields of activity.

1. See Chapter 4.

### **Phase three: aid for the Four-Year Plan**

AID has given general approval and support for the Second, or Four-Year, Plan. In terms of areas of concentration there have been a number of changes in emphasis. These reflect more a rationalisation of previous efforts within a smaller number of Goal Plans, than any profound policy changes.<sup>1</sup> The four main sectors/areas of concentration are: agricultural and industrial production, human resources, and overall policy formulation.

Two other changes have taken place. The first is the departure from giving a clear and precise multi-year commitment of support. For the Four-Year Plan the USA announced only general support—no target figure of aid was mentioned. This is unlikely to have particularly important practical effects in the course of the Second Plan because the USA is unlikely to be less generous than before. But the abandonment of a quantitative commitment does have some psychological effect. It undermines the sense of trust and joint commitment, reintroduces an element of uncertainty, and brings back the *ad hoc* negotiations on volume which have already been criticised as undesirable. The US view seems to be that the new type of general unspecified commitment provides a greater incentive to 'good' recipient performance. But when a close aid relationship has already been achieved, and when there are in any case protracted negotiations before overall commitments can be turned into specific allocations, any advantages in terms of performance that might be achieved are unimportant relatively to the potential harm that might be done to the aid relationship. However, since a great part of US aid to Tunisia takes the form of programme lending in support of the balance of payments, rather than project lending, there is considerable justification for relating annual aid commitments to the specific balance of payments requirements in the immediate future. If this procedure is followed, then no firm multi-year advance commitment can be made with any degree of certainty.

The second change concerns the difficulties experienced earlier in respect of project approval. In addition to various minor administrative readjustments, the important innovation to speed up project processing is the introduction of 'sectoral analysis'.

'Sectoral analysis' is intended to improve project choice, both in terms of speed in processing requests, and also in terms of the appropriateness of projects selected. The idea is very simple. In the areas of aid concentration which have been chosen, AID will undertake a series of analyses in depth of prospects and requirements. These analyses should reveal the gaps in present policies and investment plans and the scope for specific projects and activities. They should also show the interrelationship between the various activities, and pinpoint the missing ancillary services and institutional requirements. Even more important, they should show the likely economic returns of various possible activities, and the relative costs of obtaining a given return by way of different expenditure/investment

1. See Appendix C.

patterns within a sector or sub-sector. These data should enable AID to determine without lengthy investigations and collection of information whether projects submitted by the Tunisian Government were *prima facie* worth supporting. Alternatively they should allow AID to fill any apparent gaps in the Tunisian investment pattern by initiating its own projects. 'Sectoral analysis' is thus intended to provide a tool for quicker and better decision-making. It is a framework within which essentially qualitative judgements can be taken, related to the appropriate quantitative data that are available. It should allow more 'risk-taking' than the project by project approach, and, by providing better support for aid claims when they go to Washington, reduce the time-lag between project request and detailed feasibility appraisal.

The 'sectoral analysis' technique is not a substitute for the simplification of AID project approval procedure—which is still badly needed—but it should at least help to achieve the same end. If both could be achieved the result could be some really substantial progress.



## 6 The Forms of Aid

The last chapter looked into the methods and procedures for determining the volume of aid, and its allocation among competing end-uses within one recipient country. This chapter deals with aid *forms*: what type of aid, on what terms and conditions, is best suited to promote any given target, whether countrywide, sectoral, or sub-sectoral. A great variety of issues and problems arise in connection with aid forms. Many of them are well known or have received extensive treatment elsewhere. In this chapter only a handful of issues will be analysed. Those included either raise particularly important questions of aid effectiveness, or are of particular interest in the context of the aid relationship and the American approach to it.

### Project and programme aid

The basic decision which donors face is whether aid should be provided for specific projects, or in the form of more general (plan or programme) support, or both, and in what proportions. Project and non-project aid differ in several respects: each requires separate techniques of supervision and control; each has its own specific advantages and disadvantages *vis-à-vis* donor influence on recipient policies; and the impact on the economy of the recipient under present aid arrangements is different in each case.

Not all the practical implications of these differences between project and non-project aid are appreciated, especially at the donor end. A great deal of confusion has arisen, largely because expressions such as 'plan aid', 'programme aid', 'balance of payments support', etc. have assumed specific meanings to aid practitioners. The expressions, when used in a 'technical' sense, refer as much to the explicit or tacit conditions which are normally attached to certain types of aid, as to the types themselves. Since it is these conditions that usually account for the practical differences between different types of aid, a popular or semantic interpretation of the expressions often leads to the conclusion that one type is readily interchangeable with another, and that no important issue—besides administrative arrangements—is involved in choosing between them.

The two features that define a project, in popular usage, seem to be the following. First, an aid project must normally involve the establishment (or extension) of some specific physical structure, on the one hand, or organisation or activity, on the other. Thus the building and equipping of a factory, or a power station, or a university are obviously considered as 'projects'. The setting up of an agency or institution (e.g. an organisation



to maintain machinery, or an information office for farmers, or a team to work out a new curriculum, etc.) is often also defined as a project, even when no new construction or equipment is involved. Second, a project must exist, so to speak, in its own right. It must be possible to trace its progress according to a pre-set schedule, and evaluate progress without reference to external factors. Thus the donor, in providing project aid, is thought to be supporting a particular activity, confined to a particular location, and serving a specific objective, an activity which lends itself readily to accounting control and progress supervision.

Non-project aid, it follows from the above definition, is that part of aid which is not subject to detailed, itemised agreement between donor and recipient on its use, and which produces not easily identifiable and tangible evidence of 'proper' use. The formal and popular distinction between the two types of aid is essentially one of expenditure control, or degree of donor discretion on how aid is to be used. When it is shown that easy donor control and supervision of project aid is largely an illusion or, at least, that real control of project aid is not easier than control of non-project aid, the main formal distinction between the two types of aid disappears. This then leads to the erroneous conclusion that project and programme aid are interchangeable.

But there are important distinctions between project and non-project aid more real than those related to 'control'. Before looking at these, it will be useful to list the various types of *non-project* aid that exist, distinguish between them, and define the technical terms to be employed throughout the rest of the chapter. The following terms are used to describe aid *not* for projects: budgetary assistance, grants-in-aid of administration, plan aid, balance of payments support, general purpose aid, commodity aid, and programme aid. The most important of these, and the most commonly used term (though not always to express the same concept), is the last, programme aid.

Budgetary assistance (often called in Britain grants-in-aid of administration) goes, as the term suggests, towards meeting the overall deficit of a recipient government's recurrent or ordinary budget. This type of aid can be, and often is, provided in the form of 'free' foreign exchange. The recipient's government makes its budgetary expenditure in its local currency; the consequent import demand is met from the donor's deposit in the recipient country of foreign exchange. In so far as the additional import demand generated is smaller than the external contribution towards the budget, this 'surplus' foreign exchange is available to meet other consumption or investment import needs. Alternatively, budgetary aid may be made available in an 'inconvertible' form, requiring the imports generated by the additional domestic expenditures through the budget, which have been made possible by the aid, to be bought in the donor country. Another possibility, commonly adopted by the Americans, is to provide commodities of various kinds for local sale by the recipient government; the local currency so raised can be used for normal budgetary

expenses, or for repaying (usually to the Central Bank) government debts previously incurred. Thus the purpose of budgetary aid, whether in the form of cash or commodities, is to meet a shortfall in government revenue, or to avoid inflation and balance of payments complications where a revenue shortfall has already been met through deficit financing.

The other forms of non-project aid—plan, balance of payments, general purpose, commodity, and programme—are analogous to budgetary aid; the distinguishing feature is, of course, that they are linked not to budgetary needs but to other requirements. If there is a development plan, then this can provide the framework for aid; otherwise needs may be established with reference to the overall public investment programme, or projected foreign exchange gap, or some other criterion. Other forms of non-project aid can be made available, as in the case of budgetary aid, in freely convertible foreign exchange; but this is not a common practice. More usually it is provided in the form of inconvertible (tied) foreign exchange, for *imports* from the donor country, with some additional stipulation as to the nature of the imports. The most common stipulation is that aid may not be spent on certain items, e.g. military hardware and (most) consumer goods. Aid in the form of convertible foreign exchange, or inconvertible exchange listing specific categories of imports which do *not* qualify, is usually known as plan aid, if it is based on a comprehensive plan, or as general purpose, or balance of payments, aid if there is no plan.

Alternatively, non-project aid can take the form of free or tied foreign exchange for an agreed list of items. The normal procedure is to stipulate the items to be provided, either according to the category or type of item (e.g. tractors, fuels, fertilisers and pesticides, etc.), or by sector or sub-sector destination (e.g. maintenance imports for the petro-chemical industry, railways, etc.). This more restricted form of non-project aid is usually referred to as *programme aid* (or, sometimes, commodity aid).<sup>1</sup>

The various types of non-project aid just listed are referred to by different individuals by different names. Throughout this study, the term *programme aid* is used to cover *all types of non-project aid other than budgetary assistance*.

It was stated earlier that the main real differences between project and programme aid are brought about, essentially, by the explicit or tacit restrictions or conditions that are attached to *project aid*. The differences emerge particularly clearly when looked at from the viewpoint of the *economic* consequence of the two forms of aid.

As far as project aid is concerned, it is usual to attach one, two, or more of the following major conditions: (1) that aid be restricted to the capital costs of new projects, *excluding* recurrent costs, replacements and working capital such as spare parts, raw materials, etc.; (2) that aid be restricted to the *direct import content* of projects, i.e. to the capital *imports* required for the projects and *not* covering capital costs of a local nature such as local labour, surveying, and contracting costs, materials, etc.; (3) that the

1. Programme and commodity aid can also be made available in kind, without any monetary transactions taking place.

source of aid-financed imports be restricted to the donor country; (4) that certain categories of projects be excluded, such as state-owned industrial and manufacturing enterprises, or projects likely to compete with donor exports to third countries, or all projects below a certain size, etc.

The third condition can also apply in the case of programme aid; the fourth has its equivalent in programme aid, which cannot be channelled into certain categories of projects or cannot be spent on specified commodities or categories of imports. But in practice the formal conditions which apply to programme aid are less restricting, or are relatively easy to by-pass.

Most of the arguments advanced to show that the *economic* impact on recipients is the same, whether project or programme aid is given, ignore these conditions. If project aid were readily available without conditions, for *any* 'viable' projects,<sup>1</sup> and if *total* costs were eligible for cover,<sup>2</sup> there would be no need for programme aid. The exceptions would be occasional large-scale aid-supported imports of food in an emergency (such as a drought), or compensations for a temporary, sharp drop in export earnings, or aid for one or two countries with particularly acute '*structural balance of payments*' difficulties.

However, in most cases it is the conditions and restrictions imposed on project aid that make complementary *programme* aid necessary if certain economic distortions are to be avoided. This is particularly relevant in the following circumstances: where there has been an underestimation of the increase in recurrent expenditure needs resulting from increased social investment, or of foreign exchange requirements for imports other than capital goods; when aid finances a substantial proportion of new investment and/or imports, or where recurrent costs are high in relation to taxable capacity; when the direct import content of investment is relatively low; and when a developing country is faced with heavy foreign debt payments.

The main economic consequences of restrictions on project aid to a country in which one or more of the conditions mentioned above are present are well known. They are therefore listed here without further explanation: under-utilisation of aid offers; minimisation of second- and third-round multiplier impact on the economy; distortion of investment priorities (bias towards capital-intensive investment, large-scale projects, infrastructure as against directly productive activities, including agriculture); increased costs; inadequate maintenance; under-utilisation of existing or new capacity; understaffing of existing or new services; encouragement of government deficit (i.e. inflationary) financing.

For the recipient it is possible—in theory and also to a certain extent in practice—to avoid all, or some, of the adverse economic repercussions of 'conditional' project aid by way of 'switching'. A couple of examples can illustrate this concept. It is assumed that a country receives sufficient

1. Viability being determined by the economic and social rate of return, or contribution to national income.

2. Capital imports, as well as local capital costs, depreciation and maintenance charges, and recurrent costs for a specified period.

aid to finance two out of ten complete projects listed in its development plan, and is able to meet out of its own revenue and foreign exchange the full cost of the other eight projects, *as well as* the recurrent costs and import needs to allow *all existing* government projects, services, and private industrial and commercial undertakings to operate at optimum efficiency. In this case no further economic complications arise in using the aid. Supposing, however, that the donor wishes to provide only the *direct import costs* of any projects. In that case, the donor will have to finance the direct import cost of *more than two* projects if an equivalent volume of aid is to be utilised. In so far as this is administratively and technically possible, the economic impact is the same whether two complete projects, or parts of more than two, are externally financed—there are no distortions. The recipient can ‘switch’ some of its revenue and foreign exchange which was allocated for capital goods imports required for the third to tenth projects, and allocate funds to the local costs and indirect import requirements necessary to finance those parts of the first and second projects that are not financed by aid. (Similarly, the recipient can put forward for donor finance those projects which donors find acceptable, and finance out of its own resources those which are not acceptable.) It is clear, from this example, that the scope for ‘switching’ is governed by the relative size of various categories of expenditure. Thus, if the direct import content of all ten projects were smaller than the combined total cost of the first and second projects, complete ‘switching’ would be impossible; some aid would remain unused and one project could not be completed; or the direct import content of all projects would be revised upwards; or part of the aid would have to be provided as programme aid (to cover the indirect import content of some, or all, projects).

In general, there will always be some scope for ‘switching’—and thus for using restricted project aid without creating new problems—but its extent will be limited by both the prevailing situation in the country and the strictness, and number, of conditions applied to project aid. It becomes easier to ‘switch’ project aid the more eligible projects there are available, and the higher their cost and direct import content are in relation to (a) the overall level of new investment, and (b) the revenue and foreign exchange needs for recurrent costs, working capital, and maintenance imports. ‘Switching’ is also easier the smaller the volume of aid is in relation to (a) government revenue plus private and public savings, and (b) net foreign exchange earnings. The more scope there is for ‘switching’, the more the need for programme aid to supplement project aid is reduced.

In many cases programme aid is made necessary because the recurrent and/or the indirect import content of the development plan has been underestimated. Aid for *new* projects does not alleviate the situation. However, if project aid were not restricted, to, say, the direct import content of projects, an increase in the proportion of external finance channelled to on-going projects would be as effective as programme aid.

The important policy implication of all this is that in most countries one cannot rely on project aid alone, unless project aid is shorn of the various conditions which have been listed, or unless the donor has a very limited interest in the recipient country and provides only a small part of that country's total aid. Major aid donors, to be effective, must provide either programme aid, or an appropriate combination of programme and project aid.

The correct mix of programme and project aid has to be determined, not only in accordance with the economic requirements and administrative and technical capacity of the recipient country, but also with an eye to questions of administrative efficiency. Moreover, the correct mix is important from the point of view of controlling and influencing aid use or recipient development policies in general.<sup>1</sup> The nature and smoothness of the donor/recipient aid relationship or partnership is perhaps the single most important factor governing the final choice when the economic impact is similar in the case of both programme and project aid. From the point of view of maximising expenditure supervision, policy influence, administrative efficiency, and technical standards, both project and programme aid have their advantages and disadvantages.

The first (rather obvious) requirement of effective aid is that it is actually spent in a way likely to promote development. Aid funds can be siphoned off into the pockets of officials or politicians (in donor or recipient country), or can be otherwise misused. Donor governments are naturally anxious to prevent this.<sup>2</sup> Project aid offers less scope than programme aid for the cruder forms of misuse of funds. Certainly accounting control and supervision of funds are easier and administratively simpler in the case of a project; one need only check that distributed aid funds are spent on the project for which they were intended. With programme aid, a similar exercise would require the vetting of *all* government accounts. Project aid ensures without extensive vetting that the funds *actually transferred* are used in a specified way. But it cannot go any further.

Similarly, if the aim is to ensure the sensible use of aid (i.e. going beyond mere prevention of outright corruption), the degree of real, as opposed to supposed, control that project aid bestows is relatively small. Aid finance for one project usually means indirect support for some other project as well. If, for example, a recipient country hopes to complete ten projects, and can finance only 80 per cent of the total costs out of its own resources, it will seek aid for the direct content of any five projects (assuming the direct import content of each project is 40 per cent of total costs), and finance the other five entirely with its own resources. Thus, as long as the recipient can find five projects which the donor will help to finance, it is immaterial whether the donor approves of the other five or not. If the aid-giver disapproves, the recipient can get aid for the five which are approved and still complete *all ten*. If control is exercised on a *project basis*,

1. This does not apply in the case of the involvement approach, see below, p. 96.

2. There have, however, been instances of aid being used as an outright bribe.



it is 'ineffective' as long as the donor does not provide a very substantial portion of total investment (or foreign exchange) requirements. In the case of the above example, if aid comes to less than 20 per cent of total requirements, project control is ineffective; it becomes effective only when the aid level rises to around 40 per cent, i.e. when aid finances at least part of the direct import content of *every* project.

Although project aid, in principle, does not offer any clear advantages over programme aid in terms of donor ability to veto 'bad' projects, it does nevertheless allow for more effective quality supervision of projects which are directly aid-financed. Project aid provides a convenient framework within which the donor can provide technical assistance in the design, construction, and operating stages. Modifications may be suggested and accepted. Design, specification, techniques, location, pricing policy, etc. are all subject to influence. The final project may have undergone significant modifications from the original recipient proposal in the light of donor scrutiny. The donor can advise on, and to a certain extent ensure, that complementary activities required for the success of the project are properly carried out, that provisions are made for proper maintenance, and so on. The less experienced the recipient country, the greater is the scope for such suggestions and modifications.

Experience has shown that from the point of view of administrative efficiency and, consequently, the time-lag between aid requests and initial financial disbursements, project aid compares very unfavourably with programme aid. This 'gap' widens as the general aid rules and procedures become more detailed and complex. In the American case, the administrative work (for donor and *recipient*) and time required to clear projects (relatively to programme aid requests) is therefore especially heavy and long. The advantages of project aid from a quality control and technical standpoint decline very rapidly as the general skill and competence of local project planners and administrators rises. The more 'advanced' the recipient, the higher the costs become (in terms of administrative effort and time lost) for a given improvement in quality. Experience has also shown that it often takes almost as long to argue, check, and process a reasonably well-designed project, and correct small faults, as to correct major faults, and almost as long to check that all complementary activities have been taken into consideration, as to detect, organise, and initiate them while the main project proceeds.

The most important 'non-economic' consideration in deciding on the circumstances requiring project aid rather than programme aid, or vice versa, relates to the subject of donor influence on the recipient's general development policies.

The point has already been made that control through project aid is not a very effective means of vetoing 'bad' projects—being a limited form of influence on investment priorities. This argument applies particularly to a situation in which donors do not take a close interest in the recipient's

1. See above, p. 23.



overall *strategy*, and are not prepared to devote all the effort that is required to appraise in detail the recipient's development programme.

Ultimately the degree of overall donor *control and influence* on the recipient depends on the type of relationship and trust that can be created between the two countries, and on the experience, competence, and knowledge of the recipient country's problems on the part of the officials and technicians that the donor can deploy. Given these two factors, the recipient's receptiveness to donor intervention is related both to the volume of aid and to assurances of continuity, though there is of course no precise correlation between acceptance of advice and aid volume and duration. Recipients—if they act rationally—should not, *in principle*, judge the quality of advice solely by the sums with which the donor is prepared to back them. But of course this is exactly what is done—and it is quite reasonable for the recipients to pay more attention to advice which is backed up by considerable material and technical resources from the aid-giver, than to that which is not.

Given a close donor-recipient relationship, strong donor interest and representation, and a sizeable and assured aid flow, the usefulness of project or programme aid (as means of influence) varies according to the type of influence donors wish to exert.

Project aid does have an important 'influence' function (besides ensuring 'quality') which in practice cannot be equalled by programme aid. In many cases, even where there are comprehensive development plans, the means by which sectoral and sub-sectoral targets are to be achieved are not worked out in detail. The plan is framed in terms of aggregates only, and does not contain any (or many) specific projects which are more than 'statements of intent'. The pace at which planned investment aggregates are translated into precise projects is often slow, and project planning lags well behind the required pace of investment expenditure. Where project identification and detailed project preparation are slow, donors can play an important role in accelerating their processes by relieving the recipient of part of the task, or by providing various forms of technical assistance to the recipient's planning organisation or spending departments.

Such help with project identification and preparation can, of course, be provided independently of *project finance*. There is no technical or economic reason why the donors should be directly involved in financing projects they have suggested or prepared. However, it seems logical to follow up such pre-investment operations with actual financial aid. More important, it is a way of ensuring that the preliminary work is not wasted, and that the project does in fact get off the ground. Recipient government departments all round the world are submerged in feasibility and pre-investment studies, memoranda, and out-of-date project blueprints, made by individual advisers or organisations without the means to follow up their proposals with finance. This consideration is most important where the proposed project fails to fire the imagination of the recipient govern-

ment, or when the recipient country department (or ministry) responsible for its promotion and implementation carries little weight within the local administration.

Donor influence on the recipient's development policies of a more general nature needs to be considered separately for each of two distinct situations. The first is where the donor/recipient relationship is close, but the donor remains an outsider to the recipient's policy planning mechanism. Influence and advice are rather indirect, and often take the form of corrective action to balance out recipient decisions already taken. This situation must be contrasted to one in which the donor has gained access (so to speak) to the policy planning machine, and influence and control are of a more direct nature, exerted at an earlier stage of the recipient's policy formulation.

In the former case donor influence is exerted through the provision of project aid (in the way described) and by argument and persuasion on general policies, backed up, in some cases, by attaching some form of performance or 'self-help' strings, or, in others, by offering extra aid as an inducement to certain specific recipient policy measures. The nature and use of performance strings and inducements has already been discussed in Chapters 2 and 4. The main concern at this point is whether influence on general policy can be exerted by attaching conditions with countrywide ramifications to single projects. In most cases a decision has to be taken on the grounds of tactics and convenience; in some cases, however, the decision has to go against such attempts.

As a general rule, the path of least resistance to influence will normally be the one which involves the least number of adjustments by the recipient of arrangements already made. Thus, wherever a recipient's development policy is reasonably well worked out, attempts to influence changes in this policy should aim to minimise the *number* of changes required to meet a given objective. An example should make this concept clearer. Supposing a particular recipient country has an acute foreign exchange shortage and maintains a tight system of import controls and licences. This is believed to be the source of many inefficiencies, delays, and resource misallocations; but it is not possible for the recipient to discontinue the control system unless additional foreign exchange is provided under aid. The donor may agree to provide such additional foreign exchange in return for discontinuation of import controls (i.e. *not* for additional *new* investment). This can be done in two ways. The donor can finance more projects; more of the recipient's own resources are thereby freed to meet the additional import demand consequent on import liberalisation. Alternatively, the donor can provide additional programme aid. The second course is the more direct one—it involves fewer readjustments for the recipient, is much quicker (since project negotiations are usually involved and long), and places less of a burden on the administrative machines of both donor and recipient. If the recipient was in any case reluctant to take the donor's advice (even though additional foreign

exchange was offered as an 'incentive'), tactics dictate choosing the path of least adjustment.

Another example shows a situation in which the aid-giver finds himself in a somewhat paradoxical situation if he opts for project finance. Supposing that the recipient has overemphasised (in the donor's view) industrial at the expense of agricultural investment. The object of policy influence would be to redress this imbalance. As an inducement to change, the donor may offer additional aid for *agriculture*. But since projects in agriculture have a very low direct import component, there is a limit to the amount of capital aid for direct imports that can be absorbed in that sector. The donor can therefore finance the local costs of agricultural projects, or provide programme aid as an alternative (if the former is ruled out). The alternative to either of these solutions is to provide more project aid for industry and the development of the infrastructure, subject to the proviso that the recipient's own funds released from these sectors should be earmarked for the local cost expenditure of agricultural projects. This form of pressure on the recipient authorities to get them to pay more attention to agriculture is, to say the least, bizarre; it is also easily misunderstood and misinterpreted in the recipient country, in other developing countries, and, not unimportant, among those in the donor country who legislate and authorise aid.

In the case of more direct donor participation in the recipient's development planning and policy-making, decisions on project or programme aid can be taken on grounds of administrative convenience and speed. The question of which influence and persuasion techniques to use (in the sense described) arises only when donors want (a) to correct certain policy decisions already taken, or (b) to persuade a country to take policy steps of the wisdom of which the government is not convinced. Once the recipient government has admitted the donor to its policy deliberations—at an early stage in the process—the soundness and persuasiveness of donor arguments and the overall level (and assurance of continuity) of aid will completely overshadow other factors.

This is the situation when the donor bases policies on the 'involvement' approach.<sup>1</sup> Since the donor does not set out to influence and control recipient policies, but wishes to stimulate debate and continuing policy reviews and reappraisals, the decision on the choice of programme or project aid can be taken on economic and technical grounds, in a way that is most appropriate for administrative simplicity, and ensures that aid is disbursed at the time it is required.

## American procedures in Tunisia

### Programme aid

The USA now makes available three basic types of programme aid. These

1. See Chapter 1, especially p. 25-27.

are: commodity imports under the legislative categories 'Supporting Assistance' and 'Contingency Fund'; Development Loans (non-project) for specified essential imports; agricultural commodities, under Titles I and IV of PL 480.

The previous section analysed some general repercussions of programme aid on donor expenditure control, administrative efficiency in aid, and donor influence on development policies, as well as its economic effects on the recipient. It also showed the interrelationship between programme and project aid. In Tunisia, more specifically, programme aid has been used for six reasons. First, the USA, having started with general budgetary aid, found on discontinuing it that it was not practical to change over to complete project aid. Thus non-project development loans replaced budgetary assistance in 1962. Second, programme aid has been used to mitigate a shortfall of foreign exchange (and its accompanying inflationary pressures) resulting from Tunisian over-expenditure on new investment projects, and, to a lesser extent, on government recurrent account. Third, it has been used to distribute aid quickly and thus partly compensate for the slow rate of project aid requests and processing. Fourth, programme aid was found to be more appropriate than project aid as an incentive to obtain Tunisian co-operation on various internal economic reforms. Fifth, surplus agricultural products were made available, partly to meet an emergency in 1962, partly also for the second and third reasons above. And sixth, programme aid has been found to be a useful instrument for making a contribution to the more efficient functioning of private industrial, commercial, and agricultural enterprises (including small- and medium-sized enterprises).

Programme assistance provides both specific commodities and government local revenue in so far as these commodities are not used in the public sector but sold to the private sector. When the commodities are destined for use in the public sector, the central purchasing agency of the Tunisian Government obtains them from US suppliers through open bidding. When the commodities are destined for the private sector, the Tunisian Government's purchasing agency can authorise imports by allocating import licences to established importers in proportion to their share of trade in the commodities in question in previous years. It then collects from local purchasers the local currency equivalent of the selling price. In some cases commodities are sold by the Government to the suppliers at a subsidised price; this is necessary where the importer would have been able to buy more cheaply on normal commercial terms outside the USA, assuming foreign exchange availability. The local currency that accrues to the Tunisian Government (called countervalue funds) is available for capital budget expenditures or transfer to development banks upon specific American concurrence. Thus programme aid provides an adequate method of financing local cost when aid is formally tied to donor procurement. Countervalue funds, and counterpart funds (local currency proceeds from sales of US food aid) together amounted to 20m

dinars in 1967, or 40 per cent of the Tunisian capital budget. The entire amount was allocated to uses agreed between the two Governments; these funds were therefore used as an instrument of project control. Although some mission officials believe that project control through counterpart funds is useful, others are not so sure. A number of complications have to be resolved if the procedure is to be used effectively, and it is not really clear whether they have been resolved in Tunisia. If there is to be detailed agreement on the use of countervalue or counterpart funds *before* programme aid is disbursed, and if agreement cannot be reached, then the flexibility which is such a virtue of programme aid can be completely lost. If prior agreement on use is of a general nature, then the element of donor control is lessened. If negotiations on specific use drag on after the release of programme aid, the whole operation is jeopardised. Unless agreement is reached before negotiations start on the next round of programme aid, AID is faced with a difficult choice. It can make a stand and make new aid conditional on a satisfactory agreement on the use of old counterpart funds, or it can ignore unreleased counterpart funds. In the latter case the desired control is relinquished. In any case once counterpart funds begin accumulating, to release them after a long time-lag for any purpose is likely to produce inflationary pressures.

Not all commodities are eligible for finance under programme aid. Among those excluded are those of which the USA is a net importer, military equipment, and most items of consumption. It is now normal practice to negotiate the actual commodities, or end-uses of groups of commodities, for which programme aid is made available. This means that some flexibility is lost, and that the recipient is not always given the opportunity of using tied American aid for those American commodities which are competitive in world markets. The purchasing power of the aid which is utilised therefore depends to some extent on the Tunisian authorities' skill as negotiators, and their knowledge of world market conditions, as well as the proportion of other (free) foreign exchange that can be allocated for purchases in third markets of those commodities which the USA cannot supply competitively. Even so, an important attribute of programme aid is that the list of eligible commodities includes such things as replacements and spare parts, semi-processed goods and components, fuels (except crude oil<sup>1</sup>), raw materials, etc.—i.e. items needed for production, maintenance, and utilisation of existing capacity, rather than for expanding investment.

### **Project aid**

The USA makes available project aid under four heads. They are: Technical Co-operation and Development Grants, Development Loans, Export-Import Bank loans, and PL 480 projects (commodity grants under Title II, and grants and loans from counterpart funds derived from Title I sales against local currencies).

1. Which Tunisia now exports in any case.



Shipments under PL 480 are largely in the form of programme aid. Some agricultural commodities are, however, linked to specific projects, some of them managed by private American (or sometimes international) voluntary agencies, some by the recipient government. The most important projects in Tunisia utilising surplus commodity aid, such as the LCSD, have already been mentioned.<sup>1</sup>

Development Grants and Loans and Ex-Im Bank loans together provide funds for a great range and diversity of projects, from large to very small, capital and technical, private and public, covering practically all sectors and financing foreign exchange needs, equipment, construction, commodities, services, expertise, and training. The American approach to project aid is thorough, and in many cases highly original. Unfortunately, side by side with these attributes there are less positive features. Project aid is particularly subject to restricting regulations, highly complex legislative and administrative controls, and screening and selection procedures that are usually tortuous and painfully slow.

The guiding principles of project assistance can most easily be set out by referring to the *AID Program Guidance Manual*. This shows clearly the wide scope and thoroughness of the approach to project aid, as well as the difficulties that are built in to the present system and procedures.

"The fundamental principle guiding use of the Development Loan Fund is that it shall be so utilized as most effectively to promote long-range economic and social growth. . . the legislation authorizes development loans for economic development "with emphasis on assisting long-range plans and programs designed to develop economic resources and increase productive capacities."

"Development loans are available for high priority capital projects which either are directly revenue producing or are important to the economic infrastructure of a country. Such projects would include the establishment or expansion of manufacturing facilities, development banks, irrigation, power, multipurpose water resource development, mining, ports, transportation and communication facilities, fisheries, grain storage, etc.

"Development loan funds are available for programs and projects designed to promote social as well as economic development including schools, hospitals, housing and similar capital projects plus social [projects] in areas such as adult education, public health, or community development. The Conference Report<sup>2</sup> on the Foreign Assistance Act of 1961 points out that "economic development" embraces social as well as economic aspects of economic development. Proposals in social development must meet technical and country participation (self-help) standards comparable to those for economic development proposals and must also be in response to fundamental high priority needs of the country and make an important contribution to long-term growth. . . .

1. See p. 78.

2. The report of the committee which resolves differences between the two legislative chambers of the Congress.



'Loans are available to finance engineering and feasibility studies and other project surveys. Their use for this purpose should be considered wherever such use meets general development lending criteria and is helpful in assuring adequate technical standards in preparing a loan proposal. Authority also exists to support surveys for private investment. A high priority capital project may call for technical assistance not only in project planning, surveying and feasibility studies, but also in training of key personnel. Such assistance may be provided from other appropriations categories but it will be best to fund any necessary training for the establishment and initial operations of a loan-aided facility from the loan itself. In all cases the loan application must demonstrate that adequate provision has been made for training where necessary. Capital project loans should provide for training and management assistance to the point where host country personnel can operate a facility with reasonable efficiency.

'Development loan funds are available to private enterprises as well as to government or quasi-government organizations. Development loans should be used, to the extent practicable, to support undertakings which promote development or private enterprise in the borrowing country. Loans to intermediate credit institutions for relending to the private sector and for the development of suitable types of cooperatives will be strongly supported. Joint ventures between private investors or investors from third countries are also to be encouraged. Missions are expected to play an active role in helping private borrowers shape proposals to meet high priority needs. Missions will be requested to evaluate in terms of development priorities those proposals which come directly to AID from private U.S. sources. Where the host government disapproves of a proposed loan to a non-governmental borrower, AID will give great but not controlling weight to that fact. . . .

'For the United States, one sensitive problem in our aid program has been that of assisting state enterprise. We know that a government which avowedly aims to centralize all major productive activities can become prey to approaches inconsistent with free and open societies. However, this does not mean that the United States should stifle all governmental production in countries receiving our assistance, even in some fields where in our own country it is agreed that private initiative works well. The question is whether, in a given country, the measures taken are sensible from the viewpoint of economic growth and are consistent with efforts to create a viable free political and social system. There is no rigid set of rules applicable to all countries over the world. . . .

'Development Loans for any of the above purposes may be made only where there are reasonable prospects of repayment. The following additional criteria are to be taken into account and apply to all borrowers, governmental, quasi-governmental or private:

- (a) Whether financing could be obtained in whole or in part from other free world sources on reasonable terms. Missions should,

when feasible, determine from information and representatives available locally whether specific proposals might be financed by non-U.S. sources. . . . Applicants are expected to explore the possibility of private investment; missions should assist in this effort and request AID assistance in ascertaining whether private U.S. firms are interested. In judging whether alternative financing is available on reasonable terms, consideration should be given to the nature of the project, the interest of other potential lenders in providing loans to the country, the criteria applied and terms offered by other lending institutions and governments and the repayment capacity of the country.

- (b) The economic and technical soundness of the activity to be financed. This criterion requires a comprehensive analysis by competent economic, engineering, financial and other specialists as regards the economic and technical feasibility and soundness of each loan proposal, including the completion of plans and cost estimates. . . .
- (c) Whether the activity gives reasonable promise of contributing to the development of economic resources or to the increase of productive capacities. (The legislative history indicates that this provision is meant to include loans for social development projects and programs.)
- (d) The consistency of the activity with, and its relationship to, other development activities being undertaken or planned, and its contribution to realizable long-range objectives. This criterion reemphasizes the policy that activities financed by development loans be assessed not as ends-in-themselves but within the context of their contribution to high priority objectives in the total long-range development effort of the recipient country.
- (e) The extent to which the recipient country is showing a responsiveness to the vital economic, political and social concerns of its people and demonstrating a clear determination to take effective self-help measures. . . .
- (f) The possible effects of the loan upon the United States economy with special reference to balance of payments and areas of substantial labor surplus. This evaluation will be made by AID on the basis of data to be submitted by the applicant. . . . AID is interested in evaluating potential beneficial effects as well as those which may be adverse. The assessment of possible adverse effects will include an examination of the market for exports produced by the facility to be constructed, both in the United States, and elsewhere, particularly where such exports will affect a major part of the market of U.S. exporting firms. Loans for productive enterprises competing in the U.S. market are prohibited by . . . the Act unless the country agrees to limit the enterprise's exports to the U.S. to 20% of the annual produc-

tion of the facility for the life of the loan. This prohibition may be waived by the President where it is in the national security interest to do so. . . .

'Development Grants are to be used to assist (projects) which: (i) improve the educational, technical, vocational and professional skills and abilities of the people; (ii) directly improve the lot of peoples in areas of major concern to them, such as health, housing and diet; (iii) improve and expand those institutional structures and practices which contribute to economic, social, and political development and social justice; (iv) determine, through surveys, research and analysis, the indigenous human and material resource base available for economic and social development; and (v) formulate comprehensive, long-range plans of economic and social development.

'In carrying out such purposes development grants can be used for the construction of physical facilities required for the development of human resources, and, in exceptional cases, for other basic facilities which are vitally required for growth. . . .

'Development grants normally may not be used where development loans would be more appropriate. For example, development grants would not be used to finance capital projects which directly earn foreign exchange. They normally would not be used to finance self-liquidating capital projects. Development grants would not be used for balance of payments or budgetary support and the like. Finally, the fact that a project has social or human resource benefits does not preclude it from loan financing where the host country has the capacity to service a loan.

'The Foreign Assistance Act of 1961 states that Development Grants are to be used to promote economic development, with emphasis upon the development of human resources through such means as programs of technical cooperation and development. In providing Development Grant assistance, the following legislative criteria must be taken into account:

- (a) Whether the activity gives reasonable promise of contributing to the development of educational and other institutions and programs directed toward social progress;
- (b) The consistency of the activity with, and its relationship to other development activities being undertaken or planned, and its contribution to realizable long-range development objectives;
- (c) The economic and technical soundness of the activity to be financed;
- (d) The extent to which the recipient country is showing a responsiveness to the vital economic, political and social concerns of its people, and demonstrating a clear determination to take effective self-help measures and a willingness to pay a fair share of the cost of [projects] under this title;
- (e) The possible adverse effects upon the United States economy, with

special reference to areas of substantial labor surplus, of the assistance involved; and

- (f) The desirability of safeguarding the international balance of payments position of the United States.

'In addition to the legislative criteria outlined above, there are additional considerations which elaborate or go beyond the legislative criteria above and should be taken into account. The questions below reflect much of the underlying philosophy of the Act for International Development. . . . While they apply to all U.S. assistance funds they have particular relevance to Development Grants.

- (a) Does the activity address a high priority goal in the country's own development plan or program? . . .
- (b) What is the relationship of the proposed activity to other projects or programs? Does it have a significant multiplier effect in relationship to other development activities? Does it remove serious obstacles to development in related fields or sectors? Does it induce development in associated fields or sectors? Is it dependent upon prior, concurrent or future developments in other fields or sectors?
- (c) Does the pattern of our assistance induce the recipient government to concentrate its own resources on the highest priority goals, or does it divert relatively scarce local resources (both material and human) into lower priority activities? Have the long-range as well as the immediate resource requirements been fully assessed?
- (d) Does assistance provided by the U.S. duplicate or compete with aid which is being or could be provided by friendly non-U.S. sources such as the U.N., IBRD, and other non-Bloc programs? Are there particular types of assistance which these sources—because of greater political acceptability, the availability of personnel with more relevant experience, or other reasons—can provide better than the United States?
- (e) Does the form or magnitude of our assistance promote the gradual acceptance of greater responsibility by the host government, a condition necessary for phasing out U.S. assistance within a reasonable period of time? Are activities for which the U.S. has provided assistance for five years or more achieving significant results in this regard? If not what changes should be made to bring about the desired results? Should we withdraw or intensify our assistance?
- (f) Is the host government making a contribution to joint activities, including personnel, financing and other resources, which is commensurate with its capabilities? If not, why and what should be done to improve the situation? Does this indicate a lack of interest in the assistance being provided? Should U.S. assistance be continued under these circumstances?
- (g) Are the total resources, both local and external, being applied

to a critical activity below the "threshold level," i.e., that level of input required to achieve significant results? If such is the case, would it be desirable to concentrate more resources in this activity, if necessary by reducing or eliminating the input in other worthwhile but less important activities?

- (h) Is the host government taking other steps, such as the passage of required legislation or the creation or improvement of administrative units or operating procedures or training of personnel necessary to continuance of the activity, required for the successful implementation of joint activities?

'A major focus of activities to be supported by Development Grant assistance should be on the development of human resources, particularly through education and training. This is reflected in . . . the Act for International Development of 1961 and in the following statement of the House Committee on Foreign Affairs dated June 7, 1962. "The committee approves the redirection of the development grant program and encourages the continued concentration of these funds on high priority educational and training activities."

"To make their fullest impact on economics and social development, educational and training [projects] should be directed beyond the development of individual or collective skills to the creation and improvement of indigenous institutions essential to modern society. These would include the development of education systems, government structures, banking and credit systems, etc.

' . . . the 1961 Act for International Development emphasize[s] the importance of assistance to rural development in countries having a predominantly agrarian economy. In addition to the above, the House Committee on Foreign Affairs suggested in its report of the Foreign Assistance Act, that [the Act] be amended to include the following statement: "In such country emphasis shall be placed also upon the programs of community development which will promote stable and responsible government institutions at the local level."'<sup>1</sup>

These extracts show sufficiently clearly the framework within which American project aid is made available. Before concluding this section, however, some remarks must be added on one particularly important and useful feature of American project aid.

Although some formal separation is maintained between technical and capital assistance in American programmes, unlike their British counterparts, the two forms of aid are remarkably closely integrated at the project or sub-sectoral levels. Although there are numerous technical assistance projects which stand on their own, the vast majority of these are, at least indirectly, linked to other, larger, projects—financed either by the USA or by the recipient government. Many are, moreover, 'satellite' projects arising from capital assistance projects—such as feasibility studies, training schemes, research and experimentation, quality and product control, and

1. *AID Program Guidance Manual*, Section on Assistance Instruments (M.O. No. 1012).



market surveys. Capital projects are usually formally linked with 'technical assistance sub-projects'. Alternatively, financial and technical aid are completely integrated within one all-embracing project.<sup>1</sup> This is a particularly useful device. It does much to ensure technical and economic feasibility, as well as smooth operation, at least in the initial years after the construction of the project is completed.

## Procurement tying and terms of aid

Up to the late 1950s American aid (other than aid in kind) was virtually free of procurement tying. Since then the position has altered rapidly; the present rule is almost complete tying. Dollars are ordinarily not available for local costs, and expenditure on imports by the recipient from other developing countries is permitted in only a few special cases. Both project and programme aid are procurement tied. Some non-project aid, which by its nature cannot easily be tied, is subject to various rules and procedures by which an attempt is made to offset the foreign exchange cost to the USA. Here some form of indirect procurement 'tying' is substituted for direct tying. Practically the only dollar expenditures not subject to tying arrangements are the salaries paid to technical assistance personnel; even so, US personnel are vigorously encouraged to save, or to spend their salaries on goods imported from the USA.

Attempts are made to offset the disadvantages of tying, when possible; local cost finance, for example, is made available through the medium of PL 480 and programme aid counterpart funds, as described earlier. All the complications and disadvantages of procurement tying, however, cannot be, or are not, removed or effectively compensated. As the problems arising from this are generally well known, no further comment on them is necessary.

The financial terms of American aid are relatively liberal. Between 1962 and 1966 (US fiscal years) the ratio of AID grants to loans was roughly 45:55. The equivalent ratio in the case of other categories of US aid, which together amounted to a little more than all direct AID assistance, was 75:25. The two equivalent ratios for Tunisia were 15:85 and 95:5. In Tunisia, AID assistance made up only 45 per cent of total US aid, as opposed to 55 per cent for all countries; thus the overall ratio of grants or grant-like contributions to loans was roughly in line with that for all countries.<sup>2</sup>

The terms of loan vary according to both the category of loan and the recipient country. Development Loans, which are repayable in dollars, are normally for 40 years at  $2\frac{1}{2}$  per cent interest (with a ten-year grace

1. For an example see Appendix C.  
2. For detailed figures see Appendix B.

period during which interest is paid at a rate of 1 per cent). Some are for shorter periods (minimum of 25 years) and at higher interest rates. Export-Import Bank loans vary in length, with a maximum of 15 years, and the interest rate chargeable is in line with the US Treasury borrowing rate for equivalent periods. PL 480 Title IV loans (agricultural commodities supplied against dollar obligations) are for 20 years, at  $2\frac{1}{2}$  per cent interest (with a grace period of two years during which the interest rate is 1 per cent).

The financial terms are generally geared to the stage of economic development of a particular recipient country, and its debt-servicing potential. The bulk of Development Loans were originally intended to carry only a service charge of  $\frac{3}{4}$  of 1 per cent; this was in line with AID estimates of the debt-servicing capacity of most recipients. Recently, however, Congressional action forced up the standard rate to  $2\frac{1}{2}$  per cent, against AID advice.

When loans are made to private borrowers or public directly revenue-earning projects, AID uses a 'two-step' loan procedure. In this way, the loan terms to the actual recipient *enterprise* can be hardened to approximate to ordinary internal commercial terms, while at the same time keeping low the foreign exchange cost of servicing the loan for the country as a whole. The enterprise repays the loan to its government in local currency on 'hard' terms, while the government repays AID on the softer terms, but in dollars. The surplus in local currency, i.e. the difference in the government's borrowing and re-lending rates, accrues to the recipient government.

Recently Congress has introduced further measures which will harden the overall terms of US aid. In future, an increasing share of PL 480 aid will be sold against repayment in dollars. This means that PL 480 will move from essentially grant form to loan form. This process is to be completed by 1971.<sup>1</sup>

At the moment, despite the hardening of Development Loan terms and the new measures affecting PL 480, US aid terms still compare reasonably well with those of other donors. In the case of Tunisia, only IDA loans are made available on softer terms. Even so, neither the USA nor other donors can make out a convincing case for giving a large proportion of their aid in the form of loans. In most cases grants would be more appropriate.

1. The shift in PL 480 loan terms seems to be aimed at securing increased recipient emphasis on food production, which was felt to be lacking previously when American foodstuffs were viewed as 'free goods' available to meet deficiencies. This shift no doubt seemed sensible to large sections of the Congress; but ways and means to achieve the US objective could have been found without complicating the already serious debt burden of a large number of recipients.

# Postscript

There are significant divergences in the approach to aid-giving among the various donors. These divergences were analysed in Chapter 1. It was argued that some of these approaches stand a better chance than others of making a worthwhile, long-term contribution to development. It was also argued that none of the present approaches have yet led to the sort of aid relationship between donor and recipient that would offer the best chance of exploiting the full range of services that a developed country can offer as its contribution to the economic and social development of a poor country. The next step in the chapter, therefore, was to show what such a relationship might look like. The proposed relationship is based on the involvement approach to aid-giving, an approach which envisages the donor taking part as an intimate and active partner in the recipient's debate on development policies and performing a wide range of services to further the development process. In subsequent chapters a number of specific aid policy issues of particular significance to the involvement approach were examined in the light of current practices and policies—especially American policy in Tunisia. The aim has been to show how a number of key issues are handled today and how administrative mechanisms, and decisions on country, sector, and project allocation, and on forms of aid, would have to be adapted to help make possible the preparation and implementation of a series of country strategies based on the involvement approach.

In conclusion a number of observations may be made on the future of British aid policy arising from the foregoing discussion.

The primary objective of British aid policy is to promote long-term development in concert with other donors and in partnership with recipients. In implementing this policy, the Government has been guided by two basic principles. The first of these is that the initiative should come from the recipient. The second is that Britain, while keeping an eye on how aid is used, should emphasise non-intervention in the recipient's internal affairs. In the past two years these principles have been somewhat modified; the Ministry of Overseas Development has strengthened its overseas representation, it is willing to help recipients to identify and plan aid projects to a greater extent than before, and it is prepared to take part in the 'supervision' of recipient performance and general policies within the framework of multilateral aid mechanisms. In spite of these shifts in attitude, the British programme is still most appropriately included in the passive, limited influence, country by country approach category described in Chapter 1.

But Britain could, if it is wished, make itself the pioneer of a true involvement approach to aid-giving. It is particularly well placed to take such an

initiative. Britain is an important donor for many developing countries all over the world; for some it is the most important. It is a member of all existing World Bank and OECD consortia and consultative groups. It has had, and continues to have, intimate contacts with many developing countries, and possesses an accumulated store of experience and knowledge and a chain of established institutions and bodies interested in a wide range of practical development problems. Britain has relinquished its empire, and is giving up its military presence overseas—actions which will, in time, make it much easier to avoid the political complications which stand in the way of an intimate aid relationship. British aid procedures are simple and flexible, free of intricate and restricting legislative regulations and requirements and dogmatic development philosophies. Finally there is no immediate prospect of Britain producing the sort of massive and vocal anti-aid, anti-developing countries lobby that is rapidly gaining strength in the USA and several other developed countries.

Britain should now take two specific steps towards an aid relationship based on involvement. As a first step it should re-examine its policies towards African countries. In preparation for a more active form of participation in the development process of these countries, appropriate mechanisms should be built up and aid representation strengthened; two regional organisations on the lines of the Middle East Development Division, covering East and West Africa, should be set up. Technical assistance personnel already supplied by Britain to these areas should not be used as an excuse for not taking the additional measures; the main objectives envisaged for the Development Division—to liaise between donor and recipient and to provide the framework for the aid dialogue—fall outside the scope of current technical assistance. The second step should be to strengthen Britain's participation in the multilateral mechanism to which it already belongs. What is particularly needed is a more vigorous intellectual contribution to policy formulation within these mechanisms; all the running should not be left to the World Bank and the United States. In consortia and consultative groups Britain should put its weight behind those who seek to establish a genuine, two-way dialogue between donors and recipients; these mechanisms must not be allowed to degenerate into propagators and guardians of the conventional wisdom of the West.

# Appendix A: The Tunisian Economy

## Basic Data (1966)

Population:	4.8m, growing by 2.5% per year.
Area:	48,000 sq. miles, two-thirds of which can be used for agriculture and grazing.
Climate:	Annual range in monthly mean temperature: 41°–77°F (north), 50°–86°F (south).
Currency:	1 Dinar—\$1.905 or £0.158d.
Income per head:	\$200.
Literacy:	25–35% of total population.
School enrolment:	18% of total population.
Date of independence:	20 March 1956.

## Major Characteristics

The sharp contrast between the traditional and modern sectors evident in most developing countries is also a leading characteristic of the Tunisian economy. Almost three-quarters of the population, engaged in low-yielding agriculture and handicrafts, make up the traditional sector. This is largely a subsistence, non-money sector, plagued by a high rate of unemployment and underemployment. Over half of rural incomes are less than \$50, compared to the average GDP per head of \$200 for the country as a whole in 1966. The modern sector, which is primarily in the northern and coastal areas and includes the principal cities, consists of the remaining European community and those Tunisians engaged in large-scale farming, mining, industry, building construction, and commerce and trade. It contains most of the infrastructure of the country, developed with French capital and entrepreneurship. Economic growth has been almost exclusively restricted to this sector, creating a disequilibrium which Tunisia's development plans seek to correct.

Foreign trade is one important element affecting the development of the economy. Imports comprise about 30% of total available resources and exports nearly 20% of the GDP. France still accounts for over one-third of Tunisia's exports and imports. Although exports consist predominantly of agricultural and mineral products, Tunisia is reasonably fortunate in not having to rely exclusively on one or two products. In 1960 its four main exports (olive oil, wine, phosphates, and cereals) accounted for just over 50% of total visible exports. The importance of wine and cereals has declined, largely as a result of changes in French price support policy (see below). The prospects for olive oil exports are uncertain; much will depend on the sort of arrangements that Tunisia will be able to make with the EEC. Prospects for phosphates, however, are good; the same applies to the expanding fruit and vegetable sector, and to the latest export product—



crude oil. Tourism, which brought in \$8.5m in foreign exchange in 1963, is likely to be an important source of funds in the future. In 1968 the number of visitors is expected to reach at least 200,000, or more than double the 1963 rate. Raw materials, semi-finished products, and capital equipment account for about 50% of current imports. The single most important item is machinery.

Tunisia's infrastructure, i.e. roads, ports, utilities, railways, communications, etc., compared with that of other African countries, is well developed and efficiently maintained.

### **Ten-Year Perspective Plan**

The Perspective Plan lays down the broad lines of policy for 1962-71. The introduction to the Perspective states that it is not based on any ideology but reflects the personality of the Tunisian people and the social and economic imperatives of the country. It also embodies the Tunisian type of socialism, which aims at the triumph of co-operation and the collective effort. However, the introduction goes on to say that a basic objective is the promotion of the individual and that the Plan is not to be regarded as a decree but rather as a flexible and responsive instrument to meet the needs of the people. The Perspective reviews the development of the Tunisian economy since independence and lists the chief obstacles to growth: meagre national resources, lack of sufficiently trained personnel, lack of investment capital, disequilibrium or non-integration between the modern and traditional sectors, and Tunisia's overdependence on foreign trade.

The major policy objectives laid down in the Perspective are:

- (a) 'decolonisation' and integration of the modern and traditional sectors;
- (b) an average growth rate of 6% p.a. and a minimum income per head of \$120 by the end of the Plan period;
- (c) increased internal savings (from 8 to 26% of GDP), and the phasing out of foreign aid;
- (d) longer life expectancy and vastly improved education (including universal primary school enrolment).

### **Objectives of the Three-Year and Four-Year Plans**

The accent in the first (Three-Year) Plan was on 'decolonisation' and the establishment of new economic, social, and administrative structures designed to facilitate the implementation of future development plans.

'Decolonisation', or 'Tunisification', which means the removal of any remaining economic privilege or concessions granted during the Protectorate, was to be accomplished by the repurchase of foreign-owned agricultural lands, the re-direction of trade away from France, the diversification of agriculture away from the duoculture of wheat and wine, the expansion of manufacturing, and the rehabilitation of handicrafts.

At the time of independence commercial agriculture was predominantly in the hands of expatriates, especially French settlers or companies based in France. These 'colon' lands were used largely for wine and cereal production, which was almost exclusively geared to the French market. The products entered France on preferential terms; in fact, they benefited from the support price then paid to producers within metropolitan France. France and Tunisia agreed that after independence 'colon' lands should be gradually returned to Tunisian ownership. On transfer of ownership, Tunisian policy was to change the pattern of cultivation away from cereals and wine, and to expand the cultivation of olives, vegetables, and fruits. The preferential arrangements for cereal and wine exports continued in a modified form, until 1964, when Tunisia expropriated lands still in 'colon' hands. This measure led to the cancellation of the preferential arrangements, and as a result Tunisia lost its one important outlet for wine. A new deal on wine has now been concluded, but the policy of diversifying away from wine continues. The land taken over from the 'colons' is now being administered in three different ways: some of it has gone to state farms, some is being put under co-operative cultivation, and some is being rented to individual farmers or private commercial concerns.

The objectives of the second (Four-Year) Plan are industrialisation and the continued modernisation of agriculture within the framework of the structural reforms already completed. Priority is given to directly productive investments leading to a rapid increase in the National Product.

Having taken into account the effort already made in previous years to improve the infrastructure and train the administrators and technicians needed for development, the Four-Year Plan gives priority to investments in the productive sectors. In quantitative terms, the Four-Year Plan calls for a growth rate of 6.5% per year in GDP, a rate slightly above that projected in the Ten-Year Perspective and the Three-Year Plan. This should lead to a GDP of 539.5m dinars in 1968 against 335.3m dinars in 1960.

The increase in value added and projected growth rates by sector are shown in Table I.

In order to attain this projected increase, the Four-Year Plan envisages net investment of 380m dinars at 1960 prices, i.e., 455m dinars at current prices. The planned growth rate in investment is 4.3% per year for the period 1964-68 (it was 11.7% per year for the period 1960-64). Thus, for the same growth rate of GDP, the Four-Year Plan has projected more productive investments than the Three-Year Plan. The reduction in the investment growth rate reflects a more selective choice of investments and the fact that Three-Year Plan investments have strained the balance of payments and government finances because of their large size and a shortfall in foreign aid.

The Four-Year Plan envisages a growth rate of 3.9% per year for private consumption, i.e., an increase in per head consumption of 1.7% per year. Total consumption is expected to reach 349.4m dinars in 1968 against 257.3m dinars in 1960 (at constant 1960 prices).

**Table I Projected growth and composition of GDP 1960-1968**

	Value added 1960                  1968 (m dinars)		Average annual growth rates %
Agriculture	74.0	92.4	2.8
Extractive industries	5.8	10.9	7.7
Energy	5.9	17.6	14.5
Manufacturing industry	40.2	69.2	7.0
Buildings and public works	15.2	30.3	9.0
Transportation, commerce, services	102.6	168.0	6.4
<b>Total value added at factor cost</b>	<b>243.7</b>	<b>388.3</b>	<b>6.0</b>
Indirect taxes net of subsidies	46.5	84.0	7.7
Salaries of civil servants	45.1	67.2	5.1
<b>Total GDP</b>	<b>335.3</b>	<b>539.5</b>	<b>6.5</b>

**Table II Investment planned under the Four-Year Plan**

Sector	(m dinars)
Industry, energy, tourism	151.0
Agriculture	150.5
Transportation and telecommunications	55.0
Infrastructure	55.0
Training	43.5
<b>Total</b>	<b>455.0</b>

As for domestic savings, the Plan envisages an increase from 50·4m dinars in 1964 to 88·3m dinars in 1968, i.e., an increase of 75·7%, as against an increase of 150% between 1960 and 1964. Domestic saving is expected to rise to 99·4m dinars in 1968 at current prices, as against estimated investment needs for the same year of 133m dinars.

Finally, the foreign account is expected to show a noticeable improvement in exports, and a slight increase in imports. Exports, it is hoped, will reach a value of 91m dinars in 1968 (in constant 1960 prices) instead of only 54m dinars in 1960, i.e., an increase of 6% per year. Imports are planned to rise to only 113m dinars in 1968 (at constant 1960 prices) from the level of 85m dinars in 1960, i.e., an increase of 3·7% per year. Transfer transactions, favourable to Tunisia, are expected to cut the current deficit still further. These transfers, which include remittances from workers abroad and investment income as well as expenditures of governments, should provide Tunisia with gross receipts of 16m dinars as against gross outlays of 9m dinars, leaving a surplus of 7m dinars (at constant 1960 prices). Taking into account amortisation and interest on foreign loans, estimated at 9·1m dinars (at constant 1960 prices), the balance of payment deficit in 1968 is likely to amount to 23·9m dinars. This slight improvement in the balance of payments reflects a more selective choice of investments and the priority given to the development of the productive sectors which supply exportable products.

To finance the investment programme laid down in the Four-Year Plan, the Tunisian Government expects to mobilise domestic resources to the value of 280m dinars. Thus the Plan provides that domestic savings should bear the major share of the financing burden. Nevertheless, its implementation depends on a substantial aid contribution (175m dinars).

## Appendix B: Aid Figures

**Table III Financial aid to Tunisia 1962-1965**

Commitments (\$m)	
United States	196.2
France	29.6 <sup>1</sup>
Kuwait	28.0
West Germany	20.0
Italy	10.0
IBRD	7.0
IDA	5.0
Denmark	1.5
Netherlands	1.4
Sweden	1.2
Russia	33.0
Poland	10.0
Czechoslovakia	10.0
Yugoslavia	15.0
<hr/>	
<b>Total</b>	<b>367.9</b>
<hr/>	

<sup>1</sup> French financial aid was made available once again in 1963 after an interval of several years, and suspended again soon thereafter.

**Source:** AID Mission, Tunis.



**Table IVa American aid commitments to Tunisia 1957-1967<sup>1</sup>**

	(\$m)								
	1957	1958	1959	1960	1961	1962	1963	1964	Total
<hr/>									
<b>Financial aid</b>									
Grants	5.5	14.0	20.0	20.0	24.8	10.0	(0.1)	—	94.2
Development loans (non-project)	2.5	1.0	—	—	—	10.0	15.0	10.0	38.5
Development loans (project)	—	4.3	4.4	23.4	10.0	2.4	8.3	10.2	63.0
<b>Technical assistance</b>	0.5	1.3	1.5	2.2	2.0	5.8	1.6	1.5	16.4
<b>Total</b>	<b>8.5</b>	<b>20.6</b>	<b>25.9</b>	<b>45.6</b>	<b>36.8</b>	<b>28.2</b>	<b>24.8</b>	<b>21.7</b>	<b>212.1</b>
<hr/>									
<b>Food aid under PL 480<sup>2</sup></b>									
Title I (US use)	—	—	—	—	11.5 (2.8)	4.5 (0.8)	11.3 (1.3)	4.1 (0.4)	31.4 (5.3)
Title II	8.4	6.4	7.0	11.3	57.9	11.5	25.7	16.9	145.1
Title III	0.9	0.2	0.2	0.2	0.6	0.7	2.0	1.6	6.4
<b>Total (PL 480)</b>	<b>9.3</b>	<b>6.6</b>	<b>7.2</b>	<b>11.5</b>	<b>70.7</b>	<b>17.0</b>	<b>39.0</b>	<b>22.5</b>	<b>182.9</b>
<hr/>									
<b>Total</b>	<b>17.8</b>	<b>27.2</b>	<b>33.1</b>	<b>57.1</b>	<b>107.5</b>	<b>45.2</b>	<b>63.8</b>	<b>44.2</b>	<b>395.0</b>
<hr/>									

<sup>1</sup> US fiscal years (July-June).

<sup>2</sup> See notes to Table IVb.

Source: AID Mission, Tunis.

**Table IVb American aid disbursements to Tunisia 1965-1967<sup>1</sup>**

	(\$m)		
	1965	1966	1967 <sup>2</sup>
Project grants—services	1.4	1.8	2.4
Project grants—goods	0.8	0.7	0.6
AID project and equipment loans	9.1	12.1	9.3
Export-Import Bank loans	1.9	0.1	0.7
Non-project loans	17.6	7.1	12.0
Food aid under PL 480			
Title I <sup>3</sup>	11.0	8.7	21.5
(US use) <sup>4</sup>	(2.7)	(2.2)	(3.0)
Title II <sup>5</sup> LCSD	6.1	0.1	1.5
Title II Child Feeding	1.7	0.4	1.1
Title II World Food Programme	0.4	0.7	0.4
Title II <sup>6</sup> Voluntary Agencies	1.8	2.2	2.0
Peace Corps/USIA	1.5	1.8	2.0
<b>Total</b>	<b>53.2</b>	<b>35.7</b>	<b>53.5</b>

<sup>1</sup> Figures for non-project loans and PL 480 assistance are on a delivery basis; all others are on an expenditure basis.

<sup>2</sup> Estimate.

<sup>3</sup> Supplied on loan terms and repayable in the recipient's currency.

<sup>4</sup> The 'US use' portion of Title I of PL 480 represents that portion of the Title I deliveries sold to Tunisia for dinars that are earmarked for the use of the US Government. The Tunisian Government does not include this portion in its calculation of total assistance received from the USA.

<sup>5</sup> Food grants.

<sup>6</sup> Formerly Title III.

**Source:** AID Mission, Tunis.

**Table Va American aid commitments 1962-1965**  
**The main recipients**

	Total aid per year (\$)	Position in US aid per head list <sup>1</sup>
India	722.8	48
Pakistan	377.8	36
Brazil	252.3	37
Vietnam	208.4	7
Korea	196.1	13
Turkey	185.4	19
UAR	176.5	18
Chile	140.9	4
Yugoslavia	101.0	23
Mexico	100.3	41
Colombia	91.6	21
Taiwan	65.4	22
Indonesia	57.3	72
Congo (K)	55.7	35
Peru	52.7	24
Tunisia	51.6	9
Venezuela	50.1	20
Morocco	49.1	33
Jordan	48.6	2
Bolivia	48.4	8

**Source:** *US Overseas Grants and Loans 1945-1965*, House Foreign Affairs Committee Special Report.

<sup>1</sup>For example, Tunisia is ninth in terms of aid per head but sixteenth in terms of absolute aid received from the USA, in the list of all developing countries aided by the USA.

**Table Vb American aid commitments 1962-1965**  
**The main recipients, aid per head**

	Aid per year per head (\$)	Position in total US aid list <sup>1</sup>
Liberia	29.6	33
Jordan	25.6	19
Panama	17.3	34
Chile	16.8	8
Laos	15.5	27
Dominican Republic	13.4	21
Vietnam	13.3	4
Bolivia	11.5	20
Tunisia	11.2	16
Costa Rica	10.1	38
Trinidad and Tobago	8.7	47
Nicaragua	8.0	40
Korea	7.4	5
El Salvador	7.0	35
Ecuador	6.6	31
Guyana	6.3	64
Libya	6.2	51
UAR	6.1	7
Turkey	6.0	6
Venezuela	5.9	17

Source: See Table Va.

<sup>1</sup> For example Jordan is second in terms of aid per head but nineteenth, in terms of absolute aid received from the USA, in the list of all developing countries aided by the USA.

## **Appendix C: Goal Plans**

US project aid in the form of finance, commodities, equipment, local currencies from counterpart funds, technical assistance, and training is provided within the framework of a Goal Plan. Each Goal Plan attempts to group together a variety of activities which are all designed to promote some specified wider objective. Over the last few years project aid to Tunisia has been provided under eight such Goal Plans; in addition there were a number of separate activities, mainly of a technical support nature, which did not clearly fall within any of the current GPs. Starting with 1967/68, the GPs have been enlarged and restructured, and aid will from now on be concentrated within four expanded GPs: agricultural production, industrial production (including mining), development of human resources, and assistance with planning and economic policy formulation. To illustrate the wide range of American aid operations in Tunisia the projects and activities falling within the new GPs are listed below (grouped together as they appeared in the old GPs).

### **Land and Water Resources**

- Watershed planning and management
- Well drilling projects
- Medjerda valley development
- Agricultural studies and engineering plans
- Water supply projects in Tunis and other cities
- Oued Nebana Dam and irrigation
- El Haouaria irrigation project

### **Agricultural Education**

- Chott Maria Agricultural College

### **Agricultural Technological Services**

- Financial support for the Banque Nationale Agricole
- Fruit and vegetable production
- Supply of agricultural equipment
- Agricultural production, research, and marketing

### **Development of Tourism**

- Promotion of tourism
- Development of tourist services
- Hotel training

### **Phosphate Production**

- Financial aid and technical assistance to expand produc-



tion and modernise the methods of three phosphate mining companies  
Construction of plant to produce ammonium phosphate

### **Private Enterprise**

Industrial management training  
Training for industry of Tunisians in the USA  
Financial support for the Société Tunisienne de Banque  
and the Société Tuniso-Américaine de Développement

### **Transportation and Power**

Civil aviation improvement  
Financial aid to the railway system  
Tunis Airport improvements  
Expansion of gas and electricity supply  
Supply of highway construction and maintenance equipment

### **Education and Training**

Training in public and business administration  
Audio-visual media centre  
English language training  
Occupational training centre  
Extension of Tunis University  
Training for business careers  
Scholarships for training in US universities  
Police training  
Youth activities  
Follow-up of Tunisians returning from US universities  
Equipment maintenance services

### **Separate Activities**

Surveys, studies, and consultative specialists  
Assistance to Co-operatives  
Economic development planning assistance  
Family planning

The Chott Maria College Project (see above) provides an excellent example of the American 'package project', which combines capital and technical assistance. The Chott Maria idea evolved out of discussions on future needs in agricultural education between the Tunisian Ministry of Agriculture and AID. The plans for the college, the needs it would cater for, and the pupils it would take in were jointly considered and agreed.

AID supplied personnel for feasibility studies, and is financing a large part of the construction costs. AID has also recruited the nucleus of a staff to help draw up a curriculum and take the initial teaching load. At the same time, Tunisians are being trained in the USA to join the college staff and eventually take over. AID is also supplying a co-director for the initial phase and agriculturalists to help run the college farm and related extension services, as well as a range of necessary equipment.

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