Contents

Foreword	ix	
	•	
The Report	Team	xi

Overview Rethinking the Money and Ideas of Aid 1

The New International Environment 7
New Thinking on Development Strategy 9
Money Matters—In a Good Policy Environment 14
Aid Can Be the Midwife of Good Policies 17
Money Matters—In a Good Institutional Environment 19
Aid Can Be the Midwife of Good Institutions 21
Money, but More Ideas, Too 23

1. Money Matters—In a Good Policy Environment 28

Different Countries, Different Fortunes 29
Why the Divergence? 32
In Countries with Good Management . . . 34
Aid Has Not Favored Countries with Good Management 40
Be Focused 44

2. Aid Can Be the Midwife of Good Policies 47

Money—Good or Bad for Reform? 48
Ownership—What Money Cannot Buy 50
Fomenting Reform 53
If Commitment, Money—If Not, Ideas 58

3. Money Matters—In a Good Institutional Environment 60

Fungibility? 62
Public Spending—Quality not Quantity 74
What Should Donors Do? 78

4. Aid Can Be the Midwife of Good Institutions 83

Better Public Provision 84
Public Provision without Public Providers 92
Making Aid Work for Better Public Services 96

5. Money, but More Ideas, Too 103

Vietnam: Adjustment without Lending 105

El Salvador, Pakistan, and Brazil: Education's Decentralization

and Reform 108

Cameroon: Health Financing and Delivery 111

Africa's Road Maintenance Initiative 113

Conclusion 115

Appendixes 121

Estimating the Effect of Aid on Growth 121

Explaining the Success or Failure of Structural Adjustment

Programs 126

Analysis of the Fungibility of Foreign Aid 130

The Impact of Civil Liberties and Democracy on Government

Performance 135

Estimating the Impact of Analytical Work 139

Selected Bibliography 143

Boxes

- 1. Defining Aid 6
- 2. Measuring Aid 8
- 3. Defining Sound Management: Good Policies and Institutions 12
- 4. Functions of the Development Assistance Committee 13
- 5. Stakeholder Views on Aid Effectiveness 24
- 1.1 Aid and Heavily Indebted Poor Countries 41
- 2.1 Reforming Pension Schemes 54
- 4.1 Aid and Centralization 86
- 4.2 A Useful Surge in Nongovernmental Organizations 94
- 4.3 Resettlement in Development 98
- 5.1 Reforming Aid Agencies in the 1990s 118

Text Figures

- 1 Financial Flows to Developing Countries 7
- Official Development Assistance Relative to Gross National Product,
 Major Donors, 1991 and 1997

,	
3	The Gap between Model and Reality in Zambia, 1961–94 10
÷	Per Capita GDP Growth in Low-Income Countries with Sound Management 14
5	Project Performance by Policy and Institutional Environment 15
6	Bilateral Aid and Colonial Past 16
~	Elections, Tenure, and Probability of Successful Reform 18
8	Public Investment from One Dollar of Tax Revenue or Official
9	Development Assistance 19 Success in Rural Water Supply Projects with Differing Levels of
	Beneficiary Participation 22
10	Actual Allocation of Aid, 1996, and Optimal Allocation to Reduce
	Poverty 23
1.1	Infant Mortality in Selected Countries, 1967 and 1994 30
1.2	Economic Management and Growth in Selected Developing
	Countries 33
1.3	Growth Rate and Income Level 34
1.4	Aid and Growth in Selected Developing Countries, 1970–93 35
1.5	Marginal Impact on Growth of a Percent of GDP in Aid 36
1.6	Economic Growth and Poverty 38
1.7	Decline in Infant Mortality from a Percent of GDP in Aid 39
1.8	Marginal Impact on Private Investment of a Percent of GDP in Aid 40
1.9	Bilateral, Multilateral, and World Bank Aid Per Capita and Income Level 40
1.10	Aid and Population 42
1.11	Allocation of Bilateral Aid, 1970–93 43
1.12	Allocation of Multilateral Aid, 1970–93 44
1.13	Poverty and Policy, 113 Developing Countries, 1996 45
	^
2.1	Zambia: Aid and Policy 50
2.2	Ghana: Aid and Policy 51
2.3	Bolivia: Aid and Policy 52
3.1	Distribution of Aid, by Type and Sector 61
3.2	Full Fungibility 62
3.3	Partial Fungibility 63
3.4	A Dollar's Worth of Aid and Government Expenditure
	Estimates from Large Cross National Samples Estimates from Individual Countries and Small Samples 65
3.5	A Dollar's Worth of Aid and Government Investment
	("Development") Expenditures 67
3.6	Bilateral Aid and Government Consumption 67
3.7	A Dollar's Worth of Aid to Agriculture and Spending
	on Agriculture 68
3.8	A Dollar's Worth of Aid to Health and Education and Spending on
	Health and Education 70
3.9	Public Spending on Health as a Percentage of GDP and Health
	Outcomes 76

4.1

4.2 4.3	Civil Liberties and the Probability of World Bank Project Failure 88 Cost and Benefit of an Additional Week of Analytical Work 101
5.1 5.2 5.3	Vietnam: Aid and Policy 107 Pakistan: School Enrollment of Five- to Eight-year-old Girls 110 Cameroon: Change in Health Center Use and Utilization,
7. 3	1990–91 112
Box 1	Figures
2	Total Aid: OECD Official Development Assistance and Adjusted Official Aid 8
3	Institutions, Policies, and Growth 12
Text 7	Гables
1.1	Real Per Capita Income Relative to the United States 31
2.1	Features of Successful and Failed Adjustment Programs 52
3.1	Donor Financing of Investment Budgets in Two African Countries (percent) 71
3.2	Evaluating the Effect of Projects with Fungibility 72
Appe	ndix Tables
A1.1	Estimating the Effect of Aid on Growth 124
A1.2	Countries in the Dataset 125
A2.1	Estimating the Outcome of Adjustment Loans 129
A3.1	Impact of Foreign Aid on Total, Current, and Capital Public Expenditures, 1971–90 133
A3.2	Impact of Sectoral Concessionary Loans on Sectoral Government Expenditure, 1971–90 134
A.4.1	Base Specification for the Nongovernance Determinants of the Economic Rate of Return of Government Projects, 1974–87 137
A4.2	Impact of Civil Liberties Indicators on the Economic Rate of Return of Government Projects, Controlling for Economic and Project Variables 138
A5.1	Impact of Economic and Sector Work on Project Outcome and Economic Rate of Return 141

Participation and Project Success 87